NEW ISSUE **RATINGS: Standard & Poor's: AA**
BOOK-ENTRY ONLY **Moody's: Aa1**

*In the opinion of Bond Counsel, under existing law and assuming compliance with covenants of the State in the Bond documents, interest on the Bonds is excludable from gross income of owners of the Bonds for federal income tax purposes. Interest on the Bonds will not constitute a preference item for the purpose of computing the alternative minimum tax imposed on certain individuals and corporations. Interest on the Bonds will be included in the computation of adjusted current earnings for the purpose of the alternative minimum tax imposed on some corporations. In Bond Counsel's further opinion, interest on the Bonds is exempt from all taxes of the State of Arkansas including income, inheritance, and property taxes. See **TAX EXEMPTION** herein.*

$197,005,000
STATE OF ARKANSAS
FEDERAL HIGHWAY GRANT ANTICIPATION AND TAX REVENUE BONDS (GENERAL OBLIGATION), SERIES 2012

Dated: October 1, 2012 Due: As shown below

The State of Arkansas Federal Highway Grant Anticipation and Tax Revenue Bonds (General Obligation), Series 2012 (the "Bonds") will be issued pursuant to a book-entry only system and will be registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"), New York, New York. There will be no distribution of the Bonds to ultimate purchasers ("Beneficial Owners"). (See **THE BONDS**, **Book-Entry Only System**, herein.) The Bonds are issuable as registered bonds without coupons in the denominations of $5,000 each or any integral multiple thereof. Principal is payable semiannually on April 1 and October 1, as shown below, and interest is payable semiannually on April 1 and October 1, commencing April 1, 2013. Interest will be payable by check, draft or wire transfer of the Paying Agent sent to the Registered Owner as of the Record Date. Principal is payable at the corporate trust office of U.S. Bank National Association, St. Paul, Minnesota, Paying Agent and Bond Registrar. So long as DTC or its nominee is the owner of the Bonds, disbursement of payment of principal and interest to DTC is the responsibility of the Paying Agent, disbursement of such payments to DTC Participants (as defined herein) is the responsibility of DTC, and the responsibility of disbursements of such payments to Beneficial Owners is the responsibility of DTC Participants, as more fully described herein.

The Bonds will constitute 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 are being issued to finance improvements to interstate highways in the State of Arkansas. Issuance of the Bonds has been authorized by the Arkansas State Highway Commission (the "Commission"), pursuant to Title 27, Chapter 64, Subchapter 4 of the Arkansas Code of 1987 Annotated and a statewide election held November 8, 2011. The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as more fully described herein.

MATURITY SCHEDULE

Maturity Date	Principal Amount	Interest Rate (%)	Yield (%)	Maturity Date	Principal Amount	Interest Rate (%)	Yield (%)
April 1, 2015	$ 7,600,000	5.000	0.350	April 1, 2020	$ 9,970,000	5.000	1.410
October 1, 2015	7,985,000	5.000	0.370	October 1, 2020	10,220,000	5.000	1.470
April 1, 2016	8,180,000	5.000	0.460	April 1, 2021	10,475,000	5.000	1,630
October 1, 2016	8,385,000	5.000	0.460	October 1, 2021	10,735,000	5.000	1.690
April 1, 2017	8,595,000	5.000	0.700	April 1, 2022	11,005,000	3.000	1.840
October 1, 2017	8,810,000	5.000	0.700	October 1, 2022	11,170,000	3.000	1.870
April 1, 2018	9,030,000	5.000	0.920	April 1, 2023	11,335,000	3.000	1.980*
October 1, 2018	9,255,000	5.000	0.950	October 1, 2023	11,505,000	3.000	2.080*
April 1, 2019	9,490,000	5.000	1.190	April 1, 2024	11,680,000	3.000	2.300*
October 1, 2019	9,725,000	5.000	1.250	October 1, 2024	11,855,000	3.000	2.380*

(Plus Accrued Interest from October 1, 2012)

The Bonds are be offered when, as and if issued and received by the Underwriter. The Bonds are subject to approval of legality by Friday, Eldredge & Clark, LLP, Little Rock, Arkansas, Bond Counsel for the Commission, and to certain other conditions referred to herein and in the Official Notice of Sale, dated August 24, 2012. It is expected that the Bonds will be available for delivery in Little Rock, Arkansas, or New York, New York (through the facilities of DTC), on or about October 2, 2012.

Official Statement dated September 12, 2012.

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*Priced to first optional call date, October 1, 2022.

STATE OF ARKANSAS

EXECUTIVE OFFICERS

MIKE BEEBE
Governor

MARK A. DARR
Lieutenant Governor

MARK MARTIN
Secretary of State

MARTHA SHOFFNER
Treasurer of State

CHARLIE DANIELS
Auditor of State

DUSTIN MCDANIEL
Attorney General

JOHN THURSTON
Commissioner of State Lands

ARKANSAS STATE HIGHWAY COMMISSION

R. MADISON MURPHY
Chairman

JOHN ED REGENOLD
Vice Chairman

JOHN BURKHALTER

DICK TRAMMEL

THOMAS B. SCHUECK

SCOTT E. BENNETT
Director of Highways and Transportation

FRANK VOZEL
Deputy Director and
Chief Engineer

RITA S. LOONEY
Chief Legal Counsel

LARRY DICKERSON
Chief Fiscal Officer

BOND COUNSEL

FRIDAY, ELDREDGE & CLARK, LLP
400 West Capitol Avenue, Suite 2000
Little Rock, Arkansas 72201

FINANCIAL ADVISOR

STEPHENS INC.
111 Center Street, Suite 2300
Little Rock, Arkansas 72201

No dealer, broker, salesman, or other person has been authorized by the State of Arkansas, the Arkansas State Highway Commission, the Financial Advisor or the Underwriter to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing . This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State of Arkansas or the Arkansas State Highway Commission since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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TABLE OF CONTENTS

SUMMARY OF CERTAIN INFORMATION

The following material represents a summary of information contained within this Official Statement and is qualified in its entirety by the related detailed information herein.

Bond Issue	State of Arkansas Federal Highway Grant Anticipation and Tax Revenue Bonds (General Obligation), Series 2012 (the "Bonds")
Amount Offered	$197,005,000
Dated	October 1, 2012
Security & Sources of Payment	The Bonds will constitute general obligations of the State of Arkansas and will be secured by an irrevocable pledge of the full faith, credit, and resources of the State. The Bonds are to be paid out of general revenues of the State (to the extent that certain "designated revenues" available to the Commission are insufficient therefor). Moneys sufficient to provide for punctual payment of principal and interest on the Bonds will be deposited into the Bond Fund.
Registration	The Bonds will be fully registered bonds, without coupons, in the denomination of $5,000 or any integral multiple thereof. Bonds, when issued, will be registered in the name of The Depository Trust Company ("DTC"), New York, New York, pursuant to the "book-entry only" system.
Redemption	The Bonds are subject to optional redemption prior to maturity on and after October 1, 2022, in whole or in part, on any date, as more fully described herein.
Legal Opinion	The Bonds are offered when, as, and if issued subject to the approval of legality by Friday, Eldredge & Clark, LLP, Little Rock, Arkansas, Bond Counsel.
Tax Exemption	In the opinion of Bond Counsel, under existing law, interest on the Bonds is excludable from gross income of owners of the Bonds for federal income tax purposes. Interest on the Bonds will not constitute a preference item for the purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, although interest on the Bonds will be taken into account in computing adjusted current earnings for the alternative minimum tax applicable to certain corporations. Bond Counsel expresses no opinion regarding other federal income tax consequences relating to the accrual or receipt of interest on the Bonds. In Bond Counsel's further opinion, the interest on the Bonds is exempt from all taxes of the State of Arkansas, including income, inheritance and property taxes. See **TAX EXEMPTION**.
Authority	The Bonds are being issued by the State, acting by and through the Arkansas State Highway Commission (the "Commission"), pursuant to Title 27, Chapter 64, Subchapter 4 of the Arkansas Code of 1987 Annotated (the "Authorizing Legislation") and the Constitution of the State (the "Constitution"). Under the Authorizing Legislation, the Commission is authorized to issue general obligation bonds of the State from time to time provided that the total outstanding principal amount of bonds issued pursuant to the Authorizing Legislation, together with the total outstanding principal amount of bonds issued pursuant to Title 27, Chapter 64 Subchapter 2 of the Arkansas Code of 1987 Annotated (the "1999 Legislation"), does not at any time exceed $575,000,000; provided that such bonds must be issued no later than December 31, 2015. As required by the Constitution, the issuance of the Bonds was approved by a vote of the people of the State at a special election held

November 8, 2011.

Bonds Previously Issued	The Commission has issued, under the authority of the 1999 Legislation, the State of Arkansas Federal Highway Grant Anticipation and Tax Revenue Refunding Bonds (General Obligation), Series 2010 in the principal amount of $253,225,000 (the "Series 2010 Bonds"). The Series 2010 Bonds are in the current outstanding principal amount of $140,330,000 and have a final maturity of August 1, 2014. No bonds have been issued under the authority of the Authorizing Legislation.

OFFICIAL STATEMENT

$197,005,000
STATE OF ARKANSAS
FEDERAL HIGHWAY GRANT ANTICIPATION AND TAX REVENUE BONDS (GENERAL OBLIGATION)
SERIES 2012

INTRODUCTORY STATEMENT

The purpose of this Official Statement is to furnish information relating to the State of Arkansas (the "State"), the Arkansas State Highway Commission (the "Commission"), and the State's Federal Highway Grant Anticipation and Tax Revenue Bonds (General Obligation), Series 2012 (the "Bonds") to be issued in the principal amount of $197,005,000.

Authority for the Bonds

The Bonds are being issued by the Commission pursuant to Title 27, Chapter 64, Subchapter 4 of the Arkansas Code of 1987 Annotated (the "Authorizing Legislation") and the Constitution of the State (the "Constitution"). Under the Authorizing Legislation, the Commission is authorized to issue general obligation bonds of the State from time to time provided that the total outstanding principal amount of bonds issued pursuant to the Authorizing Legislation, together with the total outstanding principal amount of bonds issued pursuant to Title 27, Chapter 64 Subchapter 2 of the Arkansas Code of 1987 Annotated (the "1999 Legislation"), does not at any time exceed $575,000,000; provided that such bonds must be issued no later than December 31, 2015. As required by the Constitution, the issuance of the Bonds was approved by a vote of the people of the State at a special election held November 8, 2011.

Pursuant to the Authorizing Legislation, the Commission will adopt, on September 12, 2012, a "General Resolution Providing for the Issuance of the State of Arkansas Federal Highway Grant Anticipation and Tax Revenue Bonds and Specifying Various Matters Related Thereto" (the "General Resolution"). On September 12, 2012, the Commission will adopt a "Series Resolution Providing for the Issuance of the State of Arkansas Federal Highway Grant Anticipation and Tax Revenue Bonds (General Obligation), Series 2012 and Specifying Various Matters Related Thereto" (the "Series 2012 Resolution"); the General Resolution and the Series 2012 Resolution collectively being referred to herein as the "Bond Resolution."

Bonds Previously Issued

The Commission has issued, under the authority of the 1999 Legislation, the State of Arkansas Federal Highway Grant Anticipation and Tax Revenue Refunding Bonds (General Obligation), Series 2010 in the principal amount of $253,225,000 (the "Series 2010 Bonds"). The Series 2010 Bonds are in the current outstanding principal amount of $140,330,000 and have a final maturity of August 1, 2014. No bonds have been issued under the authority of the Authorizing Legislation.

Additional General Obligation Bonds of the State

The Constitution and laws of the State do 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.

The State has outstanding various general obligation bonds and, in some instances, may issue additional general obligation bonds pursuant to voter approval previously given. See **INDEBTEDNESS OF THE STATE OF ARKANSAS** herein, and see Appendix B.

Use of Proceeds

The proceeds from the sale of the Bonds, less accrued interest thereon and after payment of the costs of issuance of the Bonds, will be deposited into the Project Fund created by the General Resolution. See **SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION**.

Annual Debt Service Requirements

The following table reflects annual amounts required to pay debt service on the Bonds.

Year (Ending June 30)	Principal	Interest	Total
2013	--	$4,239,625	$ 4,239,625
2014	--	8,479,250	8,479,250
2015	$ 7,600,000	8,479,250	16,079,250
2016	16,165,000	7,899,625	24,064,625
2017	16,980,000	7,081,375	24,061,375
2018	17,840,000	6,221,750	24,061,750
2019	18,745,000	5,318,625	24,063,625
2020	19,695,000	4,369,625	24,064,625
2021	20,695,000	3,372,500	24,067,500
2022	21,740,000	2,324,875	24,064,875
2023	22,505,000	1,558,800	24,063,800
2024	23,185,000	878,625	24,063,625
2025	11,855,000	177,825	12,032,825

The following table reflects annual amounts required to pay debt service on the Bonds and the Series 2010 Bonds.

Year (Ending June 30)	Bonds Debt Service	Series 2010 Bonds Debt Service	Total
2013	$ 4,239,625.00	$ 3,038,181.25	$ 7,277,806.25
2014	8,479,250.00	73,478,256.25	81,957,506.25
2015	16,079,250.00	73,120,075.00	89,199,325.00
2016	24,064,625.00	--	24,064,625.00
2017	24,061,375.00	--	24,061,375.00
2018	24,061,750.00	--	24,061,750.00
2019	24,063,625.00	--	24,063,625.00
2020	24,064,625.00	--	24,064,625.00
2021	24,067,500.00	--	24,067,500.00
2022	24,064,875.00	--	24,064,875.00
2023	24,063,800.00	--	24,063,800.00
2024	24,063,625.00	--	24,063,625.00
2025	12,032,825.00	--	12,032,825.00

Sources of Information

This Official Statement includes brief descriptions of the Bonds and information concerning the State. Information set forth in this Official Statement has been furnished by the State and other sources considered to be reliable. Where appropriate, specific sources of information have been indicated.

THE BONDS

Description of the Bonds

The Bonds will be fully registered bonds, without coupons, in the denomination of $5,000 or any integral multiple thereof; and will mature on April 1 or October 1 as described on the cover page hereof. The Bonds will bear interest from the date thereof at the rates as described on the cover page hereof, payable semiannually on April 1 and October 1 in each year, commencing on April 1, 2013. Interest will be payable by check, draft or wire transfer of the Paying Agent sent to the Registered Owner as of the Record Date. Principal will be payable in lawful money of the United States of America at the corporate trust office of U.S. Bank National Association, the Paying Agent and Bond Registrar (the "Trustee" or "Paying Agent" or "Registrar"). The Bonds will be initially registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York which will act as securities depository for the Bonds. In the event any Bond is mutilated, lost or destroyed, the State shall execute and the Paying Agent shall authenticate a new Bond in accordance with the provisions therefor in the Bond Resolution.

Each Bond is transferable by the Registered Owner thereof or by his legal representative duly authorized in writing at the principal office of the Paying Agent upon surrender of the Bond, duly endorsed by, or accompanied by a written instrument or instruments of transfer in a form satisfactory to the Paying Agent executed by the Registered Owner or his legal representative. Upon such transfer a new fully registered Bond or Bonds of the same series, maturity, of authorized denomination or denominations, for the same aggregate principal amount will be issued to the transferee in exchange therefor. Bonds may be exchanged, at the request of the holder, for Bonds of authorized denominations, in an aggregate principal amount equal to the principal amount surrendered.

No charge shall be made to any owner of any Bond for the privilege of registration. For every exchange or transfer of the Bonds, the State or the Paying Agent may make a charge sufficient to reimburse itself for any tax, fee, or other governmental charge required to be paid with respect to such exchange or transfer, which sum or sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. Neither the Commission nor the Paying Agent shall be required to transfer or exchange Bonds during the period commencing 15 business days preceding an interest payment date on the Bonds or preceding any selection of Bonds for redemption or thereafter until after the mailing of a notice of redemption. Nor shall the Commission or Registrar be required to transfer or exchange any Bonds called for redemption.

The person in whose name any Bond shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal or premium, if any, or interest of any Bond shall be made only to or upon the order of the Registered Owner thereof or his legal representative, but such registration may be changed as hereinabove provided. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

Payment of interest on the Bonds shall be made on each interest payment date to the Registered Owner thereof as of the fifteenth (15th) business day immediately preceding such interest payment date (the "Record Date") and shall be paid by check or draft mailed to the Registered Owner at his address as it appears on the registration books of the Trustee or at such other address as is furnished to the Paying Agent in writing by such Registered Owner, or, at the sole discretion of the Trustee, in immediately available funds by wire transfer to the account designated by such Registered Owner. For so long as DTC or its nominee is the owner of the Bonds, interest may be payable by such other means of payment as may be acceptable to the Paying Agent and DTC. Payments of principal and interest on and redemption price of the Bonds will then be redistributed by DTC. See **THE BONDS**, **Book-Entry Only System** herein.

In any case in which the date of maturity of interest on or principal of the Bonds or the date fixed for redemption of any Bonds shall be a Sunday or shall be in the City of Little Rock, Arkansas or the city in which the principal place of the Paying Agent is located, a legal holiday or a day on which banking institutions are authorized by law to close, then payment of interest or principal (and premium, if any) need not be made on such date but may be made on the next succeeding business day not a Sunday or a legal holiday or a day upon which banking institutions are authorized by law to close with the same force and effect as if made on the date of maturity or the date fixed for redemption, and no interest shall accrue for the period after the date of maturity or date fixed for redemption.

Redemption

Optional Redemption. The Bonds are subject to redemption at the option of the Commission, from funds from any source, in whole or in part (and if in part in any order determined by the Commission) on any date, on and after October 1, 2022, at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date.

Book-Entry Only System

DTC, or its successor, will act as securities depository for the Bonds. The Bonds will each be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate for each maturity will be issued in the principal amount of the maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Closing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (referred to herein as "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to Cede & Co. If fewer than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest and premium, if any, payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Commission or Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and premium, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Commission or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered. The Commission may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered.

The information concerning DTC and DTC's book-entry system set forth above has been obtained from DTC. Neither the Underwriter nor the Commission make any representation or warranty regarding the accuracy or completeness thereof.

So long as the Bonds are in book-entry only form, Cede & Co., as nominee for DTC, will be treated as the sole owner of the Bonds for all purposes under the Resolution; including receipt of all principal of and interest on the Bonds, receipt of notices, voting and requesting or directing the Trustee to take or not to take, or consenting to, certain actions under the Bond Resolution. The Commission and the Trustee have no responsibility or obligation to the Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any Participant; (b) the payment by any Participant of any amount due to any Beneficial Owner in respect of the principal of and interest on the Bonds; (c) the delivery or timeliness of delivery by any Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Bond Resolution to be given to owners of the Bonds; or (d) other action taken by DTC or Cede & Co. as owner of the Bonds.

Security and Sources of Payment for the Bonds

The Bonds are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The Bonds shall be payable first from (a) IM Revenues and (b) Additional Diesel Fuel Revenues (collectively, "Designated Revenues"). See **DESIGNATED REVENUES** herein.

The IM Revenues are not a guarantee of the payment of any portion of the debt service on the Bonds and should not be so regarded.

The Bonds are general obligations of the State. In the event that Designated Revenues should be insufficient, at any time, to provide for payment of debt service, general revenues and funds of the State are to be utilized for that purpose. See Appendix B hereto.

Without limitation as to any other appropriate remedy at law or in equity, any Registered Owner may, by an appropriate action including, without limitation, injunction or mandamus, compel the performance of all covenants and obligations of the State, its officers, and officials under the Act.

It is probable that certain of the Designated Revenues, and other revenues, will, under the Arkansas Constitution, be required to be appropriated from the Treasury of the State, by act of the Arkansas General Assembly. Any such appropriation is for a period of not to exceed one year. A failure to appropriate could result in delay in payment of interest or principal. It is believed that the General Assembly has never failed to make a contingency appropriation for the purpose of servicing general obligation debt of the State.

THE COMMISSION AND THE DEPARTMENT

The Commission is a body created by Amendment 42 to the Constitution, consisting of five members appointed by the Governor, with the advice and consent of the State Senate. The five members are vested with powers and duties for administering the Arkansas State Highway and Transportation Department (the "Department" or "AHTD") and fully and effectively carrying out relative regulations and laws. Members of the Commission are appointed for staggered terms of ten years. Vacancies during a term are filled by appointment by the Governor for the remainder of the unexpired term. The names of the members of the Commission, the offices held, and the dates of expiration of their terms are as follows:

Name	Position	Term Expires
R. Madison Murphy	Chairman	January 2013
John Ed Regenold	Vice Chairman	January 2015
John Burkhalter	Member	January 2017
Dick Trammel	Member	January 2019
Thomas B. Schueck	Member	January 2021

Mr. Scott E. Bennett was appointed by the Commission to become Director of Highways and Transportation (the "Director") effective September 22, 2011. The Department operates under the jurisdiction and control of the Commission and the Director.

The Department is composed of approximately 3,600 employees, of various disciplines, including engineering, surveying, planning, accounting, law, realtors, information systems, law enforcement, cartography, geography, archeology, botany, biology and business.

The Commission requires that the Department engage in planning and development of highway rehabilitation projects for the purpose of assuring the expenditure of available funds as needed.

ORGANIZATION AND GOVERNMENT OF THE STATE OF ARKANSAS

Under the present Constitution of Arkansas, adopted in 1874, the State Government is divided into three separate branches -- the Legislative, the Executive and the Judicial.

Legislative Branch

The legislative power of the State is vested in the General Assembly, which is composed of the Senate and the House of Representatives. The Senate consists of 35 members who are elected for four-year terms. The House of Representatives consists of 100 members who are elected for two-year terms. At the November 2008 general election, the voters of the State approved an amendment to the State Constitution requiring the General Assembly to meet on an annual basis. The General Assembly will meet in fiscal session in even-numbered years to consider only appropriation bills and will meet in regular session in odd-numbered years to consider any bill or resolution. Appropriations enacted by the General Assembly may be for a period no longer than one fiscal year. The General Assembly may meet in special session only at the call of the Governor.

At the November 1992 general election, the voters of the State approved an amendment to the State Constitution which limits the number of four-year terms that Senators may serve to two each, the number of two-year terms that Representatives may serve to three each, and the number of four-year terms officers of the Executive Branch may serve to two each.

Executive Branch

There are seven elected officials in the Executive Branch of the State Government. Presently, each person holding such an office is serving a term of four years that will expire January 2015.

The Governor is vested with the supreme executive power of the State. The Governor may control the rate at which any appropriation is expended by allotment or other means and may limit the expenditures for any State agencies below their appropriations whenever actual revenues are less than the revenue estimates upon which the appropriations were based. The Governor has line-item veto power for appropriations and general veto power as to other legislation.

The Lieutenant Governor is the ex-officio president of the State Senate. If for any reason the Governor is unable to fulfill his duties, or is absent from the State, the Lieutenant Governor assumes the duties of the office until the end of his term or until the Governor returns or the disabilities of the Governor are removed.

The Secretary of State is the keeper of the Great Seal of the State of Arkansas and custodian of the State's records. He is the State's chief elections officer, administers corporate and other business laws, oversees political campaign spending and practices, and publishes books and documents of the State.

The Auditor of State draws warrants on the State Treasury in payment of all claims, may pre-audit the accounts of all State agencies, and serves as voter registration coordinator for the State.

The Treasurer is the custodian of all State funds held in the State Treasury, has the responsibility for investment of State funds, and disburses funds for the operating expenses and obligations of the State. Investment of State funds is administered by the Treasurer with the advice and direction of the State Board of Finance, which is composed of the Governor, Treasurer, Auditor of State, State Bank Commissioner, and the Director of the Department of Finance and Administration, subject to statutory limitations as to permitted investments.

The Attorney General is the State's chief legal officer. He prosecutes or defends certain appeals to which the State is a party, including criminal cases, represents various State officials, boards, and agencies in appeals taken from their decisions and orders, and institutes, in the name of and on behalf of the State, civil suits and other proceedings necessary to protect the State's rights, interests or claims.

The Commissioner of State Lands maintains all records concerning State lands and supervises the sale of all lands forfeited for nonpayment of real property taxes.

Judicial Branch

The Judicial Branch adjudicates the controversies that arise between persons and parties, determines the guilt or innocence of persons charged with criminal offenses, and interprets the laws of the State as enacted by the General Assembly. The Judicial Branch carries out its function through a system of courts consisting of the Supreme Court of Arkansas, the Court of Appeals, and the Circuit and Chancery Courts located in the various judicial circuits of the State. Other courts of special or limited jurisdiction handle small claims, property tax matters and other special affairs.

GENERAL INFORMATION CONCERNING THE STATE OF ARKANSAS

Location, Size and Population

Arkansas is a south-central state located 1,300 miles from the east coast, 1,700 miles from the west coast, and 300 miles from the Gulf of Mexico, with the Mississippi River as its eastern border. The State is bounded on the north by Missouri; on the east by Tennessee and Mississippi; on the south by Louisiana; and on the west by Texas and Oklahoma. The State ranks 27th nationally in area, with 34,036,700 acres.

Arkansas is almost equally divided between lowlands and highlands, with the gulf coastal plain on the east and south and the interior highlands in the west and north. Elevations range from 54 feet above sea level in the southeast to over 2,700 feet in the northwest.

The lowlands of eastern Arkansas have mainly been utilized as farmland. Southern Arkansas contains a wide range of forests as well as farmland. The highlands of northern and western Arkansas have been developed for grazing land, the poultry and livestock industry and a large tourism industry.
The following table sets forth the population trend for the State.

Population

Year	Population
1970	1,923,322
1980	2,286,357
1990	2,350,725
2000	2,673,400
2010	2,915,918

Source: University of Arkansas at Little Rock, Institute for Economic Advancement.

Major Cities

Arkansas has eight metropolitan statistical areas (MSAs). The largest MSA located wholly within Arkansas is Little Rock/North Little Rock/Conway, which had an estimated population of 709,901 in 2011. Little Rock is centrally located in Arkansas and serves as the major transportation, governmental and industrial center of the State.

Source: Arkansas Economic Development Commission; U.S. Census Bureau, Population Division.

Transportation

Arkansas' geographic location is advantageous for commuting to all parts of the United States. It has a multimodal transportation system which includes waterways, highways, air routes, and railways.

Arkansas has available inexpensive river transportation via the Arkansas, Mississippi, White, Red and Ouachita rivers. There are more than 1,000 miles of commercially navigable waterway linking the entire waterway system and major ports from the Gulf of Mexico to the Great Lakes. There are public terminals in the following nine cities: Osceola, West Memphis, Helena-West Helena, McGehee, Little Rock, Pine Bluff, Fort Smith, Camden and Crossett.

There are three Class I, one Class II and 24 Class III railroads operating within Arkansas. These systems operate on more than 2,750 miles of track.

The State has approximately 655 miles of Interstate highways and a comprehensive, well-maintained highway system which includes more than 16,400 miles of State highways (including Interstates).

The Bill and Hillary Clinton National Airport in Little Rock and the Northwest Arkansas Regional Airport in Highfill are each served by six airlines. There are over 100 public-use airports throughout the State, with principal airports located in El Dorado, Fort Smith, Harrison, Highfill, Hot Springs, Jonesboro, Little Rock, Mountain Home, Pine Bluff and Texarkana.

Education

The State shares financial responsibility for public education with local school districts. The State provides its share of financial support, which is designed to equalize educational opportunities by compensating for local differences in the ability to support education.

In 2002, the Arkansas Supreme Court, in Lake View School District No. 25 of Phillips County, et.al. v. Mike Huckabee, Governor, et al. ("Lake View"), upheld a lower court's ruling that the State's system of funding public education is constitutionally inadequate and inequitable. In 2003, the State Legislature convened in a special session in which it attempted to meet the Supreme Court's requirement for an adequate and equitable education system. In particular, it passed bills that (a) reorganized existing school districts with fewer than 350 students, (b) provided for additional revenue to fund the educational system and (c) created a new public school funding formula. The Supreme Court subsequently appointed two masters to evaluate the steps taken by the State Legislature. In April 2004, the masters submitted their findings to the Supreme Court. On June 18, 2004, the Supreme Court, citing the actions taken by the State Legislature in the special session, released its jurisdiction in the case. A report on the assessment of school facilities was released in November 2004. This report discussed the scope of renovation, new construction and replacement that will be necessary to assure that substantially equal school buildings and school equipment are available to all school children in the State. This report was presented to the State Legislature for its 2005 session. At its session in 2005, the State Legislature passed a public school academic facilities act which, among other things, provides the formula by which the State will assist most individual school districts in funding their facilities. The State's financial participation is based on the school district academic facilities wealth index. The school district is required to finance the remainder of the project costs with income from local revenues. In addition, the State is obligated to assist many school districts in meeting their debt service requirements for bonds issued prior to January 1, 2005. On April 14, 2005, the Rogers School District of Benton County, Arkansas petitioned the Arkansas Supreme Court to reopen the school funding case, arguing that the State Legislature failed to follow the Supreme Court's mandate to fund public education adequately. On June 9, 2005, the Arkansas Supreme Court reopened the Lake View case and reappointed the two masters to assess whether the Legislature had complied with the Court's ruling. On October 3, 2005, the masters issued their findings and concluded that the Legislature had not made education the State's first priority. The Supreme Court agreed with the masters and held that the Legislature had retreated from its prior actions to comply with the Lake View ruling and that the public school funding system continues to be inadequate. The Supreme Court further held that the public schools are operating under a constitutional infirmity which must be corrected immediately. The Court stayed the issuance of its mandate until December 1, 2006 to allow the necessary time to correct the constitutional deficiencies. In April 2006, the State Legislature met in special session to address some of the Court's concerns. The State Legislature appropriated more money to the State Department of Education for public school operation and school buildings. The State Legislature, among other things, also increased per-student funding and the minimum teacher salary schedule. On December 1, 2006, the Supreme Court ruled that it will keep jurisdiction over the case and reappointed the two special masters to evaluate whether the State now meets the constitutional requirements of an adequate and equitable education system. The Court delayed the case deadline for 180 days, to give the State time to provide documents, the masters time to evaluate the State's actions and the Court time to rule. At its regular session in 2007, the State Legislature again increased per-student funding and appropriated additional money for school improvements. On May 31, 2007, the Supreme Court concluded that the State's system of public school financing is now in constitutional compliance.

As of the school year ended June 30, 2010, the average daily membership in public schools was 458,172 for elementary and secondary students. For the school year ended June 30, 2010, there were 36,050 certified personnel employed by the public schools. The average per pupil expenditure for the 2010 school year was estimated to be $9,112.

In addition, there are 33 State supported institutions of higher education in the State, having a net enrollment for the following years ended June 30 as follows: 2009 - 140,402, 2010 - 149,327 and 2011 - 155,924. The net fall enrollment for such years in private institutions of higher education reporting to the State was as follows: 2009 - 14,952, 2010 - 15,507 and 2011 - 16,500. The State has two publicly supported law schools and one publicly supported school of medicine.

Medical and Health Care Facilities

Arkansas has approximately 110 hospitals and related institutions licensed by the Arkansas Department of Health. Licensed beds total over 11,000.

Little Rock is the home of the University of Arkansas for Medical Sciences, a comprehensive health center with five colleges - Medicine, Nursing, Pharmacy, Health Related Professions and a Graduate School.

Recreation and Culture

One of the major industries in Arkansas is tourism. There are 52 state parks and museums and five national parks in Arkansas which offer such activities as prehistoric Indian mound restoration, a folk center, diamond fields, and an environmental education park, as well as fishing, hiking, and camping. Additionally, there are active symphony, theater and opera organizations within the State. The Crystal Bridges Museum of American Art opened in Bentonville, Arkansas in late 2011. Its permanent collection of art spans five centuries of American masterworks ranging from the colonial era to the current day.

ECONOMIC INFORMATION CONCERNING THE STATE OF ARKANSAS

Information set forth in this section is taken from sources which are publicly available and is current as of the dates or periods indicated. There can be no assurance that all the information in this section remains unchanged.

During the past several decades, Arkansas' economic base has shifted from agriculture to light manufacturing. The State is now moving toward a heavier manufacturing base involving more sophisticated processes and products such as electrical machinery, transportation equipment, fabricated metals, and electronics.

Source: Arkansas Department of Finance and Administration.

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Gross Domestic Product

The following table sets forth Gross Domestic Product for Arkansas for the years indicated.

Gross Domestic Product
(in millions of current dollars)

Year	Gross Domestic Product
2006	$ 93,518
2007	97,187
2008	99,497
2009	98,795
2010	102,566

Source: United States Department of Commerce, Bureau of Economic Analysis.

Retail Sales

The table below sets forth retail sales within the State for the years indicated.

Year	Sales (Millions)
2007	$32,969.1
2008	32,468.5
2009	30,804.5
2010	32,622.0
2011	34,723.0

Source: Department of Finance and Administration, Economic Analysis and Tax Research (IHS Global Insight).

Property Values

The table below reflects assessed values (20% of market value) for real and personal property in the State for the years indicated.

Year	Assessed Value (Millions)
2006	$ 30,925
2007	33,372
2008	38,730
2009	39,549
2010	40,480

Source: Arkansas Assessment Coordination Department.

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Employment Distribution

Evidence of Arkansas' economic base is reflected in the chart below which shows general employment distribution among various sectors. (The table is for the year 2010, the latest reported.)

Trade, Transportation and Utilities	20.8%
State and Local Government	16.4
Education and Health Services	14.6
Manufacturing	14.4
Professional and Business Services	10.6
Leisure and Hospitality	8.9
Construction	4.4
Financial Activities	4.3
Other Services	2.2
Natural Resources and Mining	1.9
Information	1.4

Source: Arkansas Department of Workforce Services.

The following chart lists the ten largest employers in Arkansas for 2011.

Largest Employers

	Company	Number of Employees
1.	Arkansas State Government	56,751
2.	Wal-Mart Stores, Inc.	47,796
3.	Tyson Foods, Inc.	24,000
4.	U.S. Government	20,900
5.	Baptist Health Inc.	7,813
6.	Sisters of Mercy Health System	6,300
7.	J.B. Hunt Transportation Services, Inc	4,300
8.	Arkansas Children's Hospital	4,261
9.	Simmons Foods, Inc.	3,935
9.	FedEx	3,750

Source: State of Arkansas Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2011.

Unemployment and Employment Trends

The following table details civilian employment and unemployment data for Arkansas and the United States for the years indicated.

	Civilian Labor Force (in thousands)		Number Employed (in thousands)		Unemployment Rate%	
	Arkansas	U.S.	Arkansas	U.S.	Arkansas	U.S.
2007	1,365	153,124	1,294	146,047	5.2	4.6
2008	1,373	154,287	1,300	145,362	5.3	5.8
2009	1,356	154,142	1,256	139,877	7.4	9.3
2010	1,357	153,889	1,249	139,064	7.9	9.6
2011	1,369	153,617	1,259	139,869	8.0	8.9

Source: Arkansas Department of Workforce Services.

Trends in Personal Income

The following table illustrates the levels of per capita personal income for Arkansas and the United States for the years indicated.

Year	Ark.	U.S.	% of U.S.
2007	$31,353	$39,506	79.4
2008	32,861	40,947	80.3
2009	32,059	38,846	82.5
2010	32,805	39,937	82.1
2011	34,014	41,663	81.6

Source: United States Department of Commerce, Bureau of Economic Analysis.

The following table compares trends in total personal income for Arkansas and the United States for the years indicated.

Year	Arkansas (in millions)	United States (in billions)
2007	$89,312	$11,900
2008	94,460	12,451
2009	92,871	11,916
2010	95,843	12,353
2011	99,933	12,981

Source: United States Department of Commerce, Bureau of Economic Analysis.

Manufacturing

Employment - Industry Distribution. Set forth below is a table which indicates the industries in which Arkansas residents are employed and, to some extent, their relative importance to the State. ("Covered employment" refers to employment which is covered by the State's unemployment compensation law. The table is for 2010, the latest reported.)

Industry	Average Covered Employment	Rank	Total Earnings Paid in Covered Employment	Average Weekly Earnings	Rank
Natural Resources and Mining	21,096	10	$ 916,160,844	$835.16	4
Construction	48,726	7	1,920,844,760	758.10	5
Manufacturing	159,822	4	6,289,906,001	756.84	6
Trade, Transportation and Utilities	231,444	1	7,901,670,133	656.55	9
Information	15,375	11	741,317,173	927.23	1
Financial Activities	47,970	8	2,170,060,902	869.96	3
Professional and Business Services	117,715	5	5,610,559,924	916.58	2
Education and Health Services	162,740	3	5,721,283,622	676.08	8
Leisure and Hospitality	98,781	6	1,320,215,769	257.02	11
Other Services	24,608	9	648,193,539	506.55	10
State and Local Government	182,688	2	6,529,292,325	687.31	7

Source: Arkansas Department of Workforce Services.

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The following chart lists the twenty largest manufacturing employers.

Employer	Number of Employees	Product
1. Tyson Foods Inc.	24,000	Food products
2. Simmons Foods Inc.	3,683	Food products
3. Georgia-Pacific LLC	3,100	Lumber and paper products
4. Baldor Electric Co.	2,350	Engine parts
5. Pilgrim's Pride Corp.	2,236	Food products
6. ConAgra Foods Inc.	2,043	Food products
7. George's Inc.	2,000	Poultry processing
8. Dassault Falcon Jet Corp.	1,750	Aircraft
9. Cooper Tire & Rubber Co.	1,700	Pneumatic rubber radial tires
10. Twin Rivers Group Inc.	1,625	Poultry processing
11. Riceland Foods Inc.	1,516	Food products
12. Husqvarna Forestry Products N.A. Inc.	1,500	Chain saws, trimmers, blowers and edgers
13. Cargill	1,472	Food products
14. McKee Foods Corp.	1,375	Snack foods
15. Nucor Corp. (Nucor-Yamato Steel)	1,374	Steel products
16. Superior Industries International Inc.	1,252	Wheels manufacturing
17. Evergreen Packaging Group	1,200	Fiber based packaging
18. Whirlpool Corp.	1,130	Appliances
19. Lennox Industries	1,073	Air conditioners
20. Domtar Corp.	1,057	Paper products

Source: Arkansas Business, 2012 Book of Lists.

Fortune 500 Firms

Four Fortune 500 firms are headquartered in Arkansas: Dillard’s, Inc., Tyson Foods, Inc., Wal-Mart Stores, Inc. and Murphy Oil Corporation. Over 100 Fortune 500 parent firms have operations in the State.

Source: Arkansas Economic Development Commission.

Agriculture

Agriculture is a significant and historical component of Arkansas’ economy. Arkansas ranks among the top in the nation in rice, poultry and cotton production.

Source: Arkansas Economic Development Commission.

INDEBTEDNESS OF THE STATE OF ARKANSAS

General and Revenue Obligations

The Constitution and laws of the State of Arkansas do not limit the amount of debt that may be incurred by the State. General obligation debt may be incurred only upon approval by the electors of the State at a general election or at a special election held for such purpose.

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General obligation bonds outstanding at June 30, 2011 were as follows (expressed in thousands):

	Final Maturity Date[1]	Interest Rates %	Balance
Federal Highway Grant Anticipation and Tax Revenue G.O. Bonds:			
2010 Series Federal Highway G.O. Bonds	2015	2.5-5.00	$ 253,225
Arkansas Natural Resources Bonds:			
2002A Series Water, Waste and Pollution	2027	4.00-5.00	10,310
2002B Series Water, Waste and Pollution	2026	4.25-5.00	4,970
2002C Series Water, Waste and Pollution	2021	3.50-5.00	5,035
2002D Series Water, Waste and Pollution	2018	3.00-4.75	4,510
2002E Series Water, Waste and Pollution	2013	2.75-5.80	250
2002F Series Water, Waste and Pollution	2013	2.00-4.20	325
2002G Series Water, Waste and Pollution	2036	2.85-4.95	4,450
2002H Series Water, Waste and Pollution	2018	4.50-5.35	1,035
2002I Series Water, Waste and Pollution	2027	3.00-4.75	8,175
2002K Series Water, Waste and Pollution	2027	3.00-4.88	6,440
2003A Series Water, Waste and Pollution	2021	2.25-5.30	1,495
2003B Series Water, Waste and Pollution	2028	2.00-4.10	1,810
2003C Series Water, Waste and Pollution	2034	2.50-4.75	13,235
2004A Series Water, Waste and Pollution	2037	3.00-5.00	11,635
2005A Series Water, Waste and Pollution	2026	3.25-4.35	4,485
2005B Series Water, Waste and Pollution	2028	3.00-4.75	7,935
2006A Series Water, Waste and Pollution	2017	5.00	10,410
2006B Series Water, Waste and Pollution	2037	3.50-4.50	7,920
2006C Series Water, Waste and Pollution	2034	4.13-4.63	4,300
2007A Series Water, Waste and Pollution	2041	4.00-4.50	7,210
2008A Series Water, Waste and Pollution	2043	3.50-4.60	24,285
2009A Series Water, Waste and Pollution	2044	2.00-4.88	14,640
2010A Series Water, Waste and Pollution	2045	2.00-4.50	22,895
2010B Series Water, Waste and Pollution	2021	1.00-4.10	34,290
2010C Series Water, Waste and Pollution	2021	2.00-3.00	8,635
College Savings Bonds:			
1993 Series, G.O. Bonds	2014	5.90-5.95	10,643
1996C Series, G.O. Bonds	2016	5.85-6.00	9,809
1997A Series, G.O. Bonds	2017	5.85-6.05	3,379
1997B Series, G.O. Bonds	2017	5.30-5.60	7,254
1998A Series, G.O. Bonds	2017	5.05-5.35	7,698
2005 Series, G.O. Bonds	2016	3.20-5.00	19,235
Higher Education Bonds:			
2007A Series, G.O. Bonds	2023	4.00-5.00	97,120
2007B Series, G.O. Bonds	2029	4.38-4.75	126,825
Total			$755,868[2]

Source: State of Arkansas Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2011.

(1) Fiscal Year.
(2) Includes accretion on capital appreciation bonds of $22,058 (expressed in thousands).

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In addition, the State, by and through the Arkansas Natural Resources Commission, has issued its (a) Water, Waste Disposal and Pollution Abatement Facilities General Obligation Bonds, Refunding Series 2012A (the "Series 2012A Bonds") in the aggregate principal amount of $39,565,000 with a final maturity date in 2026 and (b) Water, Waste Disposal and Pollution Abatement Facilities General Obligation Bonds, Series 2012B (the "Series 2012B Bonds") in the aggregate principal amount of $44,000,000 with a final mandatory date in 2047. The Series 2012A Bonds were issued to refund the following bonds mentioned above: 2002A Series Water, Waste and Pollution; 2002B Series Water, Waste and Pollution; 2002C Series Water, Waste and Pollution; 2002D Series Water, Waste and Pollution; 2002G Series Water, Waste and Pollution; 2002H Series Water, Waste and Pollution; 2002I Series Water, Waste and Pollution; and 2002K Series Water, Waste and Pollution.

Future amounts required to pay principal and interest on general obligation bonds, including accrued accreted interest of approximately $22 million on capital appreciation bonds, at June 30, 2011, were as follows (expressed in thousands):

	Principal	Interest	Total
Year Ending June 30:			
2012	$ 69,816	$ 32,126	$ 101,942
2013	88,926	28,869	117,795
2014	90,840	25,015	115,855
2015	96,141	20,839	116,980
2016	23,814	18,057	41,871
2017-2021	123,338	72,029	195,367
2022-2026	126,375	43,896	170,271
2027-2031	75,445	16,497	91,942
2032-2036	20,540	6,989	27,529
2037-2041	14,155	2,965	17,120
2042-2046	4,420	343	4,763
Total	$733,810	$267,625	$1,001,435

Source: *Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2011.*

Set forth below is summarized State general obligation debt information:

General Obligation Debt (Principal) as of June 30, 2011		$ 755,868,000
Less:	Principal Amount of Bonds Refunded by Series 2012A Bonds	(44,925,000)
Plus:	Principal Amount of Series 2012A Bonds	39,565,000
Plus:	Principal Amount of Series 2012B Bonds	44,000,000
Plus:	Principal Amount of Bonds	197,005,000
Total General Obligation Debt (Principal) [(1)]		$991,513,000
State Population, 2010		2,915,918
General Obligation Debt Per Capita		$340.03

[(1)]Does not take into account any principal payments made after June 30, 2011.

Under measures previously approved by electors of the State, additional general obligation debt may be issued as described below. The Arkansas Natural Resources Commission, on behalf of the State, may issue up to $83,535,000 of additional bonds pursuant to the Water, Waste Disposal and Pollution Abatement Facilities Financing Act of 1997 (Act 607 of 1997), up to $223,500,000 of additional bonds pursuant to the Water, Waste Disposal and Pollution Abatement Facilities Financing Act of 2007 (Act 631 of 2007) and up to $201,900,438 of additional bonds pursuant to the State's Waste Disposal and Pollution Abatement Facilities Program. The Arkansas Development Finance Authority ("ADFA") may issue, on behalf of the State, general obligation bonds pursuant to Amendment No. 82 of the Arkansas Constitution ("Amendment 82") for an amount up to five percent (5%) of State general revenues collected during the most recent fiscal year. Such bonds may be issued to finance projects that would entice major employers to build facilities in the State. The State Department of Finance and Administration has stated that bonds issued pursuant to Amendment 82 would be limited to approximately $223,944,999.90. ADFA, on behalf of the State, may also issue up to $7,145,000 of additional bonds pursuant to the Arkansas Higher Education Technology and Facility Improvement Act of 2005. The Commission may issue, as of the date hereof, additional bonds pursuant to the Authorizing Legislation in the aggregate principal amount of $237,665,000. See **INTRODUCTORY STATEMENT**, **Authority for the Bonds** herein.

Source: Arkansas Development Finance Authority; Arkansas Natural Resources Commission; Arkansas Department of Finance and Administration.

Reference is hereby made to Appendix B. Long-Term Liabilities, as of June 30, 2011, are discussed in Note 8 to the Basic Financial Statements. Appendix B should be reviewed in its entirety.

Special Obligation Bonds

Arkansas has outstanding a number of issues of special obligation or revenue bonds. These are described in Appendix B, particularly in Note 8 to the Basic Financial Statements.

Guaranteed Indebtedness

AEDC Guaranty Fund. The Arkansas Economic Development Commission ("AEDC") has authority to guarantee repayment of indebtedness incurred by private borrowers, not to exceed five million dollars in each instance, to promote industrial development within the State. In connection with such guarantees given in the past, AEDC has received fees which have been deposited into a guaranty fund. In the event AEDC's guarantee is called upon, moneys in the guaranty fund are applied to satisfy the obligation. In the event moneys in the guaranty fund are insufficient to repay any such obligation, AEDC is authorized to issue its revenue bonds secured by a pledge of interest earnings on the State's daily Treasury balances. An issue of such bonds previously issued by AEDC have now been fully paid.

As of February 29, 2012, there was approximately $16,875,648 on deposit in AEDC's Bond Reserve Guaranty Fund. As of February 29, 2012, AEDC had outstanding guarantees on approximately $59,565,018 in principal amount of debt in connection with the program described above. Approximately $10,430,744 in principal amount were in default.

ADFA Guaranty Fund. ADFA has authority to guarantee bonds issued by cities and counties for industrial development purposes, bonds and loans issued by ADFA and obligations issued by a venture capital investor group. As of February 29, 2012, there was on deposit in ADFA's Guaranty Reserve Account approximately $17,481,813. As of February 29, 2012, ADFA had outstanding guarantees on obligations aggregating approximately $96,462,120 in principal amount. Approximately $13,935,002 in principal amount were in default and in a workout posture. In the event that it is necessary to meet its guarantee obligations, ADFA may issue its revenue bonds which will be secured by a pledge of interest earnings derived from investment of the State's daily Treasury balances. No such bonds have yet been issued by ADFA.

Lease Obligations

The State has entered into various lease agreements with the private sector, primarily for buildings and equipment. In general, lease commitments are cancelable, without penalty, upon the failure of the State to appropriate sufficient funds at each biennial legislative session. Certain leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease. The State also has lease agreements for buildings and equipment which are accounted for as capital leases. These leases are so classified because they transfer substantially all of the benefits and risks of ownership to the State. Information with respect to operating leases and capital leases as of June 30, 2011 is set forth in Note 11 to the Basic Financial Statements in Appendix B.

FINANCIAL INFORMATION CONCERNING THE STATE OF ARKANSAS

Financial Organizations and Management

The following State organizations share responsibility for statewide financial management: the General Assembly, the Office of Budget and the Office of Accounting of the Department of Finance and Administration, the Governor, the Treasurer and the Division of Legislative Audit. The State is prohibited by its Constitution from deficit spending. Accordingly, spending is limited to actual revenues received by the State.

The General Assembly has responsibility for legislating the level of State services and appropriating the funds for operations of State agencies. The Office of Budget prepares the Executive Budget with the advice and consent of the Governor. The Office of Budget also monitors the level and type of State expenditures. The Office of Accounting has the responsibility for maintaining fund and appropriation control and, in conjunction with the Auditor of the State, has responsibility for the disbursement process. The Treasurer has responsibilities for maintaining the State fund balances and the investment of State funds (with the advice of the State Board of Finance). The Division of Legislative Audit has responsibility for performing financial post-audits of State agencies.

Budget and Appropriation Process

State agencies submit annual budget requests to the Office of Budget of the Department of Finance and Administration. The Office of Budget prepares the Executive Budget and an estimate of general revenues. The Executive Budget contains the budget amount recommended by the Governor.

The General Assembly appropriates money after consideration of both the Executive Budget and the revenue estimate. The appropriation process begins in the joint House-Senate Budget Committee and then proceeds through both houses of the General Assembly. Legislative appropriations are subject to the Governor's approval or veto, including the authority of line-item veto.

The General Assembly also must amend the Revenue Stabilization Law (described below) to provide for an allotment process of funding appropriations in order to comply with state law prohibiting deficit spending. The Governor may restrict spending below the level of appropriations.

Revenue Stabilization Law

Act 750 of 1973, codified at Title 19, Chapter 5 of the Arkansas Code of 1987 Annotated, establishes the State's revenue stabilization law (the "Stabilization Law"). The Stabilization Law and related legislation govern the administration and distribution of State revenues.

Pursuant to the Stabilization Law, all general and special revenues are deposited into the General Revenue Allotment Account and the Special Revenue Allotment Account according to the type of revenue being deposited. From the General Revenue Fund, 3% of all general revenues are distributed to the Constitutional Officers Fund and the Central Services Fund to provide support for the State's elected officials (legislators, constitutional officers, judges) and their staffs and the Department of Finance and Administration.

The balance is then distributed to separate funds proportionately as established by the Stabilization Law. From the Special Revenue Fund, 3% of special revenues collected by the Department of Finance and Administration and 1.5% of all special revenues collected by other agencies are first distributed to provide support for the State's elected officials and their staffs and the Department of Finance and Administration. 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: "A," "A1" and "B." Successive levels of appropriations are funded only in the event sufficient revenues have been generated fully to 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 (i) moneys flowing into a program or agencies' fund maintained by the Treasurer or (ii) the maximum appropriation by the General Assembly.

Since State revenues are not collected throughout the year in a pattern consistent with program and agency expenditures, the Budget Stabilization Trust Fund, which receives one-half of interest earnings from the investments of the State's daily Treasury balance, has been established and is utilized to assure proper cash flow during any period. Other such interest earnings are utilized to supplement the State's capital construction program. However, such interest earnings are first pledged to the payment of certain bonds issued by or on behalf of the Arkansas Museum & Cultural Commission and by ADFA and AEDC. See **INDEBTEDNESS OF THE STATE OF ARKANSAS**, **Guaranteed Indebtedness** herein. See Appendix B.

Auditing Procedures

The accounts of the State are subject to post-audit by the Division of Legislative Audit. Audits are performed as a series of audits which include agencies and funds. Copies of audit reports are made available for each fiscal year and may be obtained from the Division of Legislative Audit, State Capitol, Little Rock, Arkansas 72201.

The Department of Finance and Administration ("DF&A") prepares a Comprehensive Annual Financial Report (the "Report") after the close of each fiscal year from information maintained by DF&A as well as information provided by the various State agencies. The latest available Report is for the fiscal year ended June 30, 2011. See Appendix B hereto. The Report for the fiscal year ended June 30, 2011 and several preceding fiscal years can be found at www.legaudit.state.ar.us.

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Summary of Certain Recent Financial Operations

The following table summarizes general fund transactions for the fiscal year ended June 30, 2011 (expressed in thousands).

REVENUES:	
Taxes	General Fund
Personal and corporate income	$2,697,352
Consumer sales and use	2,491,772
Gas and motor carrier	444,232
Other	927,452
Intergovernmental	6,642,135
Licenses, permits and fees	1,109,258
Investment earnings	43,232
Miscellaneous	344,241
Total Revenues:	$14,699,674
EXPENDITURES:	
Current:	
General government	$1,367,985
Education	3,764,814
Health and human services	6,401,101
Transportation	391,019
Law, justice and public safety	719,401
Recreation and resources development	330,301
Regulation of business and professionals	119,058
Debt Service:	
Principal retirement	204,701
Interest	52,665
Capital outlay	683,872
Total Expenditures:	14,034,917
Excess of Revenues Over Expenditures	$664,757
OTHER FINANCING SOURCES (USES)	
Issuance of debt	$ 11,391
Sale of capital assets	4,083
Transfers in	188,947
Transfers out	(1,032,902)
Total Other Financing Sources and Uses	$(828,481)
NET CHANGE IN FUND BALANCE	$(163,724)
FUND BALANCE AT BEGINNING OF YEAR	$3,675,238
FUND BALANCE AT ENDING OF YEAR	$3,511,514

Source: State of Arkansas Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2011.

Retirement Systems for State Employees

The State currently operates five major retirement systems for its employees: the Arkansas Public Employees Retirement System ("APERS"), the Arkansas State Police Retirement System (the "State Police System"), the Arkansas Judicial Retirement System ("AJRS"), the Arkansas Teacher Retirement System (the "Teacher System"), and the Arkansas State Highway Employees Retirement System (the "Highway System").

Arkansas Public Employees Retirement System

APERS is a cost-sharing, multiple-employer, defined benefit plan which covers all State employees who are not covered by another authorized plan. However, there are a small number of participants in this system who continue in a participatory program in existence prior to 1978. As of June 30, 2011, there were 45,145 active participants and 28,137 retired participants and survivor beneficiaries in APERS. The following tables detail certain information for APERS as of June 30, 2011:

	Total Present Value	Portion Covered by Future Normal Cost Contributions	Actual Accrued Liabilities
Benefits to be paid current retirees, beneficiaries, and future beneficiaries of current retirees	$3,285,698,919	$0	$3,285,698,919
Age and service allowances based on total service likely to be rendered by present active members	4,287,859,146	1,132,166,601	3,155,692,545
DROP participant benefits likely to be paid to present active members and current DROP participants	805,478,766	0	805,478,766
Separation benefits (refunds of contributions and deferred allowances) likely to be paid present active and inactive members	614,784,977	246,571,565	368,213,412
Disability benefits likely to be paid present active members	157,390,006	75,481,498	81,908,508
Death in service benefits likely to be paid on behalf of present active members	59,790,522	22,644,549	37,145,973
Total	$9,211,002,336	$1,476,864,213	$7,734,138,123
Applicable assets	5,467,472,476	0	5,467,472,476
Liabilities to be covered by future contributions	$3,743,529,860	$1,476,864,213	$2,266,665,647

Source: Arkansas Department of Finance and Administration.

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Arkansas State Police Retirement System

The State Police System is a single-employer, defined benefit pension plan which covers all commissioned police officers of Arkansas State Police. The State Police System is administered by APERS. As of June 30, 2011, there were 454 active participants, 76 deferred retirement active participants and 554 retired participants and survivor beneficiaries in the State Police System. The following table details certain information for the State Police System as of June 30, 2011:

	Total Present Value	Portion Covered by Future Normal Cost Contributions	Actual Accrued Liabilities
Future benefits to be paid to current retirees, beneficiaries, future beneficiaries of current retirees and current DROP members (not including DROP reserve)	$256,939,956	$0	$256,939,956
Age and service allowances based on total service likely to be rendered by present active members (including DROP reserve)	125,182,623	43,860,404	81,322,219
Separation benefits (refunds of contributions and deferred allowances) likely to be paid present active and inactive members	7,097,391	4,691,798	2,405,593
Disability benefits likely to be paid present active members	6,186,029	4,349,139	1,836,890
Death in service benefits likely to be paid on behalf of present active members	1,285,655	579,885	705,770
Total	$396,691,654	$53,481,226	$343,210,428
Valuation assets			208,049,878
Unfunded actuarial accrued liabilities			$135,160,550

Source: Arkansas Department of Finance and Administration.

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Arkansas Judicial Retirement System

AJRS is a single-employer, defined benefit pension plan which covers all Circuit and Court of Appeals Judges and Supreme Court Justices. As of June 30, 2011, there were 141 active participants and 120 retired participants and survivor beneficiaries in AJRS. The following table details certain information for AJRS as of June 30, 2011:

	Total Present Value	Portion Covered by Future Normal Cost Contributions	Actual Accrued Liabilities
Benefits to be paid to current retirees, beneficiaries, and future beneficiaries of current retirees	$102,379,008	$0	$102,379,008
Age and service allowances based on total service likely to be rendered by present active members	112,995,162	30,699,612	82,295,550
Separation benefits (refunds of contributions and deferred allowances) likely to be paid to present active and inactive members	1,679,710	835,048	844,662
Disability benefits likely to be paid to present active members	1,018,208	985,821	32,387
Death in service benefits likely to be paid on behalf of present active members	1,721,158	637,884	1,083,274
Total	$219,793,246	$33,158,365	$186,634,881
Applicable assets	165,376,983	0	165,376,983
Liabilities to be covered by future contributions	$54,416,263	$33,158,365	$21,257,898

Source: Arkansas Department of Finance and Administration.

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Arkansas Teacher Retirement System

The Teacher System is a cost-sharing, multiple-employer, defined benefit plan which covers all Arkansas Public School employees, with some exceptions, and employees of State colleges and universities and the Department of Vocational and Technical Education Division who do not elect a qualified alternative retirement plan. As of June 30, 2011, there were 76,780 active participants and 32,099 retired participants in the Teacher System. The following table details certain information for the Teacher System as of June 30, 2011:

	Total Present Value	Portion Covered by Future Normal Cost Contributions	Actual Accrued Liabilities
Age and service retirement allowances based on total service likely to be rendered by present active members	$7,112,131,467	$1,908,828,798	$5,203,302,669
Age and service allowances based on total service likely to be rendered by present T-DROP members	2,457,217,418	41,987,611	2,415,229,807
Vested deferred benefits likely to be paid present active and inactive members	1,085,428,448	385,115,112	700,313,336
Survivor benefits expected to be paid on behalf of present active members	111,286,610	39,410,744	71,875,866
Disability benefits likely to be paid on behalf of present active members	186,172,453	97,621,781	88,550,672
Refunds of member contributions expected to be paid on behalf of present active members	14,497,122	104,823,436	(90,326,314)
Benefits payable to present retirees and beneficiaries	7,053,680,291	0	7,053,680,291
Lump sum death benefits payable to present retirees and beneficiaries	78,672,931	0	78,672,931
Total	$18,099,086,740	$2,577,787,482	$15,521,299,258
Applicable assets	11,146,221,518	0	11,146,221,518
Liabilities to be covered by future contributions	$6,952,865,222	$2,577,787,482	$4,375,077,740

Source: Arkansas Department of Finance and Administration.

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Arkansas State Highway Employees Retirement System

The Highway System is a single-employer defined benefit plan which covers all employees of the Arkansas State Highway and Transportation Department. As of June 30, 2011, there were 3,642 active participants and 2,884 retired participants and beneficiaries in the Highway System. The following table details certain information for the Highway System as of June 30, 2011:

Present value of future benefits likely to be paid present active members	$ 751,474,003
Present value of future benefits likely to be paid present retirees	738,692,041
Present value of future benefits likely to be paid present inactive members	8,286,651
Total actuarial present value of future benefits	1,498,452,695
Present value of future normal costs	147,593,570
Present value of Tier II DROP contributions	8,183,321
Actuarial accrued liability	1,342,675,804
Actuarial assets	1,227,686,856
Unfunded actuarial liability	$ 114,988,948

Source: Arkansas Department of Finance and Administration.

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The funded status of the retirement systems are as follows (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	Market Value
Highway	2011	6/30/2011	$1,227,700	$1,342,700	$115,000	91.4%	$129,000	89.1%	$1,298,500
	2010	6/30/2010	1,199,400	1,305,000	105,600	91.9%	127,000	83.2%	1,052,200
	2009	6/30/2009	1,193,400	1,235,800	42,500	96.6%	122,800	34.6%	994,500
State Police	2011	6/30/2011	208,050	343,210	135,160	60.6%	28,060	481.6%	$223,921
	2010	6/30/2010	211,070	333,600	122,530	63.3%	28,510	429.7%	184,584
	2009	6/30/2009	206,320	325,940	119,620	63.3%	26,800	446.4%	158,707
Judicial	2011	6/30/2011	165,377	186,635	21,258	88.6%	19,338	110.0%	$170,797
	2010	6/30/2010	165,244	182,912	17,668	90.3%	18,630	95.0%	143,314
	2009	6/30/2009	167,433	180,166	12,732	92.9%	18,875	67.0%	131,546
APERS	2011	6/30/2011	5,467,000	7,734,000	2,267,000	70.7%	1,623,000	139.7%	$5,784,995
	2010	6/30/2010	5,409,000	7,304,000	1,895,000	74.1%	1,523,000	127.4%	4,714,160
	2009	6/30/2009	5,413,000	6,938,000	1,525,000	78.0%	1,434,000	106.3%	4,330,526
Teachers	2011	6/30/2011	11,146,000	15,521,000	4,375,000	71.8%	2,728,000	160.4%	$11,895,000
	2010	6/30/2010	10,845,000	14,697,000	3,852,000	73.8%	2,381,000	161.8%	9,884,000
	2009	6/30/2009	10,617,000	14,019,000	3,402,000	75.7%	2,318,000	146.8%	8,847,000

Source: Arkansas Department of Finance and Administration.

In the past, the State has annually contributed an amount over and above the contribution for normal costs in order to amortize the unfunded actuarial accrued liabilities. This contribution must be appropriated annually by act of the General Assembly. Reference is hereby made to Appendix B. The retirement plans are discussed in detail in Note 14 to the Basic Financial Statements.

Other Post Employment Benefits

The State pays for other post employment benefits ("OPEB"), such as health insurance for certain retirees, through the Employee Benefits Division of the Department of Finance and Administration and, for uniformed state police employees, through the Arkansas State Police. State colleges and universities also provide other post employment benefits. The State, in consultation with its professional actuarial advisors, has quantified its unfunded OPEB liability under Governmental Accounting Standards Board Statement 45 ("GASB 45"), which became effective, in the case of the State, for its fiscal year ended June 30, 2008. GASB 45 requires the reporting of all unfunded OPEB liability, but it does not require that such OPEB liabilities be fully funded. Reference is hereby made to Appendix B. Postemployment benefits, other than pensions, are discussed in detail in Note 15 to the Basic Financial Statements. The following table (expressed in thousands) discloses certain information for the various OPEB plans as of June 30, 2011:

Plan	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Net OPEB Obligation Recorded as of June 30, 2011
Arkansas State Employee	0	$1,684,000	$1,684,000	$501,259
Arkansas State Police	0	82,260	82,260	7,635
Various College and University Plans	0	91,927	91,927	48,028

Source: Arkansas Department of Finance and Administration.

CERTAIN TAXPAYER INITIATIVES AND LEGISLATION

Various efforts have been made in the recent past, under provisions of the Arkansas Constitution which provide for initiatives by electors of the State, to place various taxpayer initiated measures before the electors of the State. Should any of these initiated measures be approved by the Arkansas Attorney General (as to form) and the Arkansas Secretary of State (as to form and as to sufficiency of signatures), such measures would be placed on the ballot for a general election.

These measures have included in the past efforts to abolish the State income tax, abolish sales and use tax on used goods, allow local initiative for change in local property tax rates and restrict the level of local property taxes.

The effect of any of these measures, should any one or more become law, on the financial condition of the State cannot be predicted.

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CERTAIN LEGISLATION AFFECTING STATE GENERAL REVENUE COLLECTIONS

Set forth below is a table reflecting the effects of State legislation, adopted in 2011, on general revenues of the State.

General Revenue Impact of Bills of the 2011 General Assembly

Act	Act Descriptions	FY 2012 Impact	FY 2013 Impact
736	Additional income tax relief for head of household taxpayers with 2 or more dependents	$(3,700,000)	$(3,800,000)
738	Extend expiration date of Delta Geotourism Incentive Act of 2007, increase max tax credit	(75,000)	(75,000)
753	Increase amount below which sales tax is not due on vehicle purchase to $4,000	(1,880,000)	(3,750,000)
754	Reduce sales tax on natural gas, electric used by manufacturing and high-efficiency electric power generators	(3,920,000)	(6,980,000)
755	Reduce sales tax rate on food by 0.5% to 1.5% counting conservation tax	(15,500,000)	(15,000,000)
757	Two day back-to-school sales tax holiday for clothing, school supplies, instructional material	(1,540,000)	(1,350,000)
787	Make technical corrections to Arkansas income tax laws	(382,000)	523,000
979	Change general revenue share of insurance premium taxes	(439,103)	(995,105)
998	Sales tax exemption for sales to the Arkansas Black Hall of Fame Foundation	(2,183)	(2,183)
1226	Sales tax exemption for wholesale beer manufacturer on kegs used to sell beer wholesale	(873)	(873)
	Total	$(27,439,159)	$(31,430,161)

Note: Some of these bills will have impacts in fiscal years beyond 2013.

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

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FEDERAL-AID HIGHWAY PROGRAM

The Bonds are general obligations of the State of Arkansas. Nonetheless, a general description of the Federal-Aid Highway Program is set forth below.

A principal source of repayment for the Bonds will be payments received by the State from the federal government under the Federal-Aid Highway Program (the "Program"). Federal highway construction assistance is paid to all states, including the State, through the Program from revenues collected by the United States Treasury from certain federal taxes on fuel, tire sales and other items, which taxes are deposited into the Federal Highway Trust Fund (the "HTF"). Distribution of assistance from the HTF is subject to periodic authorization and annual appropriation by Congress. Assistance established by the Federal-Aid Highway Act of 1956 has continued to date without interruption.

Certain Program features or requirements are explained or further defined where they appear below but are introduced here for reference:

- *The Federal Highway Trust Fund*: The HTF is a dedicated federal fund with dedicated revenues held in trust for reimbursement of expenditures by the states for costs of eligible transportation projects, including highway projects.

- *Authorization*: Authorization is the process by which Congress authorizes the expenditure of federal revenues on federal programs. For the Program, authorization historically has been, and continues to be, provided on a multi-year basis. This, together with the availability of HTF revenues and future HTF collections, permits states more certainty in planning long-term highway projects.

- *Apportionment*: For each federal fiscal year ("FFY"), the Federal Highway Administration ("FHWA") apportions the authorized funding among the states according to formulae that are established in authorizing statutes. The distribution of federal funds that do not have a statutory formula is called "allocation" rather than "apportionment."

- *Obligation Authority*: "Obligation" is the commitment of the federal government to pay, through reimbursements to a state, its share of the eligible expenditures on an approved project. The amount of such federal revenues that a state can obligate in a given FFY is called its "Obligation Authority."

These features of the Program work in a complementary fashion to provide a regular flow of federal reimbursements over the years to state highway programs.

It should be noted that the terms and conditions of participation in the Program as described herein are subject to change at the discretion of Congress, and there can be no assurance that the laws and regulations now governing the Program will not be changed in the future in a manner that may adversely affect the ability of the State to receive the federal highway reimbursements.

Federal Highway Trust Fund

The FHWA administers payments to states under the Program through the HTF. Funded by collection of federally-imposed motor vehicle related taxes, primarily fuel taxes, the HTF is a dedicated fund with dedicated revenues that are held in trust for reimbursement of the states' cost of transportation projects, including highway projects. The HTF presently contains a Highway Account and a Mass Transit Account. The Highway Account receives approximately 84% of gasoline tax revenues and 88% of diesel fuel tax revenues, with the remaining share of such revenues deposited in the Mass Transit Account. Using revenues in the Highway Account of the HTF, the FHWA reimburses states for expenditures related to approved highway projects. The FHWA distributes these revenues to states based on apportionment and allocation rules prescribed by federal law.

Current law requires that the cash balance of the Highway Account of the HTF, plus projected revenues for the next two years must suffice to repay all unpaid authorizations before any additional apportionments of revenues can be made from the HTF. As a result, and unlike most federal programs, the flow of federal funding to states for highway projects does not depend on timely appropriation of revenues by Congress.

Federal gasoline excise taxes are the largest revenue source for the HTF. The majority of these tax revenues, including 15.45 cents per gallon out of the current 18.4 cents per gallon tax, go to the Highway Account.

Reauthorization of HTF Collections. Collection of HTF taxes ("HTF collections") must periodically be reauthorized by Congress. Historically, the HTF and its constituent taxes have been authorized to operate for limited periods of time.

History

The modern Federal-Aid Highway Program originated in the Federal-Aid Highway Act of 1956. The Program initially was established as a "pay-as-you-go" system, meaning that costs of constructing and maintaining the system were to be borne primarily by its users, who would pay a federally-imposed tax on motor fuels. Federal user fees were to provide 90% of the cost of construction, with the remainder paid for by the states.

The 1982 Surface Transportation Assistance Act ("STAA") made notable changes to the Program, and began the modern multi-year authorizing process. STAA also guaranteed each state a minimum 85% return on the money paid in by highway users of the state. Such "equity provisions" have continued in all subsequent authorizing legislation to date, and operate to compensate so-called "donor states," whose historic highway funding levels have been below their collections for the HTF.

ISTEA. In 1991, the Intermodal Surface Transportation Efficiency Act ("ISTEA") broadened the focus of the Program, changed its structure significantly and created several new funding categories. ISTEA also gave state and local governments far greater flexibility in determining their transportation infrastructure priorities, whether transit or highways, and for the first time allowed significant flexibility to redirect federal revenues among programs. ISTEA also authorized innovative approaches to federal-aid highway funding, including the use of private sector funding sources for transportation improvements. Innovative financing procedures were authorized and encouraged, and states were authorized to augment federal revenues with alternate sources of revenues.

The National Highway System Designation Act of 1995 (the "NHS Act") fulfilled an ISTEA mandate by designating the National Highway System to include the Interstate System as well as other roads important to the nation's economy, defense, and mobility. The NHS Act made several changes affecting the financing of federal-aid highway projects.

TEA 21. On May 22, 1998, the United States Congress passed the Transportation Equity Act for the 21st Century ("TEA 21"). TEA 21, was an approximately $217 billion reauthorization of the nation's Federal-Aid Highway Program and mass transit programs; and on June 9, 1998 the President approved TEA 21. Under TEA 21, HTF revenues are to be spent on transportation-related improvements, rather than allowed to accumulate into large surpluses. In addition, TEA 21 provides that interest will no longer accrue on funds in the Highway Account.

Various technical corrections and other modifications were made to TEA 21 via corrective legislation entitled the "TEA 21 Restoration Act", which was enacted on July 22, 1998.

SAFETEA-LU. On August 10, 2005, the President signed into law the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users ("SAFETEA-LU"). With guaranteed funding for highways, highway safety, and public transportation totaling $244.1 billion, SAFETEA-LU represents the largest surface transportation investment in our Nation's history. The two landmark bills that brought surface transportation into the 21st century—ISTEA and TEA-21—shaped the highway program to meet the Nation's changing transportation needs. SAFETEA-LU builds on this firm foundation, supplying the funds and refining the programmatic framework for investments needed to maintain and grow our vital transportation infrastructure.

MAP-21. On July 6, 2012, President Obama signed into law P.L. 112-141, the Moving Ahead for Progress in the 21st Century Act ("MAP-21"). MAP-21 extends current law (SAFETEA-LU) for the remainder of FY 2012, with new provisions for FY 2013 and beyond taking effect on October 1, 2012. Funding levels are maintained at FY 2012 levels, plus minor adjustments for inflation – $40.4 billion from the HTF for FY 2013, and $41.0 billion for FY 2014.

MAP-21 creates a streamlined, performance-based, and multimodal program to address the many challenges facing the U.S. transportation system. These challenges include improving safety, maintaining infrastructure condition, reducing traffic congestion, improving efficiency of the system and freight movement, protecting the environment, and reducing delays in project delivery.

MAP-21 consolidates the number of Federal programs by two-thirds, from about 90 programs down to less than 30, to focus resources on key national goals and reduce duplicative programs. MAP-21 eliminates earmarks and expands the National Highway System (NHS) to incorporate principal arterials not previously included. Investment targets the enhanced NHS, with more than half of highway funding going to the new program devoted to preserving and improving the most important highways -- the National Highway Performance Program (NHPP). The NHPP consolidated the Interstate Maintenance, National Highway System and Bridge Replacement (On-System) Programs.

Operations

The present Program continues to reimburse a large percentage of state expenditures for approved highway projects. The financial assurance provided by the Program is unusual among federal programs, in that:

- The Program is based on dedicated revenues from a user-tax source, deposited in a dedicated trust fund (the HTF);
- The budget and contract authority of the FHWA is established by a multi-year authorization act rather than annually through appropriation acts; and
- Contract authority is not at risk during the annual appropriations process (as budget authority is in most other federal programs).

The process for reimbursing state expenditures may be summarized in three steps: authorization, obligation and program implementation. The authorization step is the most critical step in establishing overall spending authority for federal highway funding. Authorizing legislation extends the life of the Program and the collections that fund the HTF, sets Program objectives and provides formulae for determining the distribution or apportionment of available resources among the states. The existence of the dedicated revenues in the Highway Account of the HTF and the existence of multi-year contract authorizations are designed to help make available a predictable and uninterrupted flow of reimbursements to the states.

The second step, obligation, is the process through which states make use of, or "obligate", the contract authority that has been apportioned or allocated to them in the authorization process (Step 1). Congress typically limits the amount of "Obligation Authority" that states may use annually. To whatever extent that a state's Obligation Authority is set below its authorization, the unobligated balance for that state is increased. Under current law, the unobligated balances do not entitle the states to additional funds.

The third step, program implementation, leads to actual receipt of federal funds by states. Typically, once a highway project has been qualified for federal reimbursement and it is determined that a sufficient amount of Obligation Authority exists for that particular project, AHTD will request that FHWA approve work on that project. When AHTD receives invoices for the construction costs of the projects from its contractor, it will authorize payment of such invoices and then request that the federal government reimburse its share of such payments. .

Step 1: Authorization

The first step, and the most crucial in financing the Program, is the multi-year authorizing legislation. Such highway authorization acts:

- Establish the taxes that fund the HTF and extend their life (reauthorization);
- Establish the specific programs and procedures through which states receive federal financial revenue for their highway programs; and
- Set upper limits on funding for specific programs and for the overall Program.

Multi-Year Authorization Acts. As noted earlier, the modern Program periodically has been reauthorized on a multi-year basis by authorization acts, through which Congress influences the level of federal involvement in state highway program activities. Annual appropriation acts then establish any limits on the amount of federal funds that the FHWA may obligate to states in a given year.

Budget and Contract Authority. All federal programs require budget and contract authority before revenues may be committed and spent. Normally, this authority is provided through a two-step process, with authorizing legislation describing the purposes for a specific program and setting a proposed level of spending, and appropriations acts providing the budget authority or legal ability to spend federal revenues. Appropriations are often for a lower amount than that set by authorizations. The Program combines these two steps, with authorizing legislation providing the United States Secretary of Transportation with contract authority or the legal ability to enter into binding contracts with state transportation departments ("DOTs") and other bodies specified in the Program.

Contract authority provides state DOTs with assurance about the level of future federal revenues that will be available. This, in turn, makes it easier and more cost-effective to plan and execute multi-year construction projects. As a result of contract authority and the collection of user taxes into the dedicated HTF, the formal appropriation by Congress of revenues on an annual basis generally has been noncontroversial. Constraints arising from the annual appropriations process are described in Step 2 below.

Lapsing of Authority. All federal programs must be authorized through legislation that defines the programs and establishes maximum funding levels, and, for most programs, annual appropriations acts are necessary in order to create budget authority. For most federal domestic discretionary programs, a lapsed authorization may have little or no effect on a program, so long as revenues are appropriated. For the Program, the consequences of lapsed authorization caused when Congress fails to enact reauthorization legislation are somewhat different. While Congress may pass interim legislation, the effect of contract authority and a dedicated revenue stream means that the FHWA usually can continue to provide Obligation Authority by administrative action. In such circumstances, Congress and/or the FHWA have found ways to avoid disruptions to state highway programs and, more importantly, have been able to maintain the flow of federal revenues to states in each instance. Two mechanisms in particular have kept revenues flowing, access to unobligated balances and short-term (stopgap) authorization. See Step 2, below, for further explanation of Obligation Authority and unobligated balances.

Annual Distributions. For most components of the Program, the authorization acts set the distribution of spending authority among states. The primary methods used to distribute authorized federal highway revenues are "apportionment" and "allocation":

- *Apportionments.* The contract authority created by authorization acts such as MAP-21 is distributed annually among the 50 states, the District of Columbia, and Puerto Rico using a process called apportionment of revenues. Apportionments indicate the maximum amount of contract authority that each state can expend for eligible projects in specific programs. For each FFY, the FHWA has responsibility for apportioning authorized funding for the various programs among the states according to formulae established in the authorizing statute. Annual apportionments are generally made on the first day of the FFY, which is October 1.

- *Allocations.* While most highway revenues are distributed to states through apportionments, some funding categories do not contain legislatively-mandated apportionment formulae. Distribution of revenues where there are no mandatory formulae is called "allocation" or "discretionary allocation." In most cases, allocated federal funding is divided among states using criteria determined administratively by the federal Department of Transportation or as provided in a statute, often through competitive grant procedures.

Apportionment formulae have been designed historically to ensure distribution of federal revenues among states according to program needs, but are also increasingly intended to provide states a share of total HTF expenditures relatively close to their payments into the HTF. In addition to the apportionment formulae described above, MAP-21 provides a minimum guarantee to the states of 95%.

Availability of Federal Highway Revenues. Federal-aid highway revenues are available for use for more than one year. Their availability does not terminate at the end of the FFY, as is the case with many other federal programs. Consequently, when new apportionments or allocations are made, the amounts are added to a state's unused apportionments and allocations from the previous FFY. Should a state fail to obligate (commit to spend) a year's apportionments and allocations within the period of availability specified for a given program, however, the authority to obligate any remaining amount lapses--that is, it is no longer available.

Matching Requirements. With a few exceptions, the federal government does not pay for the entire cost of construction or improvement of federal-aid highways. Federal reimbursements are typically matched with state and/or local government revenues to account for the necessary dollars to complete the project. The maximum federal share is specified in the legislation authorizing the program. Most projects have an 80% federal share.

Step 2: Obligation

The second step of the federal-aid funding process occurs when revenues that have been authorized by legislation, and either apportioned or allocated to individual states, are obligated for a specific purpose. As noted in the previous section, Congress uses annual appropriations acts to control actual, annual obligation of funds in the HTF. Appropriations acts limit the amount of federal money that actually will be obligated and thus ultimately spent, and these annual amounts may be less than the authorized amount. This ceiling on the amount of contract authority that states may use is called the "annual obligation limit." Obligation limitation is a restriction, or ceiling on the amount of Federal funds that may be committed (obligated) during a specified time period. This is a budgetary control that does not affect individual apportionments or allocations of funds. Rather, it specifies the total amount of available funds that may be used by the states in order to control the highway program spending in response to economic and budgetary conditions.

Obligation is the commitment of the federal government to pay, through reimbursement to a state, the federal government's share of an approved project's eligible costs. This process is important to the states because it allows states to award contracts with assurance that the federal government will reimburse its share of incurred costs. From the federal perspective, obligations made are the outlays the federal government has committed to make from the HTF in the future. Because of the close relationship between obligations and outlays, Congress and the FHWA play a strong role in determining how much federal funding can be obligated by individual states through two primary processes:

- Appropriations acts; and
- Distribution of Obligation Authority.

Appropriations Acts. Congressional appropriations committees use the amount of federal-aid highway revenues that states can obligate in a given year, called "Obligation Authority," as a means of balancing the annual level of highway spending with other federal budgetary priorities. This is accomplished through the establishment of an annual obligation limitation in the annual Department of Transportation and Related Agency Appropriations Act. The annual obligation limitation can be less than the level of funding authorized for the same year.

Distribution of Obligation Authority. The obligation limitation is the amount of authorized funding that Congress allows states collectively to obligate in an individual year. The process of determining the annual obligation limitation begins when Congress establishes annual domestic discretionary spending caps--the amount of federal dollars that can be spent on all domestic, non-entitlement programs in a given year. Once budget caps are determined, Congress distributes spending levels across different program areas, and a targeted level of outlays for highway spending is determined. Congress then establishes the amount of highway funding that can be obligated in the given year. This level often is below the authorized annual level and serves as a limit on the total obligations in that particular year.

Once Congress establishes an overall obligation limitation, the FHWA distributes Obligation Authority to states proportionately to each state's share of apportioned and allocated revenues. The actual ratio of Obligation Authority to apportionments and allocations may vary from state to state because some federal-aid programs are exempt from the obligation limitation. Once each state's Obligation Authority is set, states then submit requests to the FHWA to obligate revenues representing the federal share of specific projects throughout the years. (A further description of this process is included in Step 3.) As a state obligates revenues, its balance of Obligation Authority is commensurately reduced, although additional Obligation Authority may be received (e.g., via re-allocation from other states) ("Additional Obligation Authority").

A state's Obligation Authority (unlike its apportionments and allocations of authorized funding) must be used before the end of the FFY for which it is made available; if not, it will be distributed to other states. The FHWA closely monitors each state's plans for use of Obligation Authority. In mid-summer, the FHWA collects any Obligation Authority from states that do not plan to obligate all of their available Obligation Authority before the end of the FFY, and redistributes it to other states that can obligate the revenues. This reallocation of Obligation Authority is known as the "August Redistribution." (The Commission has consistently experienced an increase in its Obligation Authority in August Redistributions.)

Unobligated Balances. Because congressional authorization of federal-aid highway revenues represents a commitment to make all authorized revenues available to states for highway purposes, any shortfall between the limit on Obligation Authority created through the annual appropriations process and the amount of contract authority apportioned and allocated to states does not disappear. Instead, the difference between obligation limitations and authorization levels creates what are known as "unobligated balances."

Although most federal-aid apportionments lapse after four years, this rarely happens with apportioned highway revenues because old apportionments are always spent before new apportionments. That is, when a state receives new apportionments and Obligation Authority at the beginning of a FFY, obligations are first made against remaining prior year apportionments plus allocations until these are depleted. The net effect of this process, in conjunction with the year-to-year establishment of obligation limitations, has been that states have amassed considerable unobligated balances.

Step 3: Program Implementation

The third and final step in the overall federal-aid highway funding process - program implementation occurs after authorized revenues have been distributed to states, and after states have had the opportunity to obligate those revenues. Once federal-aid highway revenues have been authorized and obligated, states must have developed highway programs that describe, at a project-by-project level, exactly how federal reimbursements will be earned. The process of developing and implementing state highway programs has three broad stages:

- Budgeting;
- Planning and programming; and
- Fiscal management and reimbursement.

Each stage helps to ensure the states develop programs which match funding availability, and that the FHWA is able to distribute federal reimbursements to states in a timely manner.

Budgeting. Budgetary information about availability of funding is crucial to the development of state highway programs. Projected state and federal funding levels are used to budget transportation needs. Consequently, state transportation budget officials track the availability of funding and develop forecasts of future state and federal revenues. States must estimate the availability of short and long-term state and federal funding in order to plan their highway programs. They use this information as a guide during long-range planning, and as a strict constraint on short-term programming.

Planning and Programming. The budget process--particularly the identification of available funding--provides the context for transportation planning and programming. The long-range planning process provides a big-picture perspective of anticipated project needs regionally across the state. Transportation Improvement Programs follow on from long-range plans and provide a detailed outline of projects that are proposed for implementation in a period of three years. All state and local highway projects are reviewed for compliance with applicable state and federal environmental laws.

As a condition for receiving federal reimbursements for transportation programs, states must develop comprehensive transportation plans that are based on anticipated long-term state and federal funding levels for Program categories. States and urban areas must satisfy these federal requirements in order to remain eligible for federal reimbursements, and specific projects are not eligible unless they are either directly identified in a long-range plan or consistent with policies and objectives identified in long-range plans. MAP-21 required states to develop long-range transportation plans that identify long-range state policies, objectives and goals, while using realistic projections of available future state and federal funding.

MAP-21 also requires that short-term planning and programming must be conducted at least every four years through the development of a State Transportation Improvement Plan ("STIP"). Among other requirements, each STIP must include for each project the estimated project cost and amount of federal revenues proposed to be obligated during each year.

Fiscal Management and Federal Highway Reimbursements. Once budgeting, planning and programming are complete, projects move into a fiscal management phase. This fiscal management process is the third element of the implementation step in the overall federal highway funding process. A state-led fiscal management system--conducted in accordance with FHWA requirements--is used to determine exactly how much federal funding will be received for each project, to obtain final FHWA authorization before projects are implemented, and to ensure timely federal reimbursement of state expenditure on contractor costs.

States must follow federal fiscal management procedures as they implement projects that have passed through the approval and programming processes. These fiscal management procedures ensure that the FHWA and states are able to manage the process efficiently, from project authorization to actual payment of Federal Highway Reimbursements to the state.

In the traditional approach, a state simply obligates the full federal share of available funding at the beginning of a project, concurrent with project authorization. The first step in the fiscal management process begins when a state requests authorization to use federal funding on a project. The project sponsor (e.g., AHTD) submits a request for funding to the FHWA division office. If the project has been designated as Federal oversight, the plans, specifications and estimate will also be submitted with the request for funding. The project must be in the STIP.

For Federal oversight projects, the FHWA evaluates the PS&E's to ensure that the project is eligible for federal funding and meets a variety of federal requirements (e.g., design standards). If the project is designated as State oversight, AHTD certifies that all federal requirements have been met on the project. Provided that all requirements are satisfied, the FHWA authorizes federal participation in the project and obligates the federal share of project costs. By obligating the revenues, the FHWA makes a commitment to reimburse the state for the federal share of eligible project costs. It sets aside the appropriate amount of that state's Obligation Authority, and also sets aside an equivalent amount of apportioned revenues by program (or programs). Accordingly, the state must have sufficient Obligation Authority to cover the level of federal participation it is requesting.

Once authorization for a project has been obtained, the state advertises the project and receives bids. Based on actual costs identified in bids, the state awards the contract to the lowest qualified bidder and submits request to the FHWA asking for any necessary adjustments to federal obligations for the project. If approved, the amounts agreed to are included in a project agreement which identifies the revenues that will be encumbered by the state (formally applied against the state's resources), and the amount that will be reimbursed by the federal government.

Construction begins, and contractors submit bills to the state as work is completed. A state pays its construction costs with cash from the state treasury; the state bills the FHWA electronically for the federal share of completed work for which payment has been made; and the FHWA makes payment to the state via electronic transfer. This FHWA reimbursement to the state liquidates its obligation for the federal share of the costs incurred to that point. As project work continues and state expenditures are reported to the FHWA, federal reimbursements are made, generally on a weekly basis.

States are required to use a detailed accounting system to track project expenditures and reimbursements. In addition, a federal system tracks payments to states.

DESIGNATED REVENUES

The Bonds are general obligations of the State but are payable in the first instance from Designated Revenues.

The Commission and the Department receive, by way of legislative appropriation, State revenues from various highway and transportation sources. The greatest portion of these revenues is derived from taxes on gasoline and on special distillate (*i.e.*, diesel) fuel. All Additional Diesel Fuel Revenues are included within the Designated Revenues.

Included within "Designated Revenues" herein are those IM Revenues designated by the Commission for application to payment of Debt Service.

Therefore, "Designated Revenues" include (a) all Additional Diesel Fuel Revenues and (b) certain designated Interstate highway maintenance funds (being the "IM Revenues").

The tables set forth below reflect all federal aid apportionments prior to any designation. Designations will be made in amounts sufficient to provide for Debt Service as due.

Set forth below are tables reflecting apportionments, and projected apportionments, of federal aid and Additional Diesel Fuel Revenues.

Apportionments

Year	Interstate Maintenance	Additional Diesel Fuel Revenues
2008	$ 83,213,388	$18,035,958
2009	85,594,504	16,573,845
2010	95,413,849	16,087,329
2011	101,655,666	16,704,818
2012	95,115,121	16,547,843

Projected Apportionments

Year	Interstate Maintenance	Additional Diesel Fuel Revenues
2013	$95,115,121	$16,500,000
2014	95,919,338	16,500,000
2015	96,730,354	16,500,000
2016	97,548,227	16,500,000
2017	98,373,016	16,500,000

All fuel taxes (gasoline and diesel) and other highway revenues are deposited in the State Highway and Transportation Department Fund (the "HTD Fund"). An amount (which amount in 2012 is 3.3% of such revenues) is deducted from tax revenues for deposit (other than those derived from certain 1¢ per gallon gasoline and diesel fuel taxes, which are applied to state highway and local road improvement) to the State's Constitutional Officer Fund and the State Central Services Fund. Highway revenues (after the deduction described in the preceding sentence) are transferred (a) to provide for certain gasoline tax refunds and thereafter (b) to the County Aid Fund (15%) (for county roads) and the Municipal Aid Fund (15%) (for municipal streets). The remaining balance is available for construction and maintenance of State and Interstate highways.

All IM Revenues are deposited into the HTD Fund, to be disbursed for the purposes for which received.

There can be no assurance that actual revenues will equal projected revenues. The Bonds are general obligations of the State.

STATE HIGHWAY REVENUES; GENERALLY

Additional Diesel Fuel Revenues constitute a portion of the State's highway revenues. Set forth below are "Highway Revenue from the Special Revenue Allotment Fund," consisting primarily of gasoline and diesel fuel tax collections and registration fees, as reflected in the audited financial statements of the Department for the fiscal years indicated.

Year (Ending June 30)	Net Revenues
2007	$395,785,727
2008	403,892,976
2009	402,144,042
2010	425,190,386*
2011	436,368,217

*Increase due to the passage of Act 4 of the First Extraordinary Secession of 2008. This Act increased the Natural Gas Severance Tax and required that 95% of such tax be distributed through the highway revenue distribution formula.

SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

The Bonds will be issued pursuant to the Bond Resolution, a summary of which appears below. This summary does not purport to be comprehensive or definitive and is subject in all respects to the specific terms and provisions of the Bond Resolution, to which reference is hereby made and copies of which are available from the Commission or the Financial Advisor.

Definitions

Unless a different meaning clearly appears from the context, the following terms shall, for all purposes of the Bond Resolution, have the following meanings:

"Accountant" shall mean the Division of Legislative Audit of the Legislative Joint Audit Committee or a firm of independent certified public accountants of recognized national standing selected from time to time by the Commission, who may be the accountant or firm of accountants which regularly audits the books of the Commission.

"Additional Diesel Fuel Revenues" shall mean revenue derived from the increase in the excise tax levied on distillate special fuels (diesel) pursuant to Section 2 of the "Arkansas Distillate Special Fuel Excise Tax Act of 1999" and the "Motor Fuel Excise Tax Act of 1999" and transferred to the State Highway and Transportation Department Fund pursuant to Arkansas Code of 1987 Annotated § 27-70-207(c) in accordance with Section 4(a) of the "Arkansas Distillate Special Fuel Excise Tax Act of 1999" and the "Motor Fuel Excise Tax Act of 1999."

"Authorized Representative" shall mean the Chairman or Vice Chairman of the Commission or the Director and such additional persons as from time to time may be designated to act on behalf of the Commission by written certificates furnished to the Treasurer and the Trustee containing the specimen signature thereof and executed on behalf of the Commission by its Chairman or Vice Chairman or the Director.

"Beneficial Owner" shall mean any person who has the power to make investment decisions concerning ownership of the Bonds (including persons holding Bonds through nominees and other intermediaries). The Trustee may recognize any person as a Beneficial Owner upon such conditions, including indemnity, as the Trustee may require.

"Bond" or "Bonds" shall mean any Bond or Bonds authenticated and delivered under the General Resolution and issued pursuant to a Series Resolution.

"Bond Counsel" shall mean an attorney or firm of attorneys of nationally recognized standing in the field of law related to municipal securities selected by the Commission with respect to the Bonds.

"Bond Counsel Opinion" shall mean an opinion signed by Bond Counsel.

"Bond Fund" shall mean the Bond Fund created pursuant to the General Resolution.

"Certificate" shall mean a document signed by an Authorized Representative attesting to or acknowledging the circumstances or other matters therein stated.

"Closing Date" shall mean for each Series of Bonds the date upon which there is an exchange of such Series for the proceeds representing the purchase of such Series by the original purchaser.

"Code" means the Internal Revenue Code of 1986, as amended, and Regulations issued or otherwise in effect thereunder.

"Costs of Issuance" shall mean all items of expense payable or reimbursable directly or indirectly by the Commission and related to the authorization, sale and issuance of Bonds, including but not limited to expenses of printing, reproducing documents, filing and recording, initial fees and charges of the Trustee and like servicing fees, legal and other professional services and consultation, credit ratings, execution, transportation and safekeeping of Bonds, refunding of Bonds and other costs, charges and fees in connection with the foregoing.

"Debt Service" shall mean the scheduled amount of interest and amortization of principal payable on a Series of Bonds during the period of computation, excluding amounts scheduled during such period which relate to principal which has been retired before the beginning of such period.

"Designated Revenues" shall mean Additional Diesel Fuel Revenues and IM Revenues.

"Director" shall mean the person holding the office of Director of Highways and Transportation, or any successor office.

"Events of Default" shall mean the Events of Default specified in the General Resolution.

"Fiduciary" or "Fiduciaries" shall mean the Trustee, the Paying Agent, or any or all of them, as may be appropriate.

"Fiscal Year" shall mean the annual accounting period used by the State and Commission, initially the 12-month period commencing on July 1 of each year and ending on June 30 of the following year.

"Fund" shall mean a Fund established by the General Resolution or a Series Resolution.

"General Resolution" shall mean the General Resolution as from time to time amended or supplemented by Supplemental Resolutions.

"IM Revenues" shall mean revenues derived from federal highway assistance funding allocated to the State, designated as federal highway interstate maintenance funds, as further designated by the Commission, or any revenues intended to be used for the same purposes as that for which IM Revenues are to be applied.

"Investment Obligations" shall mean and include, to the extent permitted by law, any of the following securities:

(i) Direct obligations of, or obligations which are guaranteed by, the United States of America;

(ii) Obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following: Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Home Loan Bank System; Export-Import Bank of the United States; Federal Financing Bank; Federal Land Banks;

Federal National Mortgage Association; Farmers Home Administration; Federal Home Loan Mortgage Corporation; the Government National Mortgage Association; or the Federal Housing Administration;

(iii) Repurchase agreements for securities described in (i) and (ii) above;

(iv) Money market funds comprised exclusively of securities described in items (i) or (ii) above, registered with the Securities and Exchange Commission and meeting the requirements of Rule 20-7 under the Investment Company Act of 1940;

(v) Commercial paper rated A-1 or better by Standard & Poor’s Ratings Group or P-1 or better by Moody’s Investors Service, Inc. (or any successor to either such agency);

(vi) Bank certificates of deposit or demand deposits, provided that they are fully collateralized by perfected pledges of the securities described in (i) and (ii) above to the extent not insured by the Federal Deposit Insurance Corporation;

(vii) Investment contracts (A) written by providers rated "AA-" or better by Standard and Poor's Ratings Services or Fitch Ratings or "Aa3" or better by Moody's Investors Service, Inc. or (B) fully collateralized by securities described in (i) or (ii) above; or

(viii) such other investments authorized by State law.

"Outstanding" when used with reference to Bonds shall mean, as of any date of computation, all Bonds delivered under the General Resolution except:

(i) Any Bonds canceled by the Trustee at or prior to such date;

(ii) Bonds for the payment or redemption of which moneys, equal to the principal amount thereof plus premium, if any, and interest to the date of maturity or redemption date, shall be held in trust under the General Resolution and set aside for such payment or redemption (whether at or prior to the maturity date or redemption date);

(iii) Bonds in lieu of or in substitution for which other Bonds shall have been executed and delivered; or

(iv) Bonds deemed to have been paid due to defeasance.

"Owner" shall mean any person who shall be the registered owner of any Bond or Bonds on the books maintained by the Trustee.

"Paying Agent" shall mean for each Series of Bonds any bank or trust company designated as paying agent for such Series and its successor or successors hereafter appointed in the manner provided in the General Resolution. The Trustee for each Series of Bonds shall be the initial Paying Agent.

"Program" shall mean the Interstate highway maintenance and improvement program of the Commission to be carried out with moneys provided by the issuance of Bonds and other funds.

"Revenue Fund" shall mean the Revenue Fund established pursuant to the General Resolution.

"Series" shall mean all of the Bonds authenticated and delivered on original issuance in a simultaneous transaction pursuant to a Series Resolution, and any Bonds thereafter delivered in lieu of or in substitution for such Bonds, regardless of variations in maturity, interest rate or other provisions.

"Series Resolution" shall mean a Supplemental Resolution of the Commission authorizing the issuance of a Series of Bonds.

"Sinking Fund Installment" shall mean any amount of money required by or pursuant to a Series Resolution to be paid on a specified date by the State toward the retirement of any particular Outstanding Bonds that mature on a single date, but not including any amount payable by reason only of the maturity of a Bond.

"State Matching Funds" shall mean any moneys which the State is required to deposit or elects to deposit into a Fund for Program purposes.

"Supplemental Resolution" shall mean any resolution supplemental to or amendatory of the General Resolution or any Series Resolution.

"Treasurer" shall mean the Treasurer of the State.

"Treasury" shall mean the general fund of the State held by the Treasurer.

"Trustee" shall mean U.S. Bank National Association, a banking institution organized and existing under the laws of the United States of America, its successor or any other corporation which may at any time be substituted in its place pursuant to the General Resolution.

Except where the context otherwise requires, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include firms, associations and corporations.

General Resolution to Constitute Contract

In consideration of the purchase and acceptance of any and all of the Bonds by those who shall own the same from time to time, the General Resolution (together with all Supplemental Resolutions and all Series Resolutions) shall be deemed to be and shall constitute a contract among the Commission, the State and the Beneficial Owners from time to time of the Bonds, and the pledge made in the General Resolution and the covenants and agreements herein set forth to be performed on behalf of the Commission and State shall be for the equal benefit, protection and security of the Beneficial Owners of any and all of the Bonds, all of which, regardless the time or times of their delivery or maturity, shall be equal rank without preference, priority or distinction of any of the Bonds over any other thereof except as expressly provided in or permitted by the General Resolution.

Application of Bond Proceeds

At the time of delivery of each Series of Bonds, accrued interest and premium, if any, received upon the delivery of such Series shall be deposited in the Bond Fund and the balance shall be applied to pay Costs of Issuance and for deposit into the Program Fund, as set forth in a Certificate presented to the Trustee.

Exchanges and Transfers

In all cases in which the privilege of exchanging Bonds or transferring registered Bonds is exercised, the Commission and State shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of the General Resolution authorizing such exchange and transfer of such Bonds. For every such exchange or transfer of Bonds, whether temporary or definitive, the Commission or the Trustee may make a charge sufficient to reimburse them for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, which sum or sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. Neither the Commission nor the Trustee shall be required (a) to transfer or exchange Bonds for a period encompassing the 15 business days next preceding an interest payment date on the Bonds or next preceding any selection of Bonds to be redeemed or thereafter until after the mailing of any notice of redemption or (b) to transfer or exchange any Bonds called for redemption.

The Pledge Effected by the General Resolution

1. The Bonds are direct general obligations of the State of Arkansas and are secured by an irrevocable pledge of the full faith, credit, resources and revenues of the State. The obligation of the State to make transfers of its general revenues to the Bond Fund in an amount sufficient to provide for the payment of principal, premium, if any, and interest on each Series of Bonds shall constitute a first pledge of and charge against such general revenues prior to all other uses to which such moneys are devoted, either under present law or under any law that may be enacted in the future.

2. Transfers and deposits shall be made by the Treasurer in case of funds held in the Treasury. Transfers and deposits with respect to other Funds shall be made by the Commission or the Trustee.

Funds

There are created and established the following Funds:

(1) Program Fund; and
(2) Bond Fund.

The Trustee or the Commission may establish and maintain separate Program Fund Subaccounts, Revenue Fund Subaccounts and other subaccounts within the appropriate Funds, with each subaccount identified to each Series of Bonds, to the extent set forth in any Series Resolution.

Program Fund. 1. The Commission shall deposit to the credit of the Program Fund and any subaccounts therein money received from the proceeds of Bonds of any Series for the payment of Project Costs (including Costs of Issuance).

2. Each subaccount of the Program Fund shall be held by the Commission or by the Trustee (as directed by the Commission).

Bond Fund.

1. At least three business days prior to each interest payment date for any of the Bonds Outstanding, the Treasurer or the Commission shall pay, or cause to be paid, to the Trustee, for deposit into the Bond Fund, the amounts required for the payment of interest on the Bonds due on such interest payment date, and one business day prior to each redemption date the amounts required for the payment of accrued interest on Bonds then to be redeemed or purchased unless the payment of such accrued interest shall be otherwise provided for, and such amounts shall be applied to such payments.

2. At least three business days prior to each principal payment date (which shall include the date on which Bonds are to be redeemed from Sinking Fund Installments) for any of the Bonds Outstanding, the Treasurer or the Commission shall pay, or cause to be paid, to the Trustee, for deposit into the Bond Fund, the amounts required for the payment of principal and premium, if any, due on the Bonds on such principal payment date and such amounts shall be applied to such payments.

3. At least one business day prior to each payment date, the Trustee shall pay to the Paying Agent, from moneys in the Bond Fund, the amounts required for the payment of principal, premium, if any, and interest on the Bonds on such payment date.

Deposit of General Revenues

1. Not less than fifteen (15) days prior to the commencement of each Fiscal Year the Commission shall provide information to the Chief Fiscal Officer of the State estimating moneys required for payment of Debt Service on the Bonds and moneys of the Commission, including expected

Designated Revenues and income from investment of Fund balances, available for application to pay Debt Service for the coming Fiscal Year. Following receipt of said information, the Chief Fiscal Officer of the State shall estimate the amount, if any, of general revenues of the State required for payment of Debt Service on the Bonds for such period (the "Deficiency") and shall certify such estimated amount to the Treasurer before the commencement of the succeeding Fiscal Year.

2. The Treasurer shall transfer moneys in the Treasury into the Bond Fund at the times and in amounts as may be necessary, from time to time, to insure the payment, when due, of the principal, premium, if any, and interest due on the Bonds.

Investment of Funds

1. Moneys deposited in the Funds shall, to the extent practicable, be invested in Investment Obligations, the maturity or redemption date (at the option of the holder) of which shall coincide as nearly as practicable with the times at which moneys in the Funds will be required for the purposes provided in the General Resolution and the applicable Series Resolution. Repurchase agreements, demand deposits and certificates of deposit (to the extent not insured by the Federal Deposit Insurance Corporation) must at all times be collateralized by securities which have a market value at least equal to the amount thereof. Moneys in separate Funds and subaccounts which are related to the same Series of Bonds may be commingled for the purpose of investment or deposit, but moneys in Funds which are related to different Series of Bonds may not be commingled for any purpose.

2. Obligations purchased as an investment of moneys in any Fund, and earnings and profits thereon, shall be deemed at all times to be a part of such Fund.

3. Investment Obligations shall be sold at the best price obtainable, or presented for redemption, whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund for which such investment was made. The Treasurer or the Trustee shall advise the Commission in writing, on or before the twentieth day of each calendar month, of the details of all cash and investments held for the credit of, and transactions in, each Fund held by the Treasurer or the Trustee, as the case may be, as of the end of the preceding month. The Treasurer or the Trustee shall evaluate all investments of Funds at least annually to determine their then market value.

Events of Default

The term "Event of Default," whenever used herein, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

A. Default in the payment of any interest upon any Bond when it becomes due and payable; or

B. Default in the payment of the principal of (or premium, if any, on) any Bond when the same becomes due and payable; or

C. The impairment by the State of any right or remedy of any Beneficial Owner.

Remedies

The Trustee, in case of the happening of an Event of Default described above, may, and upon the written request of the Beneficial Owners of not less than a majority in principal amount of any Series of the Bonds then Outstanding, and upon being indemnified to its satisfaction, shall proceed to protect and enforce its rights and the rights of the Beneficial Owners of the Bonds by mandamus or by a suit or suits in equity or at law, either for the specific performance of any covenant or agreement or in aid of the execution of any power granted, or for the enforcement of any other appropriate legal or equitable remedy, as the Trustee may deem most effectual to protect and enforce any of the rights or interests of the Beneficial Owners of the Bonds under the Bonds.

Limitations on Suits

No Beneficial Owner of any Bond shall have any right to institute any proceeding, judicial or otherwise, with respect to the Bonds, or for any remedy thereunder, unless:

A. such Beneficial Owner shall previously have given written notice to the Trustee of a continuing Event of Default;

B. the Beneficial Owners of not less than twenty-five percent (25%) in principal amount of Bonds of at least one Series then Outstanding shall have made written request to the Trustee to institute proceedings in respect to such Event of Default in its own name as Trustee hereunder;

C. such Beneficial Owners shall have offered the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;

D. the Trustee for sixty (60) days after its receipt of such written request and offer of indemnity has failed to institute any such proceeding; and

E. no direction inconsistent with such written request has been given to the Trustee during such sixty (60) day period by the Beneficial Owners of a majority in principal amount of Bonds then outstanding;

it being understood and intended that no one or more Beneficial Owners of Bonds shall have any right, in any manner whatever, to affect, disturb or prejudice the rights of any other Beneficial Owners of Bonds or to obtain or seek to obtain priority or preferences over any other Beneficial Owners of Bonds, of any Series, or to enforce any right under the Bonds, except in the manner herein provided and for the equal and ratable benefit of all the Beneficial Owners of Bonds of all Series then Outstanding.

Control by Bondholders

The Beneficial Owners of a majority in aggregate principal amount of the Bonds at the time outstanding shall have the right, during the continuance of an Event of Default,

A. to require the Trustee to proceed to enforce the General Resolution and the applicable Series Resolution, either by judicial proceedings for the enforcement of the payment of the Bonds or the enforcement of any other remedy; and

B. to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee; provided that

(1) such direction shall not be in conflict with any rule of law or with the General Resolution or the applicable Series Resolution,

(2) the Trustee shall not determine that the action so directed would be unjustly prejudicial to the Beneficial Owners not taking part in such direction, and

(3) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

Trustee and Paying Agent

1. For the benefit and protection of the Bonds and the Beneficial Owners of the Bonds from time to time, the Commission shall appoint a bank or trust company as Trustee and Paying Agent. The

Trustee and Paying Agent shall signify acceptance of the duties and obligations imposed on it by executing and delivering to the Commission a written acceptance thereof in the manner and form acceptable to the Commission.

2. Any Fiduciary appointed under the General Resolution and a Series Resolution shall be a bank or trust company having, or the obligations of which are guaranteed by an institution having, capital, surplus and undivided profits equal to not less than $75,000,000.

Additional Paying Agents

1. The Commission may appoint one or more additional Paying Agents for the Bonds having the qualifications described below for a successor Paying Agent.

2. Each additional Paying Agent shall signify its acceptance of the duties and obligations imposed upon it by executing and delivering to the Commission a written acceptance thereof.

Resignation of Trustee

The Trustee may at any time resign and be discharged of its duties and obligations by giving not less than 60 days' written notice by first class mail, postage prepaid, to the Commission and Owners of Bonds Outstanding specifying the date when such resignation shall take effect. Such resignation shall take effect upon the date specified in such notice unless previously a successor shall have been appointed by the Commission or the Owners of Beneficial Bonds as described below, in which event such resignation shall take effect immediately on the appointment of such successor, provided no such resignation shall take effect until a successor shall have been appointed.

Removal of Trustee

The Trustee may be removed at any time by an instrument or concurrent instruments in writing, filed with the Trustee, signed by (a) the Chairman of the Commission, or (b) the Beneficial Owners of a majority in principal amount of the Bonds of such Series Outstanding.

Trustee Which Has Resigned or Been Removed Ceases to be Paying Agent

In the event of a change in the office of Trustee, the former Trustee which has resigned or been removed shall cease to be a Paying Agent.

Appointment of Successor Trustee

1. In case at any time any Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of a Trustee, or of its property or affairs, a successor shall be appointed by the Commission by a written instrument signed by an Authorized Representative of the Commission. The Commission shall mail notice of any such appointment made by it by first class mail, postage prepaid to Owners of the Bonds Outstanding.

2. If in a proper case no appointment of a successor Trustee shall be made within 45 days after the Trustee shall have given to the Commission written notice or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Beneficial Owner of the Bonds may apply to any court of competent jurisdiction to appoint a successor Trustee. The court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Trustee.

Resignation or Removal of Paying Agent and Appointment of Successor

1. Any Paying Agent may at any time resign and be discharged of its duties and obligations by giving at least 60 days' written notice to the Commission, the Treasurer, the Trustee and the other Paying Agents. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent and the Trustee and signed by the Chairman of the Commission and the Treasurer.

2. In the event of the resignation or removal of any paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it as Paying Agent to its successor, or if there be no successor, to the Trustee.

Supplemental Resolutions - Effective Without Consent of Beneficial Owners of Bonds

For any one or more of the following purposes or at any time or from time to time, a Supplemental Resolution may be adopted; which, upon its adoption by the Commission, shall be fully effective in accordance with its terms without the necessity of any approval by the Beneficial Owners of the Bonds:

(1) to close the General Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the General Resolution on, the delivery of Bonds, or the issuance of other evidences of indebtedness;

(2) to add to the limitations and restrictions in the General Resolution, other limitations and restrictions to be observed by the Commission which are not contrary to or inconsistent with the General Resolution as theretofore in effect;

(3) to add to the covenants and agreements of the Commission in the General Resolution, other covenants and agreements to be observed by the Commission which are not contrary to or inconsistent with the General Resolution as theretofore in effect;

(4) to authorize Bonds of a Series and, in connection therewith, specify and determine matters and things relevant to such Bonds which are not contrary to or inconsistent with the General Resolution as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at anytime prior to the first delivery of such Bonds;

(5) to modify any of the provisions of the General Resolution in any respect whatever, provided that such modification does not diminish the security of any Beneficial Owner;

(6) to make such additions, deletions or modifications as may be necessary to assure compliance with Section 148(f) of the Code relating to required rebate to the United States or otherwise as may be necessary to assure exclusion of interest on the Bonds from gross income for federal income taxation.

Supplemental Resolutions - Effective with Consent of Beneficial Owners of Bonds

No supplementation, modification or amendment of the General Resolution or any Series Resolution and of the rights and obligations thereunder in any particular, may be made which shall permit a change in the obligation to report a Deficiency and make transfers from General Revenues (see **Deposit of General Revenues**, above), a change in the terms of redemption or maturity of the principal of any Outstanding Bonds or for any interest payment thereon or a reduction in the principal amount premium, if any, thereof or in the rate of interest thereon except with the consent of all the Beneficial Owners which would be affected thereby.

Termination of Rights

Any moneys held by a Fiduciary in trust for the payment and discharge of any of the Bonds which remain unclaimed for two and one-half years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys are held by the Fiduciary at such date, or for two and one-half years after the date of deposit of such moneys if deposited with the Fiduciary after the date when such Bonds become due and payable, shall, at the written request of the Commission, be repaid by the Fiduciary to the Commission, as the State's absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Owners and Beneficial Owners of Bonds shall look only to the State for the payment of such Bonds; provided, however, that before being required to make any such payment to the Treasurer, the Fiduciary shall, at the expense of the State, cause to be published at least twice, at an interval of not less than seven days between publications, in a newspaper of general circulation in the City of Little Rock, Arkansas, a notice that such moneys remain unclaimed and that, after a date named in the notice, which date shall be not less than 30 days or more than 60 days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the Commission.

RATINGS

The ratings given to the Bonds by Standard and Poor's Ratings Services and Moody's Investors Service, Inc. are "AA" and "Aa1," respectively. An explanation of the significance of such ratings may be obtained from such rating agencies. The Commission furnished to such rating agencies the information contained in a preliminary form of this Official Statement and other information. Generally, rating agencies base their ratings on such material and information, as well as their own investigations, studies, assumptions, and policies. It should be noted that ratings may be changed at any time and that no assurance can be given that they will not be revised or withdrawn by the rating agencies if, in their respective judgments, circumstances should warrant such action. Any downward revision or withdrawal of a rating could have an adverse effect on market prices of the Bonds.

TAX EXEMPTION

In the opinion of Friday, Eldredge & Clark, LLP, Bond Counsel, under existing law, interest on the Bonds will not be included in the gross income of owners of the Bonds for federal income tax purposes. This opinion is expressly conditioned upon continued compliance by the State with certain requirements imposed by the Code, which must be satisfied subsequent to the date of issuance of the Bonds in order to assure that interest on the Bonds is and continues to be excludable from the gross income of owners of the Bonds. In particular, Section 148 of the Code limits the investment of proceeds of the Bonds in acquired obligations which have a yield which is higher than the yield on the Bonds and requires that certain profits earned from such investment be rebated to the United States. Failure to comply with certain of such requirements could cause the interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. The State has covenanted to comply with all such requirements.

In the opinion of Bond Counsel, under existing law, interest on the Bonds will not constitute a preference item under the Code for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations under the Code. However, interest on the Bonds will be included in the "adjusted current earnings" of such owners and therefore will be taken into account under the Code in the computation of the alternative minimum tax applicable to certain corporations.

Prospective purchasers should also be aware of certain other collateral consequences which may result under federal tax law for certain owners of the Bonds, including: (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of an owner's interest expense allocated to interest on the Bonds, (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Bonds, (iii) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iv) passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, and (v) Section 86 of the Code requires receipts of certain Social Security and certain Railroad Retirement benefits to be taken into account in determining gross income receipts or accruals of interest on the Bonds.

Further, in the opinion of Bond Counsel, under existing laws, interest on the Bonds is exempt from all taxes of the State, including income, inheritance and property taxes.

The Bonds are being sold at a premium. An amount equal to the excess of the issue price of a Bond over its stated redemption price at maturity constitutes premium on such Bond. An initial purchaser of a Bond must amortize any premium over such Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to the call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Bonds should consult with their tax advisors with respect to the determination and treatment of amortizable premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Bond.

Current or future legislative proposals, if enacted into law, may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or otherwise prevent holders of the Bonds from realizing the full current benefit of the tax status of such interest. For example, both the American Jobs Act of 2011, introduced by President Obama on September 12, 2011 (the "Jobs Act") and the federal budget for fiscal year 2013, proposed by President Obama on February 13, 2012 (the "2013 Proposed Budget") would, for tax years beginning on or after January 1, 2013, limit the exclusion from gross income of interest on obligations like the Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. The introduction or enactment of any such legislative proposals may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any such pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

It is not an Event of Default on the Bonds if the 2013 Proposed Budget, the Jobs Act or other legislation is enacted reducing or eliminating the exclusion of interest on state and local government bonds from gross income for federal or state income tax purposes.

LITIGATION

There is no litigation pending or threatened seeking to restrain or enjoin the issuance or delivery of the Bonds, or questioning or affecting the legality of the Authorizing Legislation, the conduct of the special election authorizing the Bonds, the Bonds, the proceedings and authority under which the Bonds are to be issued, or questioning the right of the Commission to adopt the General Resolution or the Series Resolution.

FINANCIAL ADVISOR

Stephens Inc., Little Rock, Arkansas, has been retained to act as Financial Advisor with respect to the Bonds. The Financial Advisor has assisted in the preparation of this Official Statement and in matters relating to the planning, structuring and issuance of the Bonds.

CONTINUING DISCLOSURE

The Commission, on behalf of the State, has covenanted for the benefit of Beneficial Owners of the Bonds to provide certain financial information by not later than 270 days after the end of the State's fiscal year, commencing with the fiscal year ended June 30, 2013 (the "Annual Disclosure Statement"), and to provide notices of the occurrences of certain enumerated events. The Annual Disclosure Statement and notices of listed events will be filed by the Commission with the Municipal Securities Rulemaking Board. A failure by the State or the Commission to comply with such agreement will not constitute an event of default with respect to the Bonds. Appendix C to this Official Statement is a preliminary draft of the Continuing Disclosure Agreement to be executed at closing.

The Commission, pursuant to the Continuing Disclosure Agreement in connection with the Series 2010 Bonds (the "2010 Agreement"), timely filed the State Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. However, the Commission was late in filing certain specific information relating to Designated Revenues, as required by the 2010 Agreement. This information has since been filed. The Commission is taking steps to insure that all information required by the 2010 Agreement and the Continuing Disclosure Agreement with respect to the Bonds is filed in a timely manner.

UNDERWRITING

J.P. Morgan Securities LLC (the "Underwriter") has purchased the Bonds at public sale for the price of $230,400,723.07 (principal amount plus original issue premium of $33,723,489.55 less Underwriter's discount of $327,766.48) plus accrued interest to date of delivery. The Underwriter intends to offer the Bonds to the public initially at the offering prices set forth on the cover page of this Official Statement, although such prices may subsequently change without any requirement of prior notice. The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public, and may offer the Bonds to such dealers and other underwriters at the price below the public offering price.

The obligation of the Underwriter to accept delivery of the Bonds is subject to various conditions set forth in the Commission's Official Notice of Sale, dated August 24, 2012.

ADDITIONAL INFORMATION

The information contained in this Official Statement has been taken from sources considered to be reliable but is not guaranteed. To the best of the knowledge of the undersigned, the Official Statement does not include any untrue statement of material fact, nor does it omit the statement of any material fact required to be stated therein, or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

The execution and delivery of this Official Statement has been duly authorized by the Commission. This Official Statement is dated the date shown on the cover page hereof.

ARKANSAS STATE HIGHWAY COMMISSION

By: /s/ R. Madison Murphy
Chairman

APPENDIX A

FORM OF BOND COUNSEL'S APPROVING OPINION

U.S. Bank National Association

Re: $197,005,000 State of Arkansas Federal Highway Grant Anticipation and Tax Revenue Bonds, Series 2012

Ladies and Gentlemen:

We have examined a certified copy of proceedings of the State of Arkansas (the "State"), acting by and through the Arkansas State Highway Commission (the "Commission"), pertaining to the issuance of the bonds identified above (the "Bonds"). The Bonds are being issued for the purpose of providing funds for improvements to interstate highways in the State.

The Bonds are issued under and pursuant to the Constitution and laws of the State, including particularly Title 27, Chapter 64 Subchapter 4 of the Arkansas Code of 1987 Annotated (the "Authorizing Legislation") and the General Resolution of the Commission and the Series Resolution of the Commission authorizing these Bonds, each duly adopted by the Commission (collectively, the "Resolution"). Pursuant to the Resolution, U.S. Bank National Association, has been appointed trustee, registrar and paying agent for the Bonds.

The Bonds are being issued in fully registered form, in denominations of $5,000 each or any integral multiple thereof. The Bonds are dated October 1, 2012.

The Commission is authorized to issue bonds upon the terms and conditions set forth in the Authorizing Legislation and the Resolution. All bonds issued under the Authorizing Legislation are entitled to the equal benefit, protection and security of the Authorizing Legislation and the Resolution.

As to questions of fact material to our opinion we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify such facts by independent investigation.

Based on our examination, we are of the opinion, as of the date hereof and under existing law, as follows:

1. The Commission is a duly constituted and existing instrumentality of the State with the powers, among others, to issue the Bonds and to perform its obligations under the Resolution.

2. The Resolution has been duly adopted by the Commission and is legally binding and enforceable in accordance with its terms.

3. The Bonds have been duly authorized, executed, issued and delivered by the State and constitute valid, binding general obligations of the State in accordance with their terms.

4. The Bonds are secured by an irrevocable pledge of the full faith, credit and resources of the State in accordance with the Authorizing Legislation.

5. The interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinions set forth in the preceding sentence are subject to the condition that the Commission comply with all requirements of the

Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excludable from gross income for federal income tax purposes. The Commission has covenanted to comply with all such requirements. Failure to comply with certain of such requirements could cause the interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. The Bonds and interest thereon are exempt from all taxes of the State, including income, inheritance and property taxes.

It is to be understood that the rights of the owners of the Bonds and the enforceability thereof and of the Resolution may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

FRIDAY, ELDREDGE & CLARK, LLP

APPENDIX B

2011 Arkansas Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2011

Arkansas

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2011

Mike Beebe
Governor

Richard A. Weiss
Director
Department of Finance and Administration

Prepared by
The Department of Finance and Administration
Office of Accounting

All photographs of various Arkansas wildlife are courtesy of the Arkansas Department of Parks and Tourism. The photograph of Governor Mike Beebe is courtesy of the Governor's Office.

Governor Mike Beebe

STATE OF ARKANSAS
MIKE BEEBE
GOVERNOR

December 22, 2011

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

I submit to you the Arkansas Comprehensive Annual Financial Report (CAFR). This annual publication is an important part of our efforts to ensure that the State's finances are accounted for in an accurate and timely manner. The financial statements and accompanying disclosures provide detailed information of Arkansas's financial status to the national credit markets on an annual basis.

I am pleased to report that the Fiscal Year 2010 CAFR received the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting. The State has received this prestigious award thirteen times.

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

Sincerely yours,

Mike Beebe

STATE CAPITOL, SUITE 250 • LITTLE ROCK, AR 72201
TELEPHONE (501) 682-2345 • FAX (501) 682-1382
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ACKNOWLEDGMENTS

The Comprehensive Annual Financial Report was prepared by the
Department of Finance and Administration Office of Accounting:

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Director

Tim Leathers
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Kristin Blain
Becky Salewski
Linda Hensley
Kassie Booker

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

Arkansas

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

TABLE OF CONTENTS

2011 Introductory Section

GREAT SEAL OF THE STATE OF ARKANSAS

REGNAT POPULUS

MERCY

JUSTICE

STATE OF ARKANSAS
Department of Finance and Administration

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December 22, 2011

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

In accordance with the requirements set forth in Arkansas Code of 1987 Annotated (ACA) § 19-4-517, it is my pleasure to transmit to you the Comprehensive Annual Financial Report (CAFR) of the State of Arkansas (the State) for the fiscal year ended June 30, 2011.

This report has been prepared by the Department of Finance and Administration (DFA) in conformance with Generally Accepted Accounting Principles (GAAP) for governments as promulgated by the Governmental Accounting Standards Board (GASB). The accuracy of agency level data that supports these financial statements is the responsibility of agency management. The completeness and fairness of the presentation, including all disclosures, rests with the DFA. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position of the State. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities have been included.

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

The State of Arkansas Division of Legislative Audit performed the audit for the fiscal year ended June 30, 2011. Auditing standards generally accepted in the United States of America were used by the auditors in conducting the engagement. The auditors' report on the basic financial statements is included in the financial section of this report.

Management's Discussion and Analysis, or MD&A, introduces the basic financial statements and provides an analytical overview of the government's financial activities. This letter of transmittal complements MD&A and should be read in conjunction with it. The State's MD&A can be found in the financial section immediately following the report of the independent auditor.

PROFILE OF THE GOVERNMENT

Originally part of the Louisiana Purchase of 1803, Arkansas was organized into a territory in 1819 with the same northern, eastern and southern borders it shares today. In 1836, Arkansas became the 25th state of the United States of America with a new border on the west. It stands as the 26th state in size with an area of 53,225 square miles. Arkansas has grown from a vast wilderness to a thriving state with a population of 2.9 million and industries ranging from agriculture to technology to commerce. Nicknamed "The Natural State," Arkansas is known throughout the country for its natural beauty, clear lakes and streams and an abundance of natural wildlife.

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

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

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

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

FACTORS AFFECTING ECONOMIC CONDITION

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

Local Economy

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

Arkansas is proud of the four homegrown Fortune 500 companies headquartered here: Dillard's, Murphy Oil, Tyson Foods and Wal-Mart. This year, even in the face of a nationwide economic downturn, Arkansas has continued to attract new businesses and expand current businesses. Wind turbine manufacturer Nordex USA; rosin-based resins manufacturer AREZ LLC; as well as Nestle Nutrition; Delta Group Electronics Inc; Fishing Holdings, the parent company of Ranger Boats; Aviation Repair Technologies; Firestone Building Products Company, LLC; Golden Living; Novus International Inc.; A Briggs Passport and Visa Expeditors; Windstream Corp.; Awesome Products Inc.; and Kimberly-Clark Corporation are some of the corporations that took action to locate or expand facilities in Arkansas during fiscal year 2011.

Targeted business incentives provide start-up companies a 33 percent transferable income tax credit for research and development, a 10 percent payroll tax credit for up to 5 years, and sales and use tax refunds for equipment and building materials. Businesses targeted are those that grow knowledge-based businesses from the intellectual property primarily generated by the State's research universities. To date, 28 businesses have signed financial incentive agreements with the State, bringing in a total investment of $81.9 million.

ECONOMIC CONDITION AND OUTLOOK

State Personal Income: Personal income consists of wages and salaries, dividends, interest, rent and transfer payments such as social security and other retirement incomes. Personal income does not include realized capital gains from the sale of assets. Personal income, measured in current dollars, reached a total of $98.4 billion in fiscal year 2011. This represented an increase of $3.9 billion or 4.2 percent over fiscal year 2010.

Fiscal year 2012 is estimated at $102 billion (current dollars), an increase of $3.9 billion or 4.0 percent over fiscal year 2011.

Arkansas Wage and Salary Disbursements: Measured in current dollars, wage and salary disbursements rose to $45.3 billion in fiscal year 2011, an increase of $1.1 billion or 2.4 percent over fiscal year 2010.

Fiscal year 2012 is estimated at $47 billion (current dollars), an increase of $1.3 billion or 2.9 percent from fiscal year 2011.

Employment: In fiscal year 2011, wage and salary employment in Arkansas increased to 1,170,108 jobs. This represented an increase of 12,283 jobs or 1.1 percent compared to fiscal year 2010. In fiscal year 2012, wage and salary employment is expected to average 1,183,188 jobs. This represents a projected increase of 13,080 jobs or 1.1 percent from fiscal year 2011.

Fiscal Year 2011 Net Available General Revenues: Actual net available general revenues collected totaled $4.6 billion with a $93.9 million surplus above net available distribution. The net available collected was $249.7 million or 5.8 percent above the net available in fiscal year 2010. The general revenue in fiscal year 2011 included a one-time transfer of $16.4 million from the State Insurance Department for fee revenue surplus and a one-time deposit of $7 million from Unclaimed Property proceeds.

Fiscal year 2012 net available general revenue collections are estimated at $4.6 billion, a decrease of $6.3 million or -0.1 percent from fiscal year 2011.

Selected Special Revenues: Act 107 of the Second Extraordinary Session of 2003 increased the State sales and use tax rate from 5.125% to 6.0%, effective March 1, 2004. Effective July 1, 2004, a new sales tax on selected services went into effect in addition to an increase in vending machine decal fees. Act 94 increased the minimum corporate franchise tax and the tax rate, effective for calendar years beginning January 1, 2004. Act 87 of 2007 designated a portion of the 6-cent per gallon dyed diesel tax to the Educational Adequacy Fund to partially offset the exemption of dyed diesel from sales tax. These revenues are deposited to the Educational Adequacy Fund to provide an adequate education system. In fiscal year 2011, net collections of $428.7 million were received by the Education Adequacy Fund, with the fiscal year 2012 net collections estimated to be $433.7 million.

American Recovery and Reinvestment Act: On February 17, 2009, Congress passed the American Recovery and Reinvestment Act (ARRA) of 2009. Four days later, the President signed the legislation into law. The Recovery Act's three main goals are: create and save jobs, spur economic activity and invest in long-term economic growth and foster unprecedented levels of accountability and transparency in government spending. The State is expected to receive $3.2 billion in one-time additional federal revenues, as administered by the State government, over the life of the Recovery Act. As of June 30, 2011, the State has received $2 billion in ARRA funds. The Recovery Act requires states like Arkansas meet unprecedented standards for accountability and transparency in tracking where and how Recovery Act funds are spent. Much of the funding made available to Arkansas must flow through existing federal programs, which limit where and how these funds can be used. Where possible, the State has invested funds in projects and initiatives that will lay the groundwork for future economic growth in Arkansas.

Department of Workforce Services: The primary impact of the ARRA of 2009 to the Department of Workforce Services (DWS) has been in the Unemployment Insurance (UI) Program. As of June 30, 2011, we have received $820 million in ARRA funding to cover UI programs. These programs include extended unemployment benefits allowing a claimant to have additional weeks of eligibility, emergency unemployment compensation, UI modernization programs, a federally funded $25 per week additional compensation for each claimant and the related administrative costs.

Other DWS programs impacted by the ARRA were the Workforce Investment Act programs, for which the agency received additional funding for Youth, Adult and Dislocated Worker training and employment readiness services, the Wagner-Peyser Employment Service program, and the Re-employment Service program, which provides employment related services to unemployed Arkansans. Additionally, the Temporary Assistance for Needy Families programs were expanded to include a summer youth work experience and a summer feeding program among other programs and services. As of June 30, 2011, DWS received ARRA funding for these non-UI programs and the related administrative support totaling $35 million.

Department of Education: From the inception of the ARRA through June 30, 2011, the Arkansas Department of Education (ADE) has received $555 million of ARRA funding. ADE distributed $554 million of that to the local education agencies and other subrecipients. Approximately $1 million was used for software development involving the accounting system utilized by the local education agencies. The $554 million in distributions is comprised of almost $1 million distributed during the latter part of fiscal year 2009, $254 million during fiscal year 2010 and $299 million during fiscal year 2011. (For comparison purposes, the total amount of non-ARRA Federal funds received in fiscal year 2009 was $492 million; in fiscal year 2010 was $462 million; and in fiscal year 2011 was $507 million.)

Total formula-based ARRA funding allocated for use by the local education agencies before September 30, 2011 amounts to approximately $661 million. The majority of the ARRA funds to be distributed by ADE are allocated to local education agencies by formula and must be used for the following purposes: improving academic performance for underperforming students in accordance with Title I guidelines ($111 million); providing additional special education and related services to students with disabilities ($118 million); providing for teacher compensation and benefits and other expenses, such as support services, necessary to retain existing teachers, to recall or rehire former teachers, and to hire new teachers in order to provide early childhood, elementary, or secondary educational and related services ($91 million); and creative and innovative projects leading to academic achievements for all students, including enhancements to existing programs and new construction, modernization, renovation and repair of education facilities ($341 million).

In addition to the formula-based funds, other ARRA funds are made available to the states on a competitive basis. These include $34 million in school improvement grants available for low-performing schools, $7.1 million in education technology grants, $1.2 million in school lunch equipment grants, and $645 thousand in grants to school districts to serve homeless children. A grant for use at the State Education Agency level in the amount of $9.8 million was received for the purpose of improving statewide data systems. The State has also received funding, as part of a multi-state coalition, for the ARRA Race to the Top Partnership for Assessment of Readiness for College and Careers (final funding amount has not been determined).

Department of Highway and Transportation: From the inception of the ARRA through June 30, 2011, the Arkansas Highway and Transportation Department (AHTD) has begun 133 improvement projects utilizing $362 million in ARRA funding. Some of those projects included additional funding from Federal, State and/or local funds. To this point, 299 miles of highways have been improved.

The Department of Human Services: During fiscal year 2011, the Department of Human Services (DHS) received $333 million to help stimulate the economy and to support the increase demand in social services through ARRA. Because of this infusion of funding, DHS was able to shore up the budget demands in Medicaid as well as invest in systems transformation. Core automation projects such as IT upgrades, were implemented as well as initiatives on provider capacity improvement. Other reform measures in child welfare and juvenile justice have also been expedited by this funding. Some of the initiatives included renovations and upgrades for the Arkansas Health Center, Human Development Centers and Division of Youth Services (DYS) facilities. The Division of County Operations (DCO) has implemented initiatives on information systems enhancements, service delivery modernization, document imaging, security enhancements and disaster preparedness and response. DCO has also completed construction of the new processing center at Batesville.

Department of Finance and Administration-Office of Child Support Enforcement: The Office of Child Support Enforcement (OCSE) was the recipient of $9.4 million in ARRA funds which were used to continue an Information Systems project that focused on the following primary objectives.

- Electronic Case Management-Green Initiative – to minimize the manual paper files that are created as a by-product of the child support enforcement workflow and to increase the efficiency of the Arkansas Child Support Information System (ACSIS) in support of the child support enforcement casework.

- Customer Service Website Project – to increase communication between OCSE and its customers, improve security processes, and reduce the cost and effort of the State by sending and receiving forms electronically and to increase the efficiency of the ACSIS application in its support of casework.

- Ease of Use/Americans with Disabilities Act (ADA) Compliance – to maximize the usability of the ACSIS, including increased usability by taking advantage of the new features provided in Internet Explorer 8, enabling users to maximize the ACSIS windows to take advantage of the entire width of the 22” monitors.

- Distribution of Child Support Collections – to increase the efficiency of the current distribution processes and minimize the number of collections that require additional research and other actions before the funds can be disbursed. The tasks in this project will simplify the distribution process, making the logic easier for the user to understand. This will in turn streamline the flow of collections from the State Disbursement Unit to the customer and lessen the amount of time spent by field staff in handling the collections manually.

Arkansas State Police: The Arkansas State Police (ASP) was the recipient of $182 thousand in ARRA funds during 2011. Of that amount, $9 thousand was pass-through money from Arkansas Building Authority (ABA) used toward the ongoing roof repair project at ASP Headquarters. The remaining $173 thousand funded three new investigator positions in the Internet Crimes Against Children Division, and of that amount, $17 thousand was sent to the City of Jonesboro Police Department as a sub recipient. The project is crucial to ASP's ability to develop effective responses to online enticement of children by sexual predators, child exploitation and child obscenity/exploitation cases.

Department of Information Systems: The Department of information Systems (DIS) received ARRA funding to increase the reliability of the Arkansas Wireless Information Network (AWIN). The projected total grant award was for $5.5 million. The amount expended during fiscal year 2010 totaled $1 million and the amount expended during fiscal year 2011 totaled $2.9 million. An extension was obtained for an additional amount to be expended in fiscal year 2012 which will total $1.4 million. The remaining $.2 million was not utilized.

The ARRA funds are being used to implement a software upgrade to the AWIN operating system of the central call processing equipment and add capacity to AWIN. Voice traffic on AWIN is controlled by call processing equipment located at ASP Headquarters and DIS. In the event of failure at either of these locations, one half of the sites on AWIN revert to local traffic only with no statewide call processing capability. Of the $5.5 million above, $4.1 million is for the installation of additional controller equipment at the Arkansas Department of Emergency Management (ADEM) compound at Camp Robinson to be completed in 2012. $640 thousand went towards the system upgrade completed in 2011. The remaining $760 thousand was utilized to increase the capacity to the remote AWIN sites that serve the central Arkansas metropolitan area to help ease the call congestion that can occur during high traffic hours. These three ARRA projects will help to significantly increase the reliability of the AWIN system.

Department of Correction: The Arkansas Department of Correction (DOC) was the recipient of $4 million in ARRA funds, which was used to implement energy efficiency projects including replacement of old inefficient lamps/ballasts with more energy efficient lighting, as well as replacement of old HVAC systems with more efficient units at the Tucker, Wrightsville, Varner and Cummins Units. The lighting retrofits and HVAC upgrades identified, qualified DOC to receive a rebate of $119 thousand from Entergy's Arkansas Large Commercial and Industrial Incentive Program; that seeks energy savings in peak demand times. In addition, these improvements are projected to save DOC up to $700 thousand in annual energy costs.

Arkansas Rehabilitation Services: The Arkansas Rehabilitation Services was the recipient of $5 million in ARRA funds. The funding is being used to provide independent living services for individuals with disabilities. Funding is also being used in vocational rehabilitation services to states for new client software packages, new healthcare manager system software, as well as, obtaining updated computers and related hardware to allow for adaption of systems in the central office and in the twenty offices throughout the State. The Vocational Rehabilitation Services Hospital is also undergoing extensive renovation and the ARRA grant has provided for architectural services to manage the construction project.

Military Department: The State Military Department was the recipient of an estimated $12.8 million in ARRA funds. The majority of this money was used to fund needed renovations and updates to energy management control systems for several buildings and armories located on Camp Robinson and Fort Chaffee. In addition to the updates, lighting was renovated in several barracks, hot water heaters replaced and windows were replaced at Truman Hall. To date ARRA has provided funding for an estimated 41 projects some at 100% funding, while others provided 75% with 25% State funding. ARRA enabled the military department to accomplish these necessary projects in a much timelier manner.

Arkansas Natural Resources Commission: The Arkansas Natural Resources Commission (ANRC) was the recipient of $25.6 million in ARRA funds for the U.S. Environmental Protection Agency's Clean Water State Revolving Fund (CWSRF) program and $24.5 million of ARRA funds for the Drinking Water State Revolving Fund (DWSRF) program.

The CWSRF base program provides below market interest rate loans to qualifying entities for wastewater projects. The DWSRF base program provides below market interest rate loans to qualifying entities for water projects. The ARRA funding included new types of funding (additional subsidization) and new types of projects eligible for funding (Green Project Reserve). The subrecipient, their construction contractor and consulting engineer were required to comply with federal requirements that were not part of the base program (Buy American and Davis-Bacon). ARRA also required that entities receiving the funding to sign a construction contract for the work within one year of enactment of ARRA (February 17, 2009).

ANRC was able to solicit for projects, complete all required reviews, bid the projects, close the loans and sign the construction contracts for all of the ARRA funds within the February 17, 2010 deadline. There are six wastewater projects receiving funding from the CWSRF (Batesville, Little Rock, Newport, Prairie Grove, Siloam Springs and University of Arkansas (U of A)) and seven DWSRF projects (Buffalo Island Regional Water District, Central Arkansas Water, Cotton Plant, East Prairie County Water Association, Franklin Sebastian Public Water Authority, Glenwood and Hot Springs) receiving funding.

Arkansas Agriculture Department: The Aquaculture Division of the Arkansas Agriculture Department was the recipient of $7.8 million of ARRA funding to assist aquaculture producers in recovering from losses associated with high feed costs during the 2008 calendar year. Previously a number of catfish operations have exited the business since the Department administered a similar program for catfish only in 2007. This program extended to baitfish, goldfish, tilapia, hybrid, striped and largemouth bass as well as catfish. This input of funding from ARRA grants helped Arkansas' aquaculture to begin to revitalize. It was determined that there were 65 jobs created and 255 jobs retained within the State's aquaculture industry in rural Arkansas.

The Forestry Commission was the recipient of $3.6 million to reduce wildfire risk in north Arkansas. The funds allowed the State to contract for single engine air tankers, which dropped water on 46 wildfires that threatened 161 structures. Firefighting equipment for 285 volunteer fire departments was purchased. The Commission contracted with 11 private foresters who worked with 93 landowners to reduce wildfire hazard. This work included installing over 10 miles of fire lanes, reducing forest slash on 2,662 acres and prescribed burned 1,357 acres. The Commission conducted 16 wild land firefighting courses for fire departments as well as purchased six "tractor/plow units" (firefighting bulldozers with transport trucks) for Commission use.

Department of Finance and Administration's Office of Intergovernmental Services: The Arkansas Department of Finance and Administration's Office of Intergovernmental Services (DFA-IGS) is responsible for managing the ARRA State Fiscal Stabilization Fund-Government Services Fund formula grant for the Office of the Governor. Out of the $80.8 million Arkansas received for the program, which may fund public safety and other government services, including support for Local Education Agencies (LEAs) and Institutions of Higher Education (IHEs), $33.9 million is managed directly through DFA-IGS. During fiscal year 2011, sub-recipients whose projects consisted of various infrastructure and community support programs, include the Northeast Arkansas Food Bank, City of Hope, Arkansas Department of Health, University of Arkansas Community College at Morrilton, Foreman Community Center, Pulaski County Southwest Little Rock Health Clinic, Cleburne County Library and Arkansas School for Mathematics, Sciences, and the Arts (ASMSA).

The Office for Victims of Crime (VOCA) and the Office on Violence Against Women (STOP) made available $2.1 million (*excluding administrative funds*) in formula grant funds through ARRA. The funds enabled the Victims Justice Assistance to increase services to victim of crime by funding eight new subgrant organizations and to enhance/expand the services of 17 existing subgrant organizations. During fiscal year 2011, extensions were granted to sub-recipients. The amount awarded through the grant extensions totaled $458 thousand. Services funded through ARRA began at the end of fiscal year 2009 and will continue until March 2012.

During fiscal year 2011, ARRA Justice Assistance Grant (JAG) Program funded 72 local projects and awarded $30 thousand in mini-grants to 17 multi-jurisdictional Drug Task Forces (DTFs) throughout the State of Arkansas to purchase much needed equipment. These DTFs are specially equipped to conduct overt and covert operations aimed at decreasing drug trafficking and illegal drug abuse.

Department of Environmental Quality: The Air Division of the Arkansas Department of Environmental Quality (ADEQ) was the recipient of $1.7 million in ARRA funds from ARRA State Clean Diesel Grant Program. These funds were administered through the U.S. Environmental Protection Agency (EPA), Region VI, in order to implement a diesel emissions reduction program for on-road and non-road vehicles/equipment. In July of 2009, ADEQ announced the grant program via press release. Funding was made available to public, private and nonprofit organizations through a competitive application process. Sixteen projects were funded and consisted of vehicle/equipment replacements, engine replacements, engine upgrades and the installation of idle reduction technology. To date, 14 projects are complete and the applicants with completed projects have been reimbursed.

ADEQ also received funds of $793 thousand under the EPA, Region VI, ARRA for the National Clean Diesel Funding Assistance Program in July of 2009. These funds are being used to reduce diesel emissions throughout the State. In administering these programs, ADEQ partnered with one city and 15 counties to upgrade the engines of 23 types of vehicles/equipment consisting of motor graders, crawler tractors and loaders to meet Tier I emission levels. Sixteen projects have been completed, and the entities with these completed projects have been reimbursed. ADEQ has received positive responses from the entities with which they have worked. These projects would not have occurred without the stimulus funding the Department received.

The Regulated Storage Tanks Division was the recipient of $1.7 million in ARRA funds. The ARRA funds provide additional funding for either direct site work or for management/oversight activities at what are typically orphaned or abandoned sites where there are no viable responsible parties. ARRA funds were utilized:

- at the former Godsey's Exxon site in Osceola where a State contractor excavated and disposed of approximately 3,600 cubic yards of contaminated soils and purchased and installed a dual-phase extraction system and soil vapor extraction system. The construction/installation phase was completed on time and for a cost of approximately $650 thousand. A State contract was issued in July 2010 for operation and maintenance of the systems. ADEQ's State-lead contractor performed a site assessment, the final report was submitted in December, 2010.
- at the former "The Fuel Stop" in Hot Springs Village, a site assessment and an exposure assessment have been performed. A corrective action, in the form of free product recovery, is currently underway.
- at Carney's 412 Auto/Truck Stop in Siloam Springs a site assessment and site closure have been performed.
- for a work plan developed for site assessment at the former White Oak Station #20 in Bentonville.
- at the former Ozark Truck Plaza in Alma a site assessment and ground water assessment were performed.
- for a site assessment and a Mobil Dual Phase Extraction (MDPE) testing event conducted at the former Roadrunner #60 in Fayetteville.
- at the former TPI#4038 in Texarkana post-remediation monitoring events were performed.
- for MDPE /Surfactant Injection conducted at the former Board Camp Grocery site in Board Camp.
- for free product removal performed at the former TPI#4012 in Fort Smith.
- for a work plan for free product removal prepared for the former Road Runner #46 in Forrest City.
- for a work plan developed for surfactant enhanced remediation at the Haywood's Conoco in Piggot.

Without the ARRA grant, existing funding would not have been sufficient to address cleanup and investigations at these sites now or in the near future.

The Water Division was the recipient of $259 thousand in ARRA funds for Total Maximum Daily Load (TMDL) development for water bodies listed on the 2008 list of impaired water bodies (303(d) list). When completed, 114 TMDLs will be established for various waterbodies and pollutants selected by ADEQ. The TMDLs are organized into five groups by geographic area. Group 1 is comprised of the Red River, McKinney Bayou and the Sulphur River. Group 2 is comprised of Crooked Creek. Group 3 consists of Bodcau Creek, Bayou Dorcheat and tributaries. Group 4 consists of Cache River, Bayou DeView and Lost Creek Ditch. Group 5 is comprised of Bayou Bartholomew and tributaries.

Arkansas Department of Higher Education: The Arkansas Department of Higher Education (ADHE) was the recipient of $59.1 million in ARRA funds for the purposes of allocating these funds to public institutions of higher education to restore State support for the institutions to the greater of the fiscal year 2009 level. $27.2 million of these funds distributed to the institutions of higher education shall be used for education and general operating expenditures to help mitigate the need to raise tuition and fees for education of in-State students. $31.9 million of these funds distributed to the institutions of higher education shall be used for modernization, renovation and repairs consistent with a recognized green building rating system. The funds allocated shall be targeted for facilities whose primary mission is related to instruction, research or student housing. No funds shall be used for maintenance of facilities, systems, equipment or facilities primarily used for athletic contests or sectarian instruction.

Arkansas Development Finance Authority: The Arkansas Development Finance Authority (ADFA), a component unit of the State, was the recipient of over $113 million in ARRA funds. The funds comprised two programs offering to assist low income housing tax credit developments throughout the State. The first is the Tax Credit Assistance Program (TCAP). The TCAP utilizes U.S. Department of Housing and Urban Development funds to be used in conjunction with the Low Income Housing Tax Credit Program as surplus cash loans. The second is the Exchange/Section 1602 Program. Under the Exchange/Section 1602 Program, ADFA swapped certain previous year Low Income Housing Tax Credits for cash from the U.S. Treasury to be infused into projects as equity.

RELEVANT FINANCIAL POLICIES

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

The law provides that 60 days prior to the convening of the General Assembly each year, the Governor shall issue a General Revenue Forecast. This forecast is based upon the aggregate revenue forecasts of each individual agency. It identifies the expected level of general revenue collections and the net distributions of those revenues for the year, as required by the Revenue Stabilization Act. The General Assembly then authorizes the level of funded appropriation each year based upon the annual general revenue distribution along with other special and federal revenue sources.

Each appropriation is required to have at least one funding source. These funding sources are categorized as general, special, federal or other. State spending is limited to available cash and available appropriation.

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

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

MAJOR INITIATIVES

Education: Helping schools help students become ready for colleges and careers is what the Arkansas Department of Education (ADE) is all about. By supporting students, teachers and school district administrators through top-notch curriculum development and ongoing, research-based learning, the State has witnessed unprecedented gains in educational attainment of students.

- In 2011, scores on both the Arkansas Augmented Benchmark exams again improved, with overall scores increasing on 10 of 14 exams. In some cases, the percent of students scoring proficient has nearly doubled since 2005.
- Arkansas is helping lead the Common Core State Standards initiative and started the phase-in with the new curriculum in grades K-2 for the 2011-2012 school year.
- The ADE is playing a key role in the Governor's STEM Works project by helping institute New Tech schools throughout Arkansas.
- Scores and participation on the College Board's Advanced Placement exams continued to climb in 2011 with 21,280 students taking AP tests, which is up 6.5 percent from last year.

In addition, the ADE has received repeated recognition from national organizations — Education Trust, the Council for Chief State School Officers, Achieve and the National Governors Association — all have lauded Arkansas for being a leader in successful education reform. Perhaps most impressive, *Education Week*'s Quality Counts issue for 2011 ranked Arkansas's public education system 6th in the country, up from 10th the last two years when compared with all states and the District of Columbia.

Highways and Transportation: Governor Mike Beebe called for a special election on November 8th of 2011 to ask voters to authorize $575 million in highway repair bonds. After passing, the Department will be authorized to issue bonds for approximately $1 billion in Interstate repairs, continuing a program approved in 1999. In addition, the general election ballot in 2012 will include a Constitutional Amendment that would increase the State sales tax by .5-cents for ten years. If passed, it would support $1.8 billion for four-lane highway improvements in Arkansas.

The AHTD completed a number of construction projects this year in each of its ten districts across the State. Recently completed projects included the widening of Broadway in North Little Rock, the widening of Highway 82 in Crossett, the widening of Highway 49 in Paragould and the Highway 64/Vilonia Bypass.

State Parks: There are 52 State parks encompassing 54,353 acres of wetlands, forests, fish and wildlife habitats, recreational facilities and unique historic and cultural resources. Within the parks are 1,770 campsites, four lodges, 197 fully equipped cabins, 11 marinas, 11 swimming pools, eight restaurants, one 18 hole and one 27 hole golf course, over 120 miles of roads, hundreds of miles of utilities and an assortment of 129 hiking, mountain bike, backpack, equestrian and multi-use trails covering 373 miles. Over 8.2 million visitors came to the State parks in fiscal year 2011. Over 597 thousand visitors participated in more than 46 thousand educational and recreational programs and special events throughout the park system.

Over $126.6 million in capital improvements and major maintenance projects have been completed throughout the Arkansas State Parks system, funded by Amendment 75, the ⅛ % Conservation Tax since its passage in 1996. Twenty-two construction and major renovation projects were completed in fiscal year 2011 totaling $12.3 million.

Examples of completed projects throughout Arkansas State Parks include:

- Northeast Arkansas Regional Archives (NEARA) facility, Powhatan Historic State Park
- renovation of Hindman Hall, Prairie Grove Battlefield State Park
- Group Lodge and Group Dining Lodge, Lake Fort Smith State Park
- renovation of Visitor Information Center, Crater of Diamonds State Park
- four modern full service cabins, Lake Ouachita State Park

In addition to completed projects, ongoing projects include:

- The Ridges at Village Creek (golf course), Village Creek State Park
- repairing damages to 19 State parks as a result of the spring floods, tornadoes and extreme weather conditions

The popularity of the Arkansas State Parks system's family of websites and social networking sites continues to grow, connecting friends, families and visitors by bringing them to park programs, events, etc. On Facebook, there are over 55 thousand "friends" taking advantage of the benefits and values of their State park system. The social networking sites are great marketing tools that help the public's utilization of park facilities, provide testimonials to others and connect visitors and stakeholders to recreation and education program opportunities and facilities.

Tourism: Like the previous twelve months, fiscal year 2011 was a challenging one for Arkansas's tourism industry. Public confidence about the economy hurt the hospitality niche from coast to coast, and many State tourism offices cut programs, eliminated staff, or reduced hours. In fact, the State of Washington turned off the lights, locked the doors, and completely shut down its tourism program due to a dire budget situation. Despite the difficult conditions, The Natural State managed to post a 3.3% increase in its tourism tax collections for the fiscal year.

Arkansas's tourism product continued to improve and expand. The Gangster Museum of America opened in Hot Springs and the National Park Service unveiled the Clinton Birthplace Home National Historic Site in Hope. The Grand Prairie Center in Stuttgart welcomed its first visitors as did the El Dorado Conference Center.

Meanwhile, several new projects are in the works, chief among them the Crystal Bridges Museum of American Art which opened on November 11, 2011, in Bentonville. It will usher in a new era for the State's tourism industry, placing Arkansas on the map like never before for both national and international visitors.

Human Services: The Department of Human Services (DHS) serves more than 1.3 million Arkansans each year with 7,500 employees located in 86 sites around the State.

In 2011, DHS began an effort with the support of Governor Mike Beebe to transform the health care payment system in Arkansas. Department leaders recognized that Medicaid programs throughout the country faced a growing challenge of providing quality care with limited resources. To avoid making the dramatic cuts that other states were making to Medicaid programs, DHS partnered with private payers to create a system that moves from a fee-for-service model to one that pays health care providers for episodes or bundles of care. Department leaders believe this will make the Arkansas health care system financially sustainable in the long-term.

The partnership between DHS and private payers comes only one year after Congress passed a piece of health care reform legislation titled the Patient Protection and Affordable Care Act. The new legislation introduces many changes to Medicaid. Federal funds will provide most of the resources for this program, but it will also require increased financial obligations for states. The changes to public health insurance coverage outlined in the new law will expand eligibility, add new benefits and change the structure of public health financing. The State anticipates that an estimated 250 thousand Arkansans will be added to the Medicaid system beginning in 2014.

In addition to the major changes to the national health landscape, DHS continues to not only leverage its limited resources to maintain the current array of services but also invest in strategies that improve services and generate savings. Some of these include:

- Opening of the Access Arkansas Processing Center – The state-of-the-art facility in Batesville opened this summer. It is expected to eventually process more than 30 thousand applications and renewals for public assistance each month. Most of those applications and renewals will be submitted through the new access.arkansas.gov website, which allows Arkansans to submit these documents online for the first time. Technology at the center is expected to reduce the amount of time it takes an application to be approved or denied and will move DHS closer to its goal of moving to a paperless system for applications and case files. Prior to the opening of this center, caseworkers in county offices across the State manually processed all applications and renewals. The center is a huge step toward modernizing how DHS provides services to Arkansans. The $3.1 million center was built, furnished and equipped with funds from ARRA.
- Education facilities for children committed to DYS – DYS used just over $17 million in ARRA funding to construct education or other needed buildings at all six of its residential treatment centers in the State. At the Arkansas Juvenile Assessment and Treatment Center, which houses up to 100 youth, DYS opened a 21,500 square foot school that includes a cafeteria, 15 classrooms with smart boards, a library, a vocational wing and work space for teachers. The DYS also built three 5,000-square-foot education buildings at the centers in Colt, Dermott and Harrisburg. The buildings each have four classrooms with smart boards and workspace for teachers. In addition, the rustic buildings that comprised the center in Mansfield were replaced with six cottages and a new education building that includes classrooms with smart boards, a cafeteria, a multi-purpose room and work space for teachers. At the facility in Lewisville, DYS built two new dorms and repurposed the old dorm as a school building with smart boards and teacher workspace.

DHS is investing in technology and prevention to maximize limited resources while maintaining quality services that support the welfare of all Arkansans.

Information Technology: Arkansas remains a leader in digital government. The Arkansas Department of Information Systems (DIS) is consistently working to improve access to new technologies for State agencies, boards and commissions, K-12 public schools, higher education and city and county government, to allow them to work more efficiently across State government, and use our State IT dollars more wisely.

DIS has identified and is addressing several trends in today's world of technology. There is currently a need for highly reliable technology, protecting critical information, sharing information across State government, applying green IT initiatives and providing services for every generation. There are several key initiatives underway within DIS to address these needs that include: improving the State Data Center; using satellite technology; providing redundant email services; implementing and providing content management and collaboration services; utilizing unified communications; connecting rural areas of the State through broadband; incorporating virtualization; and establishing Enterprise Architecture.

The AWIN is a multi-phased program to leverage new and existing wireless resources to create a statewide interoperable wireless communication system for emergency responders and Arkansas public service entities. There are currently over 18,000 AWIN users consisting of law enforcement, fire, first responders and other emergency services at the city, county, state and federal levels. AWIN projects scheduled for fiscal year 2012 include adding three new AWIN tower sites, rebanding 800MHz infrastructure and user equipment, overhauling the AWIN website and enhancing the AWIN radio database.

The State Cyber Security Office (SCSO) of DIS oversees the Arkansas Continuity of Operations Program (ACOOP) to ensure that State government is prepared for any potential disaster, whether natural or man-made. All DIS emergency response procedures have been reviewed, updated and distributed to staff. Pandemic flu preparations have been expanded to address cross training and documentation for prioritized functions, preparation of supplies and identification of practical social distancing practices. DIS provides software tools and direct support to over 400 public entities at 800 locations. ACOOP staff trains and supports over 2,200 planners for the development and maintenance of their continuity of operations and pandemic plans and exercises. DIS is the lead agency for the State Emergency Support Function (ESF2) related to the restoration of communications for first responders, local governments and hurricane evacuee support. DIS responded to several tornado, ice and flooding events in fiscal years 2010 and 2011, providing computer, telephone and radio communications equipment; support to first responders and providing a call center infrastructure for disaster victims. The SCSO also serves as the focal point for all cyber security issues as well as monitors organizations on the State network for the presence of malware and infected computers. The number of new threats to electronic information in 2010 was higher than the previous ten years combined. Hackers have transitioned from infecting computers in order to disrupt usage to taking advantage of computer storage and the networks to which the compromised computer is connected. The SCSO maintains over 1,100 firewalls for public organizations on the State network in order to protect sensitive State information.

After President Obama signed the ARRA in 2009, DIS went to work, collaborating with other State agencies to assist in the State's ARRA efforts. DIS worked closely with the DFA to develop a system to meet federal reporting requirements and track recovery dollars received and spent on State projects. DIS developed an application for State agencies to enter information and report on ongoing projects using recovery dollars. Arkansas was one of the few states that developed its own application, doing so at a very reasonable cost. The application tracks 157 prime projects and more than 1,000 subprime projects. As of July 31, 2011, the system tracked more than $2.5 billion of recovery dollars expended for projects within the State. The DIS ARRA team also developed an interactive map search for the application, using geospatial information to retrieve projects according to location or area of interest.

Arkansas.gov offers more than 450 interactive services, including car tag renewals, property tax payments, business tax filings, game and fish licenses and criminal background searches. Launched in July 1997, the Arkansas.gov portal now supports more than 190 State and local government agencies. To maximize taxpayer return on investment, Arkansas does not appropriate funds for the network, but rather uses a self-funded solution to provide eGovernment services. In fiscal year 2011, Arkansas.gov received a Best of the Web award naming it the number one government website in the nation by the Center for Digital Government. The site received a second-place ranking in the 2010 annual competition, and a third place Best of the Web award in 2009. Government websites are evaluated based on innovation, web-based delivery of public services, efficiency, economy and functionality.

Arkansas Scholarship Lottery: In November 2008, Amendment 3 passed authorizing the legislature to establish a lottery, from which the proceeds would be used to fund scholarships for Arkansas students to Arkansas two-year and four-year higher education institutions. Acts 605 and 606 of the 87th General Assembly established the Arkansas Lottery Commission (ALC) for the purpose of establishing, operating and regulating State lotteries as authorized by the Arkansas Constitution. The ALC is charged with overseeing the lottery operations of the State and consists of nine members with three members appointed by each of the following: the Governor, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate. ALC commenced sales of instant scratch-off tickets on September 28, 2009, Powerball® on October 31, 2009, Cash 3 on December 14, 2009, Mega Millions® on January 31, 2010, Cash 4 on July 12, 2010, Arkansas Million-Dollar Raffle on July 14, 2010, Fast Play games on October 25, 2010 and Decades of Dollars on May 3, 2011. Sales for the Arkansas Million Dollar Raffle concluded April 6, 2011. For the year ended June 30, 2011, ALC had operating revenues of $465.1 million, paid gaming prizes of $307.5 million, paid selling commissions to Arkansas retailers of $26.2 million and provided $94.2 million in scholarship funds, after payment of other lottery expenses.

Statewide Trauma System: Act 180 of the 2009 regular session established an increase of the tax on cigarettes and other tobacco products. The tax increase took effect March 1, 2009. The increased tax revenue is being used to fund a Trauma System for the State of Arkansas. Act 393 of the 2009 regular session charged Arkansas Department of Health (ADH) with the responsibility of implementing the Trauma System. A Statewide Trauma System ensures that victims sustaining traumatic injuries will be transported to definitive care in the shortest possible time and the treatment they receive will be the best available. Approximately 168 lives and $193 million will be saved annually in our State. When combined with our primary seatbelt and graduated driver's license laws, also passed during the 2009 legislative session, the savings estimates go up to 206 lives and $237 million annually.

Seventy-seven hospitals have submitted intent applications to become trauma centers (from Level I, the highest level of designation, to Level IV, the lowest). Currently, twenty-five hospitals have been designated as trauma centers. The hospital Level designation funding is designed to support ongoing readiness costs for continued participation in the Trauma System rather than payment for uncompensated care of trauma patients.

As part of the Trauma System, a total of 118 Emergency Medical Service (EMS) providers, 23 EMS training sites and two EMS associations across the State are participating in the Trauma System and are eligible for funding. Each provider is funded based on the service area of the provider and the type of service (basic life support/advanced life support) afforded. Additional funds are available to providers in rural areas of the State. EMS training sites provide training for new emergency medical technicians and paramedics. The Arkansas Ambulance Association and the Arkansas Emergency Medical Technician Association are eligible to receive approximately $79 thousand each to provide advanced trauma related training to currently licensed emergency medical technicians and paramedics.

In January 2011, the Arkansas Trauma Call Center (ATCC) was established to facilitate prompt communication and coordination of available hospital resources. Since its inception, the ATCC has quickly established itself as a trendsetter within the nation's Trauma Systems. The use of the ATCC by our hospitals and EMS providers has resulted in the transport of trauma patients to the closest, most capable hospital in the shortest amount of time possible. Since January 1, 2011, the hospital destination of over 9,000 trauma patients has been coordinated through the ATCC. Other advancements include the creation of the Trauma Image Repository (TIR) which allows hospitals across the State to upload radiological images to a secure repository and forwards to the physician or specialist who will provide care. The TIR includes records and tracks individual cases of traumatic injury from their inception through all phases of treatment, including rehabilitation. From this repository, reports can be run to identify performance improvement issues and trends in trauma treatment statewide. As part of the rehabilitation process, the Arkansas Spinal Cord Commission began a statewide needs assessment for rehabilitation. Rehabilitation is a critically important component of a successful trauma system.

The Arkansas Trauma System has two advisory councils. The Governor's Trauma Advisory Council (GTAC) meets on a monthly basis and furnishes valuable guidance to ADH on development of the Trauma System. This statutorily mandated 26 member committee of experts is invaluable to the success of the system. There are seven Trauma Regional Advisory Councils (TRACs) throughout Arkansas. All meet routinely to address local needs such as regional destination protocols for EMS providers and performance improvement indicators and plans. All participating hospitals, EMS providers and other local stakeholders are active on these councils. In addition, ADH's website at www.healthy.arkansas.gov hosts a wide range of documents concerning hospital designation and the grant process for hospitals, EMS providers and EMS training sites. ADH completed a three-hour training video for hospitals seeking trauma center designation and two videos dealing with the ATCC. These are all located on the website under "Most Requested" on the right-hand side of the ADH home page.

Planned initiatives for fiscal year 2012 include: regional trauma training; providing quality improvement expertise to hospitals and other components of the Trauma System; place trauma radios in all ambulances statewide; continue development of the seven TRACs; update Trauma Rules and Regulations to meet the current American College of Surgeon's standards; continue development strategies with the GTAC; monitor grants to ensure proper utilization of funds and accountability; and provide funding for hospitals, EMS providers and EMS training sites.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Arkansas for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2010. This was the thirteenth year that the State has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. The report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. The Certificate of Achievement is valid for a period of one year.

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

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

Sincerely,

Richard A. Weiss
Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Arkansas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

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

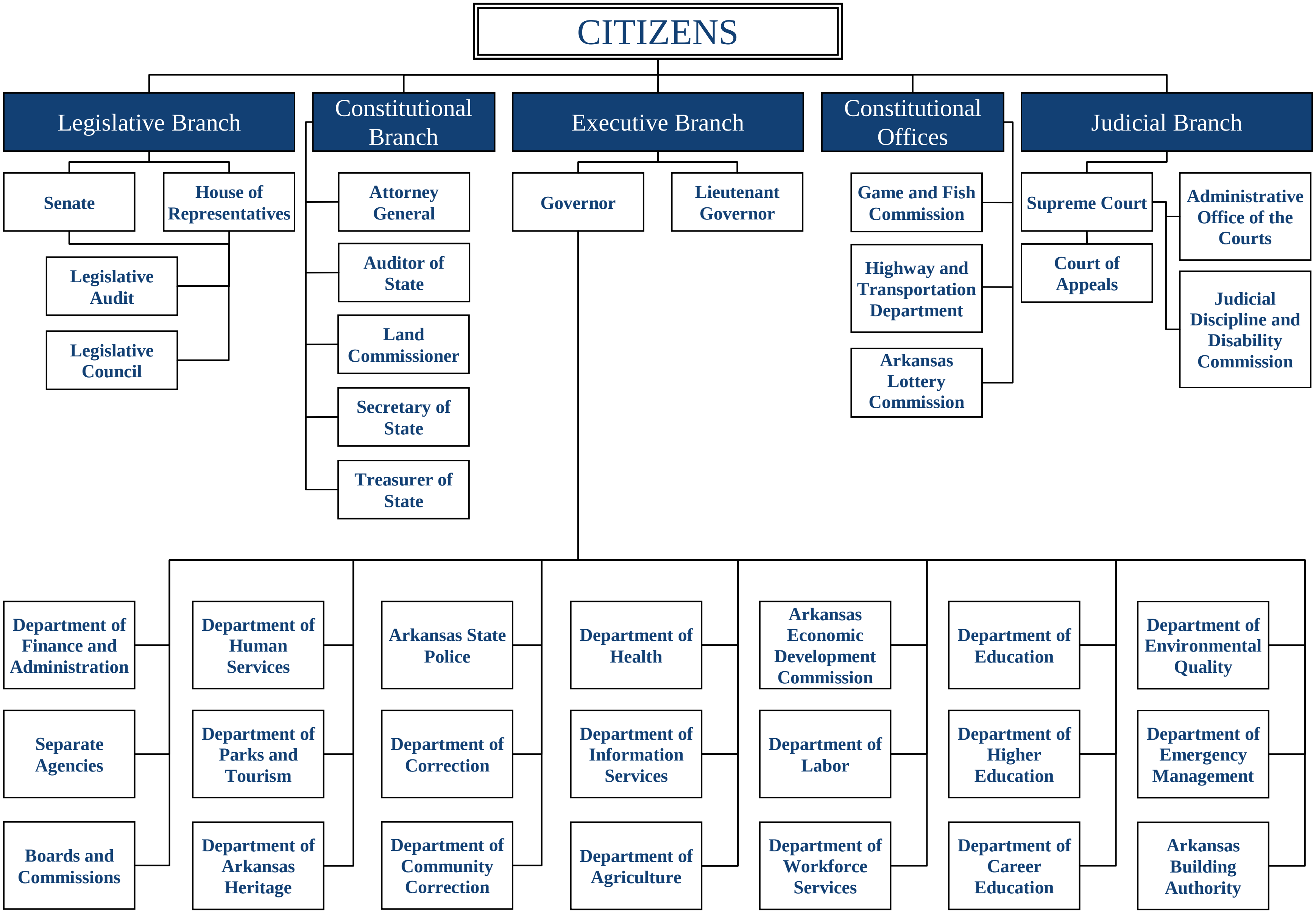
Linda C. Davison

President

Jeffrey R. Esser

Executive Director

Organizational Chart



Principal Officials

Elected Officials	Legislative Branch	Supreme Court
Governor	***President Pro Tempore***	***Chief Justice***
Mike Beebe	Senator Paul Bookout	Jim Hannah
Lieutenant Governor	***Speaker of the House***	***Associate Justice***
Mark Darr	Representative Robert S. Moore, Jr.	Robert L. Brown
Attorney General		***Associate Justice***
Dustin McDaniel		Donald L. Corbin
Auditor of State		***Associate Justice***
Charlie Daniels		Karen Baker
Land Commissioner		***Associate Justice***
John Thurston		Jim Gunter
Secretary of State		***Associate Justice***
Mark Martin		Courtney Henry
Treasurer of State		***Associate Justice***
Martha Shoffner		Paul E. Danielson

2011 Financial Section


GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
MERCY
JUSTICE

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

LEGISLATIVE JOINT AUDITING COMMITTEE
DIVISION OF LEGISLATIVE AUDIT

Independent Auditor's Report

The Honorable Mike Beebe, Governor
and Members of the Legislative Joint Auditing Committee
State of Arkansas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Arkansas (the State), as of and for the year ended June 30, 2011, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Arkansas'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.

- The University of Arkansas for Medical Sciences, a portion of the Higher Education Fund, which represents 17% of the assets and 28% of the revenues of the business-type activities opinion unit and 20% of the assets and 47% of the revenues of the Higher Education major enterprise fund opinion unit.

- The Department of Workforce Services, a major enterprise fund, which represents 4% of the assets and 19% of the revenues of the business-type activities opinion unit and 100% of the assets and revenues of the Department of Workforce Services major enterprise fund opinion unit.

- The Construction Assistance Revolving Loan Fund or the Other Revolving Loan Funds (non-major enterprise funds), which on a combined basis represent 7% of the assets and 1% of the revenues of the business-type activities opinion unit and 2% of the assets and 1% of the revenues of the aggregate remaining fund information opinion unit.

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the aforementioned funds and entities, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the University of Arkansas Foundation, Inc. and the University of Arkansas Fayetteville Campus Foundation, Inc. (discretely presented component units) were not audited in accordance with *Government Auditing Standards.* An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Arkansas, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

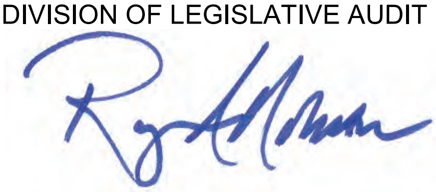
As discussed in Note 13, the State adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2011 on our consideration of the State of Arkansas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and required supplementary information, listed in the accompanying table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, AR
December 22, 2011
CAFR00111

2011 Management's Discussion and Analysis


GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
MERCY
JUSTICE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Introduction)

Management of the State of Arkansas (the State) provides this *Management's Discussion and Analysis* (MD&A) of the State's Comprehensive Annual Financial Report (CAFR) for readers of the State's financial statements. This narrative, overview and analysis of the financial activities of the State are for the fiscal year ended June 30, 2011. The State's June 30, 2011, financial statements received an unqualified opinion (see Independent Auditors' Report for more information). We believe that the State is making great strides in building a reporting structure that will produce more timely and accurate financial statements in the future. Management has aggressively addressed audit areas of concern by adding professional accounting staff, strengthening internal control, training agency staff, and by further defining processes and implementing additional policies and procedures. We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal that can be found preceding this narrative and with the State's financial statements that follow this narrative. The first section of the MD&A is intended to familiarize readers with the accounting terminology and methods relevant to reporting financial information for the State. The second section of the MD&A is a summary of financial and statistical information that should be more meaningful because the readers have been exposed to the accounting terminology and methods used by the State.

Financial Highlights

Government-Wide Highlights:

Net Assets – Primary Government – Net assets may serve over time as a useful indicator of a government's financial position. The assets of the State exceeded its liabilities for the fiscal year ended June 30, 2011, by $14.6 billion (presented as "Total net assets"). The net assets of the State increased $387.4 million during the year. The governmental activities net assets increased by $133.2 million, while the business-type activities increased by $254.2 million. Of the total net assets, $1.5 billion (10.1%) is reported as unrestricted. Unrestricted net assets represent the amount available to meet the State's ongoing obligations to citizens and creditors. An additional portion of the State's net assets, $2 billion (14.0%), 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, $11.1 billion (76%), reflects its investment in capital assets such as land, buildings, equipment, intangibles and infrastructure (road, bridges and other immovable assets), less any related outstanding debt used to acquire these assets.

Long-term debt payable for bonds, capital leases, installment sales and notes as of June 30, 2011, was $2.8 billion. Additional debt totaling $378 million was entered into during the year. $285 million of that increase was attributable to increases in college and university revenue bonds.

Fund Highlights:

As of the close of business on June 30, 2011, the State's General Fund reported a fund balance of $3.5 billion. Of this balance, $0.2 billion or 5.7% of the total fund balance is nonspendable, $0.6 billion or 17.2% of the total fund balance is restricted, $1.6 billion or 45.7% of the total fund balance is committed, $0.4 billion or 11.4% of the total fund balance is assigned and $0.7 billion or 20.0% of the total fund balance is unassigned as required in the current year implementation of GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* The fund balance in the General Fund decreased $163.5 million during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the detailed financial information contained within the State's CAFR. The State's basic financial statements include *Government-Wide Financial Statements, Fund Financial Statements, Notes to the Financial Statements* and *Required Supplementary Information* (schedules of funding progress, budgetary schedule and ten year claims development information). The components of the basic financial statements and the supplemental information are described below.

Basic Financial Statements

Government-Wide Financial Statements

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

The *Government-Wide Financial Statements* include the *Statement of Net Assets* and the *Statement of Activities*.

> The *Statement of Net Assets* presents all of the government's assets and liabilities; the difference between the assets and liabilities is reported as "net assets." Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether the overall financial position of the State is improving.
>
> The *Statement of Activities* presents information showing how the State's net assets changed during the most recent fiscal year and a comparison between program revenues and direct expenses for each function of the State.
>
> The *Statement of Net Assets* and the *Statement of Activities* have separate sections for the three different types of State programs or activities: governmental activities, business-type activities and discretely presented component units.
>
>> Governmental activities are primarily supported by taxes and intergovernmental revenues, also known as federal grants. Most services normally associated with State government fall into this category and include Education (elementary and secondary); Health and Human Services; Transportation; Law, Justice, and Public Safety; Recreation and Resources Development; General Government; and Regulation of Business and Professionals.

Business-type activities are the functions that operate more like those of commercial enterprises. These activities normally intend to recover all or a significant portion of their costs through user fees and charges to external users of goods and services and operate with minimal assistance from the governmental activities of the State. The business-type activities of the State include Higher Education, Workers' Compensation Commission, Department of Workforce Services, War Memorial Stadium Commission, Arkansas Lottery Commission, Public School Employee Health and Life Benefit Plan, Construction Assistance Revolving Loan Fund and Other Revolving Loan Funds.

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

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

Fund Financial Statements

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

The fund financial statements focus on individual parts of State government and report the State's operations in more detail than the government-wide financial statements. All of the funds of the State can be divided into three categories: *Governmental Funds*, *Proprietary Funds* and *Fiduciary Funds*.

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

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

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

The State of Arkansas has eight proprietary funds: the Higher Education Fund, the Workers' Compensation Commission, the Department of Workforce Services, the War Memorial Stadium Commission, the Public School Employee Health and Life Benefit Plan, the Construction Assistance Revolving Loan Fund, Other Revolving Loan Funds (Safe Drinking Water, Community/Technical College, Brownfields, CDBG for Affordable Housing Disaster, Assisted Living Incentive, Industrial Energy Technology and Venture Capital Investment Trust Fund) and the Arkansas Lottery Commission.

Fiduciary Funds' Financial Statements show the activity of the funds used to account for resources held for the benefit of parties outside State government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. Fiduciary funds, like proprietary funds, use the full accrual basis of accounting. The State's fiduciary funds include Pension Trust Funds: Judicial, Highway, Teacher, and Arkansas Public Employees Retirement Systems (which include Arkansas State Police Retirement System and District Judges) and also the State Insurance Department Agency Funds and Other Agency Funds.

Notes to the Financial Statements

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

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes schedules of funding progress, a schedule of 10-year claims development information for three public entity risk pools and a budgetary comparison schedule, which includes a reconciliation between the statutory expenditures for budgetary purposes and the expenditures for the General Fund as presented in the governmental fund financial statements.

Other Supplementary Information

Combining Financial Statements

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

GOVERNMENT-WIDE HIGHLIGHTS AND ANALYSIS

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

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010 (Restated)	2011	2010 (Restated)	2011	2010 (Restated)
Current assets	$ 4,265,732	$ 4,534,516	$ 1,591,040	$ 1,425,246	$ 5,856,772	$ 5,959,762
Noncurrent assets	239,250	250,477	2,246,325	1,886,846	2,485,575	2,137,323
Capital assets	9,795,157	9,565,366	3,270,481	3,145,879	13,065,638	12,711,245
Total Assets	14,300,139	14,350,359	7,107,846	6,457,971	21,407,985	20,808,330
Current liabilities	1,116,623	1,339,858	828,428	803,817	1,945,051	2,143,675
Long-Term liabilities	1,658,218	1,618,451	3,195,820	2,824,779	4,854,038	4,443,230
Total Liabilities	2,774,841	2,958,309	4,024,248	3,628,596	6,799,089	6,586,905
Net assets						
Invested in capital assets, net of related debt	9,289,091	8,886,979	1,805,096	1,757,523	11,094,187	10,644,502
Restricted	1,190,245	1,253,570	849,209	760,352	2,039,454	2,013,922
Unrestricted	1,045,962	1,251,501	429,293	311,584	1,475,255	1,563,085
Total Net Assets	$ 11,525,298	$ 11,392,050	$ 3,083,598	$ 2,829,459	$ 14,608,896	$ 14,221,509

The net assets of the governmental activities increased $133.2 million primarily due to increases in revenues from personal and corporate income taxes, sales and use taxes and federal grants. In fiscal year 2011, the economy began to show signs of recovery. Personal and corporate income taxes have increased due to growth in personal and corporate income. Sales and use taxes increased as a result of greater activity due to the economy and market recovery. Federal grant revenue has grown due to the additional services provided by increased funding from the American Recovery and Reinvestment Act. Offsets to the revenue growth include expenses associated with the growth in federal grants and increased salary costs and professional services.

The net assets of the business-type activities increased $254.2 million. The key element was a decrease in expenses of the Department of Workforce Services of $435.1 million, which was due to administrative expenses being reported as general fund in the current fiscal year. In revenues, tuition received decreased and grants and contributions increased.

The book value of capital assets as of June 30, 2011, was $9.8 billion for governmental activities and $3.3 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.

The following table displays key elements of these changes:

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

	Governmental Activities		Business-Type Activities		Totals	
	2011	**2010 (Restated)**	**2011**	**2010 (Restated)**	**2011**	**2010 (Restated)**
Program Revenues:						
Charges for services	$ 1,083,045	$ 1,035,351	$ 2,217,548	$ 2,187,805	$ 3,300,593	$ 3,223,156
Operating grants and contributions	6,092,989	5,868,623	1,325,685	1,498,215	7,418,674	7,366,838
Capital grants and contributions	551,523	493,064	44,313	33,052	595,836	526,116
General Revenues:						
Personal and corporate taxes	2,688,093	2,468,798			2,688,093	2,468,798
Sales and use taxes	2,483,908	2,376,891			2,483,908	2,376,891
Motor fuel taxes	444,555	449,274			444,555	449,274
Other taxes	927,922	903,113	449,146	377,460	1,377,068	1,280,573
Total Revenues	14,272,035	13,595,114	4,036,692	4,096,532	18,308,727	17,691,646
Expenses:						
Education	3,769,004	3,605,065			3,769,004	3,605,065
Health and human services	6,411,416	6,144,706			6,411,416	6,144,706
Transportation	759,872	731,317			759,872	731,317
Law, justice and public safety	748,590	779,374			748,590	779,374
Recreation and resources development	350,530	277,402			350,530	277,402
General government	1,477,309	1,356,657			1,477,309	1,356,657
Regulation of business and professionals	120,320	105,968			120,320	105,968
Business-type expenses:						
Higher Education			3,362,705	3,191,697	3,362,705	3,191,697
Workers' Compensation Commission			29,768	15,918	29,768	15,918
Department of Workforce Services			776,734	1,211,812	776,734	1,211,812
Lottery Commission			371,716	302,579	371,716	302,579
War Memorial Stadium Commission			3,545	3,439	3,545	3,439
Public School Employee Health and Life Benefit Plan			275,743	260,194	275,743	260,194
Revolving loans			12,940	18,675	12,940	18,675
Interest expense	44,824	52,145			44,824	52,145
Total Expenses	13,681,865	13,052,634	4,833,151	5,004,314	18,515,016	18,056,948
Other:						
Unrestricted investment earnings	43,232	52,809	52,979	54,846	96,211	107,655
Miscellaneous Income	343,873	330,397	153,592	82,176	497,465	412,573
Total Other	387,105	383,206	206,571	137,022	593,676	520,228
Increase (decrease) in net assets before transfers and restatements	977,275	925,686	(589,888)	(770,760)	387,387	154,926
Transfers - internal activities	(844,027)	(885,711)	844,027	885,711		
Restatements		(71,440)		(28,049)		(99,489)
Total Transfers and Restatements	(844,027)	(957,151)	844,027	857,662		(99,489)
Increase (decrease) in net assets	133,248	(31,465)	254,139	86,902	387,387	55,437
Net Assets - Beginning	11,392,050	11,423,515	2,829,459	2,742,557	14,221,509	14,166,072
Net Assets - Ending	$ 11,525,298	$ 11,392,050	$ 3,083,598	$ 2,829,459	$ 14,608,896	$ 14,221,509

As is typical for governmental activities, program expenses exceeded program revenues. The excess program expenses of $6 billion were funded by normal State taxing activities.

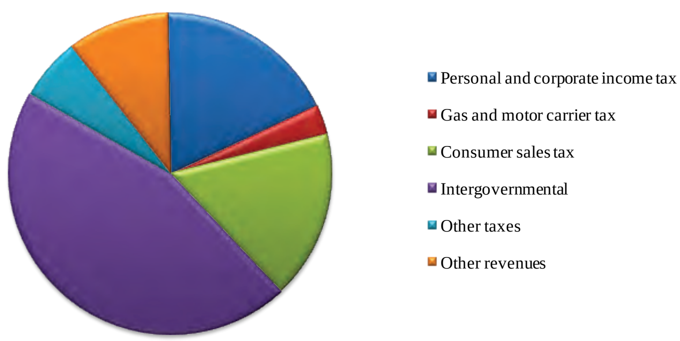
FUND HIGHLIGHTS AND ANALYSIS

General Government Functions

Most State functions are financed through the General Fund. The State's most significant sources of revenues in the General Fund are taxes and intergovernmental. The State's most significant areas of expenditures from the General Fund are the areas of education and health and human services. The following charts present actual General Fund revenues and expenditures for the fiscal years ended June 30, 2011 and 2010 (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 (expressed in thousands)

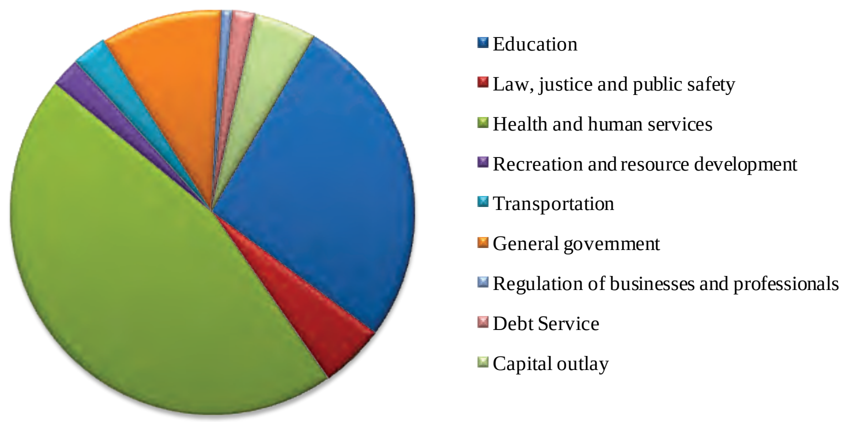
Revenues	2011	2010	Increase (Decrease) Percent
Personal and corporate income tax	$ 2,697,352	$ 2,471,420	9.14%
Gas and motor carrier tax	444,232	449,754	-1.23%
Consumer sales tax	2,491,772	2,390,819	4.22%
Intergovernmental	6,642,135	6,364,695	4.36%
Other taxes	927,452	903,618	2.64%
Other revenues	1,496,731	1,445,277	3.56%
Total	$ 14,699,674	$ 14,025,583	4.81%



Governmental revenues increased by 4.81%. Personal and corporate income tax revenue increased by $225.9 million due to an increase in personal and corporate income as a result of economic and market recovery. Consumer sales tax increased by $101 million also as a result of economic and market recovery. Federal grant revenue and reimbursements increased by $277.4 million primarily because of increased Medicaid revenues through the Department of Human Services, federal grant revenue to the Arkansas Highway and Transportation Department and federal grant revenue to the Department of Education, all of which were a result of increased utilization of the program provided for by the American Recovery and Reinvestment Act (ARRA).

Expenditures by Source - General Fund (expressed in thousands)

Expenditures	2011	2010	Increase (Decrease) Percent
Education	$ 3,764,814	$ 3,600,560	4.56%
Law, justice and public safety	719,401	747,379	-3.74%
Health and human services	6,401,101	6,129,257	4.44%
Recreation and resource development	330,301	258,322	27.86%
Transportation	391,019	365,980	6.84%
General government	1,367,985	1,237,895	10.51%
Regulation of businesses and professionals	119,058	108,748	9.48%
Debt Service	257,366	150,902	70.55%
Capital outlay	683,872	614,241	11.34%
Total	$ 14,034,917	$ 13,213,284	6.22%



The State's agencies expenditures increased for the fiscal year 2011 by 6.22%. Generally, there were three areas of growth: grants and aid, personnel expenses and professional services. Health and Human Services increased $271.8 million, with Medicaid expenditures accounting for most of the change which was a result of increased utilization of the program provided for by the ARRA. Education increased $164.3 million, with ARRA grant disbursements to the Local Education Agencies (LEAs) and increase of scholarships provided by the Arkansas Scholarship Lottery accounting for most of the change. General government increased by $130.1 million with an increase in health claims, property tax relief to counties and increased sales and use tax due back to counties and cities as evidenced by increased sales and use tax revenue accounting for most of the change. Capital outlay increased by $69.6 million as a result of the Department of Human Services, Department of Career Services, Department of Veterans Affairs and the Highway and Transportation Department having large capital asset purchases in the current year without equivalent acquisitions in the prior year due primarily to funds availability provided by ARRA. Recreation and resource development increased by $72 million as a result of more grant disbursements by the Arkansas Natural Resource Commission due primarily to funds availability provided by ARRA.

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, unassigned 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 2011, the State's General Fund reported an ending fund balance of $3.5 billion, which is a decrease of $163.7 million in comparison to fiscal year 2010.

The classifications and amounts of fund balance were determined according to the provisions of GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* which the State was required to implement in fiscal year 2011. Note 1 provides an explanation of the various classifications.

Fund balance consisted of the following:

- Nonspendable, $0.2 billion or 5.7% of total fund balance
- Restricted, $0.6 billion or 17.2%
- Committed, $1.6 billion or 45.7%
- Assigned, $0.4 billion or 11.4%
- Unassigned, $0.7 billion or 20.0%

Capital Assets and Debt Administration

Capital Assets

The investment in capital assets includes land, buildings, improvements, equipment, intangibles, 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 $21.7 billion, and the accumulated depreciation was $8.7 billion at June 30, 2011. The net book value was $13.1 billion. Depreciation expense was $450.6 million for the governmental activities and $203.0 million for the business-type activities.

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

- The Department of Human Services renovated local health departments with ARRA funds in the amount of $17.6 million.
- The Department of Career Education expended $4.3 million of ARRA funds for the renovation of the Hot Springs facility.
- The Department of Veterans Affairs expended $3.0 million for the construction of the Birdeye Cemetery.
- The Department of Finance and Administration – Child Support Enforcement Division capitalized $4.1 million of internally generated software costs (intangibles) as required by implementation of GASB 51.
- The Department of Correction expended $5.2 million for renovations to the Cummins, Tucker and McPherson facilities.
- The Department of Highway and Transportation constructed roads, bridges and overlays for $526.7 million and purchased right-of-ways for $35.0 million.

Additional information on the State's capital assets can be found in Note 7 of the notes to the financial statements of this report.

Debt Administration

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

Depending on the issuing entity, the State's bonds are rated between Aaa and Baa1 by Moody's Investor Service, with general obligation bonds generally rated Aa1. The Aa rating indicates very strong creditworthiness comparative to similar issues. The bonds issued by the following agencies and organizations have not been rated: Henderson State University, East Arkansas Community College, Mid-South Community College, Arkansas Northeastern College, North Arkansas College, Rich Mountain Community College, South Arkansas Community College, Black River Technical College, Pulaski Technical College and Ozarka College.

Governmental Activities

The State's governmental activities had $1 billion in bonds, notes payable, installment sales payable and capital leases outstanding at June 30, 2011, versus $1.2 billion at June 30, 2010. The net decrease is approximately $198.1 million.

Notes payable, installment sales payable and capital leases to component units had a net decrease of $6.6 million in fiscal year 2011. During fiscal year 2011, bonds payable had a net decrease of $188.4 million with $185.7 million paid toward principal payments and refinancing. Notes payable and capital leases to outside entities had a net decrease of $3.0 million.

The State's governmental activities had approximately $222 million of claims and judgments outstanding at June 30, 2011, compared to $219 million at June 30, 2010. Other obligations include accrued sick leave and vacation pay of $147.3 million at June 30, 2011. The State's governmental activities also had $498 million recorded for net postemployment benefits obligation at June 30, 2011 as a result of implementing GASB Statement No. 45. In fiscal year 2011, governmental activities included $16 million recorded for pollution remediation as a result of implementing GASB Statement No. 49.

Business-type Activities

The State's business-type activities had $1.8 billion in bonds, notes payable, and capital leases outstanding at June 30, 2011, versus $1.6 billion at June 30, 2010. The net increase was approximately $200 million.

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

- The University of Arkansas Fayetteville Campus issued $124.8 million in Various Facilities Revenue Bonds, Series 2011, to finance the renovations and additions to Vol Walker and Ozark Halls; Hillside Auditorium; renovation to various classrooms, labs and science building; construction of Child Development Study Center; improvements to Arkansas Union; and construction of hazardous waste facility and construction of a football center.
- The University of Arkansas for Medical Sciences issued $42.7 million in Facilities Revenue Bonds, Series 2010A, to finance a hospital expansion.
- The University of Central Arkansas issued $22.0 million in Facilities Revenue Bonds, Series 2010 to finance the construction of a new residence hall and renovations of existing residence halls.
- Northwest Arkansas Community College issued $14.5 million in Facilities Revenue Bonds to finance the construction of The Center for Health Professions.
- The University of Arkansas Fort Smith Campus issued $30.0 million in Student Fee Refunding Revenue Bonds, Series 2010, to refund prior bond issue Series 2001.
- The University of Central Arkansas issued $19.3 million in Revenue Refunding Bonds, Series 2010, to refund prior bond issue Series 2001 and 1997.
- The University of Arkansas Fayetteville Campus issued $19.1 million in Athletic Facilities Refunding Revenue Bonds, Series 2010 (taxable), to refund prior bond issue Series 2001 and 1999.

The colleges and universities also entered into capital leases totaling $14.7 million, as well as notes payable totaling $25.1 million. The State reduced bonds, notes payable and capital leases by $164.8 million due to principal payments and refinancing made during the year.

The State's business-type activities had approximately $287.2 million of claims and judgments outstanding at June 30, 2011, compared to $281.9 million at June 30, 2010. Other obligations included accrued sick leave and vacation pay of $100.1 million at June 30, 2011. The State's business-type activities also had $55.6 million recorded for net postemployment benefits obligation at June 30, 2011, as a result of implementing GASB Statement No. 45.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

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

Functions	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts
General government	$ 5,402,214	$ 5,757,694	$ 1,835,417
Education	4,063,704	4,264,248	3,803,082
Health and human services	7,046,598	6,279,582	5,845,118
Law, justice and public safety	898,464	941,952	747,876
Recreation and resources development	453,069	580,986	362,838
Regulation of business and professionals	179,381	187,167	118,371
Transportation	570,888	572,037	356,988
Debt service	165,984	172,759	121,184
Capital outlay	1,056,546	1,093,606	622,762
Total	$ 19,836,848	$ 19,850,031	$ 13,813,636

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

The final budget exceeded the original budget by $13.2 million. The increases in Education, General government and Law, justice and public safety were primarily due to unanticipated federal grants received by the State after the original budget was established. The decrease in Health and human services was mainly due to the transfer of appropriation for the payment of benefits from a governmental fund to an enterprise fund.

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


GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT
POPULUS
MERCY
JUSTICE

2011 Basic Financial Statements

Statement of Net Assets
June 30, 2011
(Expressed in thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Arkansas Student Loan Authority	Arkansas Development Finance Authority
Assets					
Current assets:					
Cash and cash equivalents	$ 520,748	$ 743,088	$ 1,263,836	$ 131	$ 205,364
Cash and cash equivalents - restricted		63,029	63,029		
Investments	2,711,384	354,451	3,065,835	17,859	2,151
Receivables, net:					
Accounts	118,485	384,778	503,263		1,025
Taxes	410,789		410,789		
Medicaid	182,695		182,695		
Loans	18,090	14,034	32,124	9,190	1,721
Leases	65		65		
Interest	17,584	1,591	19,175	10,190	4,229
Other	26,101	6,787	32,888	202	
Internal balances	56,429	(56,429)			
Due from other governments	125,021	11,515	136,536		
Prepaid items	18,156	3,314	21,470		
Inventories	59,480	33,260	92,740		
Deposits with bond trustee		21,502	21,502		
Current deferred charges	705		705		
Other current assets		10,120	10,120		
Total current assets	4,265,732	1,591,040	5,856,772	37,572	214,490
Noncurrent assets:					
Cash and cash equivalents, restricted		127,786	127,786		
Deposits with component unit	23,113	201	23,314		
Deposits with bond trustee		263,490	263,490		
Deposits with Multi-State Lottery Association		1,138	1,138		
Investments		299,718	299,718	6,034	609,807
Receivables, net		56,805	56,805		
Loans and mortgages receivable	209,725	377,952	587,677	458,913	189,218
Loans and capital leases receivable from primary government					234,608
Capital leases receivable	759		759		6,166
Due from other governments		538	538		
External portion of investment pool		1,097,845	1,097,845		
Installment sale agreement with primary government					11,870
Deferred charges	5,653		5,653	4,319	3,771
Financial assurance instruments		8,400	8,400		
Other noncurrent assets		12,452	12,452	167	1,054
Total noncurrent assets	239,250	2,246,325	2,485,575	469,433	1,056,494
Capital assets (net of accumulated depreciation):					
Land	720,202	118,463	838,665	670	
Land improvements	68,112		68,112		
Infrastructure	6,241,811	169,847	6,411,658		
Buildings	808,222	2,465,421	3,273,643	1,779	
Equipment	219,610	179,514	399,124	469	170
Improvements other than building		10,694	10,694		
Leasehold improvements		2,938	2,938		
Construction in progress	1,694,328	241,847	1,936,175		
Other capital assets	42,872	81,757	124,629		
Total capital assets, net of depreciation	9,795,157	3,270,481	13,065,638	2,918	170
Total noncurrent assets and capital assets	10,034,407	5,516,806	15,551,213	472,351	1,056,664
Total assets	$ 14,300,139	$ 7,107,846	$ 21,407,985	$ 509,923	$ 1,271,154

Statement of Net Assets
June 30, 2011
(Expressed in thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Arkansas Student Loan Authority	Arkansas Development Finance Authority
Liabilities					
Current liabilities:					
Accounts payable	$ 45,117	$ 144,848	$ 189,965	$ 3,072	$ 2,900
Prizes payable		15,982	15,982		
Accrued interest	6,736	18,946	25,682		12,814
Accrued and other current liabilities	150,100	77,377	227,477		
Medicaid payable	271,292		271,292		
Income tax refunds payable	317,542		317,542		
Due to other governments	60,643	361,982	422,625		
Workers' compensation benefits payable		16,242	16,242		
Funds held in trust for others		8,614	8,614		
Bonds, notes and leases payable	95,364	79,312	174,676	66,548	129,131
Installment sales payable	490		490		
Claims, judgments, arbitrage and compensated absences	136,091	56,416	192,507		
Pollution remediation obligation	1,315		1,315		
Deferred revenue	31,933	48,709	80,642		
Total current liabilities	1,116,623	828,428	1,945,051	69,620	144,845
Long-term liabilities:					
Workers' compensation benefits payable		229,037	229,037		
External portion of investment pool		1,097,845	1,097,845		
Bonds, notes, and leases payable	901,309	1,681,176	2,582,485	392,106	840,161
Installment sales payable	11,380		11,380		
Claims, judgments, arbitrage and compensated absences	233,139	85,587	318,726		
Pollution remediation obligation	14,344		14,344		
Net post employment benefits obligation	498,046	55,588	553,634	87	904
Deposits held on behalf of primary government					23,314
Other noncurrent liabilities		10,597	10,597		12,743
Deferred revenue		35,990	35,990		5,210
Total long-term liabilities	1,658,218	3,195,820	4,854,038	392,193	882,332
Total liabilities	2,774,841	4,024,248	6,799,089	461,813	1,027,177
Net Assets					
Net assets:					
Invested in capital assets, net of related debt	9,289,091	1,805,096	11,094,187	2,918	170
Restricted for:					
Debt service	274,725	17,951	292,676		
Other capital projects	176,163	26,941	203,104		
Bond and resolution program					113,038
Program requirements	559,813	495,811	1,055,624		
Lottery	74,544		74,544		
Tobacco settlement	105,000		105,000		
Non-expendable - endowment		81,983	81,983		
Expendable-capital projects, debt service, loans, and other		226,523	226,523	45,192	
Unrestricted	1,045,962	429,293	1,475,255		130,769
Total net assets	11,525,298	3,083,598	14,608,896	48,110	243,977
Total liabilities and net assets	$ 14,300,139	$ 7,107,846	$ 21,407,985	$ 509,923	$ 1,271,154

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

UNIVERSITY OF ARKANSAS FOUNDATION, INC.
Discretely Presented Component Unit
Consolidated Statement of Financial Position
June 30, 2011
(Expressed in thousands)

Assets		
Contributions receivable, net of allowance for doubtful accounts of $1,536 and unamortized discount of $8,217	$	67,127
Interest receivable		2,881
Cash value of life insurance		759
Land, buildings and equipment net of accumulated depreciation of $256		386
Investments		679,285
Total assets	$	750,438
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$	6,188
Annuity obligations		15,967
Total liabilities		22,155
Net Assets:		
Unrestricted		76,064
Temporarily restricted		159,825
Permanently restricted		492,394
Total net assets		728,283
Total liabilities and net assets	$	750,438

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

UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.
Discretely Presented Component Unit
Consolidated Statement of Financial Position
June 30, 2011
(Expressed in thousands)

Assets		
Investments	$	448,201
Liabilities and Net Assets		
Liabilities:		
Accounts Payable	$	21
Total liabilities		21
Net Assets:		
Temporarily restricted	$	23,046
Permanently restricted		425,134
Total net assets		448,180
Total liabilities and net assets	$	448,201

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

Statement of Activities
For the Fiscal Year Ended June 30, 2011
(Expressed in thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	$ 1,477,309	$ 336,193	$ 518,960	$ 10,746
Education	3,769,004	6,675	641,835	515
Health and human services	6,411,416	385,693	4,683,193	317
Transportation	759,872	110,831	29,210	515,275
Law, justice and public safety	748,590	75,051	121,975	24,546
Recreation and resources development	350,530	81,076	94,954	124
Regulation of business and professionals	120,320	87,526	2,862	
Interest expense	44,824			
Total governmental activities	13,681,865	1,083,045	6,092,989	551,523
Business-type activities:				
Higher Education	3,362,705	1,471,639	879,238	44,313
Workers' Compensation Commission	29,768			
Department of Workforce Services	776,734		407,955	
Lottery Commission	371,716	465,075		
War Memorial Stadium Commission	3,545	2,760	227	
Public School Employee Health and Life Benefit Plan	275,743	274,073	224	
Revolving Loans	12,940	4,001	38,041	
Total business-type activities	4,833,151	2,217,548	1,325,685	44,313
Total primary government	$ 18,515,016	$ 3,300,593	$ 7,418,674	$ 595,836
Component units:				
Arkansas Student Loan Authority	$ 28,463	$ 22,196	$	
Arkansas Development Finance Authority	145,463	62,641	101,387	
Total component units	$ 173,926	$ 84,837	$ 101,387	

General revenues:
Taxes:
Personal and corporate income
Consumer sales and use
Gas and motor carrier
Other
Total taxes
Investment earnings
Miscellaneous income
Transfers-internal activities
Total general revenues and transfers

Change in net assets
Net assets - beginning, as restated
Net assets - ending

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

Net Revenue (Expense)				
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	Arkansas Student Loan Authority	Arkansas Development Finance Authority
$ (611,410)	$	$ (611,410)		
(3,119,979)		(3,119,979)		
(1,342,213)		(1,342,213)		
(104,556)		(104,556)		
(527,018)		(527,018)		
(174,376)		(174,376)		
(29,932)		(29,932)		
(44,824)		(44,824)		
(5,954,308)		(5,954,308)		
	(967,515)	(967,515)		
	(29,768)	(29,768)		
	(368,779)	(368,779)		
	93,359	93,359		
	(558)	(558)		
	(1,446)	(1,446)		
	29,102	29,102		
	(1,245,605)	(1,245,605)		
(5,954,308)	(1,245,605)	(7,199,913)		
			$ (6,267)	$
				18,565
			(6,267)	18,565
2,688,093		2,688,093		
2,483,908		2,483,908		
444,555		444,555		
927,922	449,146	1,377,068		
6,544,478	449,146	6,993,624		
43,232	52,979	96,211		
343,873	153,592	497,465	2,980	
(844,027)	844,027			
6,087,556	1,499,744	7,587,300	2,980	
133,248	254,139	387,387	(3,287)	18,565
11,392,050	2,829,459	14,221,509	51,397	225,412
$ 11,525,298	$ 3,083,598	$ 14,608,896	$ 48,110	$ 243,977

UNIVERSITY OF ARKANSAS FOUNDATION, INC.
Discretely Presented Component Unit
Consolidated Statement of Activities
For the Fiscal Year Ended June 30, 2011
(Expressed in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions	$ 9,186	$ 38,952	$ 20,790	$ 68,928
Sponsored programs	486	45		531
Interest and dividends	3,166	4,878	331	8,375
Net realized and unrealized gains on investments	12,239	14,798	61,728	88,765
Other	161	30		191
Net assets released from restrictions	48,045	(48,045)		
Total revenues, gains and other support	73,283	10,658	82,849	166,790
Expenses and losses:				
Program services:				
Construction	12,991			12,991
Research	12,823			12,823
Faculty/staff support	10,052			10,052
Scholarships and awards	8,076			8,076
Public/staff relations	2,831			2,831
Equipment	3,436			3,436
Sponsored programs	1,352			1,352
Other	12,541			12,541
Total program services	64,102			64,102
Supporting services:				
Management and general	821			821
Fund raising	1,877			1,877
Change in value of split-interest agreements			406	406
Provision for loss on uncollectible pledges	45	2,322	104	2,471
Total supporting services	2,743	2,322	510	5,575
Total expenses and losses	66,845	2,322	510	69,677
Change in net assets	6,438	8,336	82,339	97,113
Net assets - beginning	69,626	151,489	410,055	631,170
Net assets - ending	$ 76,064	$ 159,825	$ 492,394	$ 728,283

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

UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.
Discretely Presented Component Unit
Consolidated Statement of Activities
For the Fiscal Year Ended June 30, 2011
(Expressed in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions	$	$ 181	$ (181)	$
Interest and dividends		3,204	187	3,391
Net realized and unrealized gains on investments		12,485	56,749	69,234
Net assets released from restrictions	14,225	(14,225)		
Total revenues, gains and other support	14,225	1,645	56,755	72,625
Expenses and losses:				
Program services:				
Research	1,133			1,133
Faculty/staff support	1,819			1,819
Scholarships and awards	8,844			8,844
Equipment and technology	2,023			2,023
Other	406			406
Total program services	14,225			14,225
Change in net assets		1,645	56,755	58,400
Net assets - beginning		21,401	368,379	389,780
Net assets - ending	$	$ 23,046	$ 425,134	$ 448,180

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

Balance Sheet
Governmental Fund
June 30, 2011
(Expressed in thousands)

		General Fund
Assets		
Cash and cash equivalents	$	520,748
Investments		2,711,384
Receivable, net:		
Accounts		118,394
Taxes		410,789
Medicaid		182,695
Loans		227,815
Leases		824
Interest		17,584
Other		26,101
Due from other funds		67,301
Due from other governments		125,021
Prepaid items		18,156
Inventories		59,480
Deposits with component unit		23,113
Total assets	$	4,509,405
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	$	42,731
Accrued and other current liabilities		162,377
Deferred revenue		127,299
Income tax refunds payable		317,542
Due to other governments		60,643
Due to other funds		13,167
Advances from other funds		2,840
Medicaid claims payable		271,292
Total liabilities		997,891
Fund balance:		
Nonspendable		
Prepaid items		18,156
Inventories		59,480
Loans		227,815
Leases		824
Restricted		567,792
Committed		1,555,139
Assigned		382,308
Unassigned		700,000
Total fund balance		3,511,514
Total liabilities and fund balance	$	4,509,405

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

Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets
June 30, 2011
(Expressed in thousands)

Total fund balances:		
Governmental fund		$ 3,511,514
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	$ 872,351	
Infrastructure assets	11,548,682	
Other capital assets	3,792,447	
Accumulated depreciation	(6,418,323)	
Total capital assets		9,795,157
Bonds issued by the State have associated costs that are paid from current available financial resources of governmental funds. However, these costs are deferred on the statement of activities.		6,358
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.		95,366
Current liabilities for the government funds reclassified to claims on the Statement of Net Assets.		12,278
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	$ (989,396)	
Installment sales payable	(11,870)	
Claims, judgments, arbitrage and compensated absences	(369,230)	
Net OPEB obligation	(498,046)	
Pollution remediation obligation	(15,659)	
Loss of early retirement	16,849	
Unamortized bond issue premium	(24,074)	
Accrued interest on bonds, notes, installment sales payable and leases	(6,736)	
Unamortized bond issue discounts	2,787	
Total long-term liabilities		(1,895,375)
Net assets of governmental activities		$ 11,525,298

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

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
For the Fiscal Year Ended June 30, 2011
(Expressed in thousands)

		General Fund
Revenues:		
Taxes:		
Personal and corporate income	$	2,697,352
Consumers sales and use		2,491,772
Gas and motor carrier		444,232
Other		927,452
Intergovernmental		6,642,135
Licenses, permits and fees		1,109,258
Investment earnings		43,232
Miscellaneous		344,241
Total revenues		14,699,674
Expenditures:		
Current:		
General government		1,367,985
Education		3,764,814
Health and human services		6,401,101
Transportation		391,019
Law, justice and public safety		719,401
Recreation and resources development		330,301
Regulation of business and professionals		119,058
Debt service:		
Principal retirement		204,701
Interest		52,665
Capital outlay		683,872
Total expenditures		14,034,917
Excess of revenues over expenditures		664,757
Other financing sources (uses):		
Issuance of debt		11,391
Sale of capital assets		4,083
Transfers in		188,947
Transfers out		(1,032,902)
Total other financing sources and uses		(828,481)
Net change in fund balance		(163,724)
Fund balance - beginning as restated		3,675,238
Fund balance - ending	$	3,511,514

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

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Fund to the Statement of Activities
For the Fiscal Year Ended June 30, 2011
(Expressed in thousands)

Net change in fund balance-governmental fund		$ (163,724)
Amounts reported for governmental activities in the Statement of Activities are an 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	$ 683,872	
Depreciation expense	(450,573)	
Excess of capital outlay over depreciation expense		233,299
The net effect of various miscellaneous transactions involving capital assets (for example: sales, trade-ins and donations) is to decrease net assets.		(136)
Bond and note proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Assets.		(11,391)
Acquisition of bond indebtedness due to default on a Bond Guaranty Loan and correction of prior year bonds payable		(1,190)
Note payable to Construction Assistance on the Statement of Net Assets; however, reported as an advance for the governmental funds		(155)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current year, these amounts consist of:		
Bond, loan and lease principal retirement		204,701
Because some revenues will not be collected for several months after the State's fiscal year-end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues decreased by this amount this year.		(10,005)
Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Interest accreted on capital appreciation debt	$ 1,106	
Decrease in claims, judgments, arbitrage and compensated absences	5,975	
Amortization of bond premium and discount	6,715	
Amortization of bond issuance costs	(708)	
Amortization of early retirement	(3,744)	
Decrease in pollution remediation obligations	1,096	
Loss on sale of capital assets	(3,218)	
Decrease in accrued interest	3,465	
Increase in other postemployment benefits obligations	(128,838)	
Total additional expenditures		(118,151)
Change in net assets of governmental activities		$ 133,248

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

Statement of Net Assets
Proprietary Funds
June 30, 2011
(Expressed in thousands)

	Enterprise Funds					
	Higher Education	Workers' Compensation Commission	Department of Workforce Services	Lottery Commission	Non-Major Enterprise Funds	Total
Assets						
Current assets:						
Cash and cash equivalents	$ 454,107	$ 18,951	$ 139,138	$ 5,295	$ 125,597	$ 743,088
Cash and cash equivalents - restricted				63,029		63,029
Investments	217,293	126,970			10,188	354,451
Receivables						
Accounts receivables, net	236,549	7,344	127,603	11,230	2,050	384,776
Loans & notes receivable, net	8,097				5,937	14,034
Interest	466	461	4		660	1,591
Due from other funds	8,214	676	2,377		2	11,269
Due from other governments	11,424		91			11,515
Other current receivables	6,787					6,787
Advances to other funds					750	750
Inventories	33,251				9	33,260
Prepaid items	3,182	54	1	77		3,314
Deposits with bond trustee	21,502					21,502
Other current assets	10,117				3	10,120
Total current assets	1,010,989	154,456	269,214	79,631	145,196	1,659,486
Noncurrent assets:						
Cash and cash equivalents - restricted	107,744			20,042		127,786
Deposits with Multi-State Lottery Association				1,138		1,138
Investments						
Endowment	137,360					137,360
Restricted	9,669	107			61,645	71,421
Unrestricted	90,937					90,937
Receivables						
Loans & notes receivable, net	55,027					55,027
Due from other governments	538					538
Other noncurrent receivables	1,778					1,778
Capital assets:						
Land	117,883	580				118,463
Infrastructure	296,638					296,638
Buildings	3,822,840	2,272	4,000		22,219	3,851,331
Equipment	649,179	793	63	527	1,097	651,659
Improvements other than building	18,378				446	18,824
Leasehold improvements	2,440			498		2,938
Construction in progress	241,847					241,847
Other depreciable assets	353,247	553	273		240	354,313
Less accumulated depreciation	(2,253,846)	(2,630)	(807)	(302)	(7,947)	(2,265,532)
External portion of investment pool	1,097,845					1,097,845
Advances to other funds					6,291	6,291
Loans receivable - restricted					377,797	377,797
Deposits with bond trustee	263,490					263,490
Deposits with component unit		201				201
Financial assurance instruments		8,400				8,400
Other noncurrent assets	12,024				428	12,452
Total noncurrent assets	5,025,018	10,276	3,529	21,903	462,216	5,522,942
Total assets	$ 6,036,007	$ 164,732	$ 272,743	$ 101,534	$ 607,412	$ 7,182,428

Statement of Net Assets
Proprietary Funds
June 30, 2011
(Expressed in thousands)

	Enterprise Funds					
	Higher Education	Workers' Compensation Commission	Department of Workforce Services	Lottery Commission	Non-Major Enterprise Funds	Total
Liabilities						
Current liabilities:						
Accounts payable	$ 74,828	$ 3	$ 61,689	$ 1,268	$ 7,060	$ 144,848
Prizes payable				15,982		15,982
Accrued interest	11,755	6	7,031		154	18,946
Accrued and other current liabilities	75,623	432		1,264	58	77,377
Advances from other funds	750					750
Due to other funds	3,959	1	25	63,359	352	67,696
Due to other governments			361,982			361,982
Funds held in trust for others	8,614					8,614
Workers' compensation benefits payable		16,242				16,242
Bonds, notes and leases payable	67,297	205			11,810	79,312
Claims, judgments and compensated absences	28,775	90		51	27,500	56,416
Deferred revenue	44,211			355	4,143	48,709
Total current liabilities	315,812	16,979	430,727	82,279	51,077	896,874
Noncurrent liabilities:						
Workers' compensation benefits payable		229,037				229,037
External portion of investment pool	1,097,845					1,097,845
Advances from other funds	6,136					6,136
Bonds, notes and leases payable	1,649,820	215			31,141	1,681,176
Net postemployment benefits payable	52,798	2,230		458	102	55,588
Claims, judgments and compensated absences	84,386	583		240	378	85,587
Deferred revenue	35,403				587	35,990
Other noncurrent liabilities	2,197	8,400				10,597
Total noncurrent liabilities	2,928,585	240,465		698	32,208	3,201,956
Total liabilities	3,244,397	257,444	430,727	82,977	83,285	4,098,830
Net Assets						
Net assets:						
Invested in capital assets, net of related debt	1,786,858	1,148	3,529	723	12,838	1,805,096
Restricted for:						
Expendable						
Debt service	17,951					17,951
Capital projects	26,941					26,941
Program requirements	2,202			21,000	472,609	495,811
Other	225,343			1,180		226,523
Nonexpendable - endowments	81,983					81,983
Unrestricted	650,332	(93,860)	(161,513)	(4,346)	38,680	429,293
Total net assets (deficit)	2,791,610	(92,712)	(157,984)	18,557	524,127	3,083,598
Total liabilities and net assets	$ 6,036,007	$ 164,732	$ 272,743	$ 101,534	$ 607,412	$ 7,182,428

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

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2011
(Expressed in thousands)

	Enterprise Funds					
	Higher Education	Workers' Compensation Commission	Department of Workforce Services	Lottery Commission	Non-Major Enterprise Funds	Total
Operating revenues:						
Charges for sales and services	$ 1,234,435	$	$	$	$ 276,833	$ 1,511,268
Lottery Collections				464,019		464,019
Licenses, permits and fees	237,204			1,056	4,001	242,261
Grants and contributions	385,427					385,427
Investment earnings					8,803	8,803
Miscellaneous	138,852	928	7,822	5	6	147,613
Total operating revenues	1,995,918	928	7,822	465,080	289,643	2,759,391
Operating expenses:						
Cost of sales and services				50,330	4,784	55,114
Lottery prize payments				307,455		307,455
Compensation and benefits	1,985,367	9,075	304	6,226	543	2,001,515
Supplies and services	851,939	1,001	4,616	6,091	19,860	883,507
General and administrative expenses	785	483	402	1,434	907	4,011
Scholarships and fellowships	255,498	32				255,530
Benefit and aid payments		19,058	764,234		262,628	1,045,920
Depreciation and amortization	201,882	95	147	180	635	202,939
Amortization of bond costs					(264)	(264)
Interest					3,135	3,135
Total operating expenses	3,295,471	29,744	769,703	371,716	292,228	4,758,862
Operating income (loss)	(1,299,553)	(28,816)	(761,881)	93,364	(2,585)	(1,999,471)
Nonoperating revenues (expenses):						
Investment earnings	41,269	1,921	234	464	288	44,176
Taxes	28,999		403,994			432,993
Insurance tax		16,153				16,153
Grants and contributions	493,812		407,955		38,492	940,259
Interest and amortization expense	(66,160)	(24)	(7,031)			(73,215)
Loss on sale of fixed assets	(1,074)					(1,074)
Other nonoperating revenue (expense)	5,953				25	5,978
Total nonoperating revenues (expenses)	502,799	18,050	805,152	464	38,805	1,365,270
Income (loss) before transfers and contributions	(796,754)	(10,766)	43,271	93,828	36,220	(634,201)
Transfers in	1,004,065			20,000	8,943	1,033,008
Transfers out	(81,203)		(8,593)	(94,429)	(4,756)	(188,981)
Capital grants and contributions	44,313					44,313
Change in net assets	170,421	(10,766)	34,678	19,399	40,407	254,139
Total net assets(deficit) - beginning restated	2,621,189	(81,946)	(192,662)	(842)	483,720	2,829,459
Total net assets(deficit) - ending	$ 2,791,610	$ (92,712)	$ (157,984)	$ 18,557	$ 524,127	$ 3,083,598

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

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2011
(Expressed in thousands)

	Enterprise Funds					
	Higher Education	Workers' Compensation Commission	Department of Workforce Services	Lottery Commission	Non-major Enterprise Funds	Total
Cash flows from operating activities:						
Cash received from customers	$ 1,226,825	$	$	$ 468,221	$ 276,425	$ 1,971,471
Cash received from other government agencies	383,248					383,248
Auxiliary enterprise charges	239,464					239,464
Payments to employees	(1,912,137)	(8,458)	(304)	(6,157)	(492)	(1,927,548)
Payments of benefits	(257,902)	(16,118)	(786,133)		(252,910)	(1,313,063)
Payments to suppliers	(845,291)	(1,511)	(4,616)	(54,243)	(22,280)	(927,941)
Payments for lottery prizes				(306,304)		(306,304)
Interest received (paid)					6,222	6,222
Loan administration received (paid)	(743)				(19,856)	(20,599)
Federal grant funds expended					(9,718)	(9,718)
Other receipts (payments)	77,158	927	6,834	(1,898)	(332)	82,689
Net cash provided by (used in) operating activities	(1,089,378)	(25,160)	(784,219)	99,619	(22,941)	(1,822,079)
Cash flows from noncapital financing activities:						
Direct lending receipts	503,341				1,800	505,141
Direct lending payments	(501,525)				(50,918)	(552,443)
Taxes	36,940	16,585	393,871			447,396
Grants and contributions	485,782		407,864		37,971	931,617
Proceeds from bond issuance					31,900	31,900
Other receipts (payments)	(1,039)		29,093			28,054
Tranfers in	1,004,065			20,000	8,943	1,033,008
Transfers out	(81,203)		(8,593)	(115,200)	(4,737)	(209,733)
Net cash provided by (used in) noncapital financing activities	1,446,361	16,585	822,235	(95,200)	24,959	2,214,940
Cash flows from capital and related financing activities:						
Principal paid on capital debts and leases	(70,253)	(200)				(70,453)
Interest paid on capital debts and leases	(66,481)	(27)				(66,508)
Acquisition and construction of capital assets	(299,808)	(3)		(34)	(3,234)	(303,079)
Proceeds from governmental sources	19,133					19,133
Proceeds from long-term borrowings	188,927					188,927
Proceeds from sale of capital assets	2,568					2,568
Other receipts (payments) *	2,802					2,802
Net cash used in capital and related financing activities	(223,112)	(230)		(34)	(3,234)	(226,610)
Cash flows from investing activities:						
Purchase of investments	(226,806)				(45,850)	(272,656)
Proceeds from sale and maturities of investments	155,896	5,695			74,590	236,181
Interest and dividends on investments	6,272	2,340	242	464	340	9,658
Advance disbursements					(3,700)	(3,700)
Advance repayments					1,066	1,066
Net cash provided by (used in) investing activities	(64,638)	8,035	242	464	26,446	(29,451)
Net increase (decrease) in cash and cash equivalents	69,233	(770)	38,258	4,849	25,230	136,800
Cash and cash equivalents - beginning restated	492,618	19,721	100,880	83,517	100,367	797,103
Cash and cash equivalents (cash overdrafts) - ending	$ 561,851	$ 18,951	$ 139,138	$ 88,366	$ 125,597	$ 933,903

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

Continued on the following page

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2011
(Expressed in thousands)

Continued from the previous page

	Enterprise Funds					
	Higher Education	Workers' Compensation Commission	Department of Workforce Services	Lottery Commission	Non-major Enterprise Funds	Total
Reconciliation of operating loss to net cash used in operating activities:						
Operating income (loss)	$ (1,299,553)	$ (28,816)	$ (761,881)	$ 93,364	$ (2,585)	$ (1,999,471)
Adjustments to reconcile operating loss to net cash used in operating activities:						
Depreciation	201,762	95	147	180	635	202,819
Amortization	120				54	174
Net appreciation (depreciation) of investments					79	79
Other operating activities	1,933					1,933
Net changes in assets and liabilities:						
Accounts receivable	(6,234)			3,060	(361)	(3,535)
Loans receivable	3				(19,820)	(19,817)
Inventory	(3,411)				(1)	(3,412)
Prepaid items		4	(1)	(72)		(69)
Other current assets	(1,696)				620	(1,076)
Other assets				(681)		(681)
Current liabilities	800		(585)		45	260
Accounts payable and other accrued liabilities	(220)	2,985	(21,899)	3,650	(1,338)	(16,822)
Net other postemployment benefits	9,739	572		228	26	10,565
Compensated absences	6,079			(191)	13	5,901
Deferred revenue	1,300			81	(308)	1,073
Net cash used in operating activities	$ (1,089,378)	$ (25,160)	$ (784,219)	$ 99,619	$ (22,941)	$ (1,822,079)
Non-cash investing, capital, and financing activities:						
Increase (Decrease) in fair value of investments	$ 171					$ 171
Donated capital assets	1,475					1,475
Capital assets donated by other state agencies	7					7
Capital gifts	18,709					18,709
Fixed asset acquisition paid for by the State of Arkansas	70					70
Fixed asset acquisition directly from bond/note proceeds	12,224					12,224
Construction expenditures paid directly by bond trustee	151					151
Proceeds from bond issue deposited directly with trustee	59,189					59,189
Refund of outstanding bond issues directly from bond proceeds	3,593					3,593
Bond discount and issue costs	1,995					1,995
Deferral on debt defeasance	(20)					(20)
Capital assets acquired by incurring capital leases and notes payable	18,360					18,360
Principal on LTD paid directly by UA Foundation, Inc.	1,649					1,649
Principal on capital debt paid by trustee	853					853
Interest on capital debt paid by trustee	1,865					1,865
Accrued interest	117					117
Gain on disposal of capital assets	1,330					1,330
Valuation adjustment to capital assets	779					779
Amortization of bond premiums, discounts, deferred loss and issuance costs	44					44
Payments to bond trustee	158,590					158,590
Revenue received by bond trustee	607					607
Payments by UCA Foundation for scholarships	(79)					(79)

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

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011
(Expressed in thousands)

	Pension Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	$ 476,673	$ 39,781
Receivables:		
Employee	31,851	
Employer	56,736	
Interest and dividends	38,136	19
Advances to other funds	2,685	
Other	461,151	43
Due from other funds	2,386	
Total receivables	592,945	62
Investments at fair value:		
Certificates of deposit		21,879
U.S. government securities	443,586	
Bonds, notes, mortgages and preferred stock	604,193	79,330
Common stock	5,600,749	
Real estate	299,852	
International investments	4,697,580	
Mutual funds	729,820	
Pooled investment funds	2,037,020	
Corporate obligations	1,258,282	
Asset and mortgage-backed securities	287,812	
Other	2,940,216	
Total investments	18,899,110	101,209
Securities lending collateral	1,261,028	
Financial assurance instruments		301,456
Capital assets	319	
Other assets	154	
Total assets	21,230,229	442,508
Liabilities		
Accounts payable and other liabilities	19,123	9
Investment principal payable	551,799	
Obligations under securities lending	1,277,295	
Postemployment benefit liability	2,297	
Due to other governments		115,623
Due to other funds	93	
Due to third parties		326,876
Total liabilities	1,850,607	442,508
Net Assets		
Held in trust for employees' pension benefits	19,379,622	
Total net assets	$ 19,379,622	$

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

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2011
(Expressed in thousands)

		Pension Trust Funds
Additions:		
Contributions:		
Members	$	184,894
Employers		621,613
Supplemental contributions		8,938
Court fees		2,421
Reinstatement fees		1,584
Total contributions		819,450
Investment income:		
Net increase (decrease) in fair value of investments		3,568,213
Interest, dividends and other		280,715
Real estate operating income		7,467
Securities lending income		4,328
Total investment (loss)		3,860,723
Less investment expense		72,107
Net investment (loss)		3,788,616
Miscellaneous		7,806
Total additions		4,615,872
Deductions:		
Benefits paid to participants or beneficiaries		1,184,103
Refunds of employee/employer contributions		16,008
Administrative expenses		14,483
Total deductions		1,214,594
Change in net assets held in trust for employees' pension benefits		3,401,278
Net assets - beginning		15,978,344
Net assets - ending	$	19,379,622

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

Notes to the Financial Statements – Table of Contents

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

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

(b) Reporting Entity

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

(c) Component Units

Component units are those entities which are legally separate organizations for which the State's elected officials are financially accountable or are 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 or incomplete.

GAAP permits three methods of presentation: (1) blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the State's balances and transactions (the State has no blended component units), (2) discrete presentation of the component units' financial data in columns separate from the State's balances and transactions or (3) discrete presentation of the component units' financial data following the government-wide financial statements.

Two component units meet the criteria to be "discretely presented" in the financial statements, as described above. The State does not directly benefit from these funds, however, the State is financially accountable for these entities and is able to impose its will on their operations. The board members are either appointed by the Governor or elected officials.

Arkansas Student Loan Authority (ASLA) was established pursuant to Act 873 of 1977, as amended, and is comprised of seven Governor-appointed Board Members. 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) was established pursuant to Act 1062 of 1985. 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. The affairs of the Authority are governed by a board of directors composed of the State Treasurer, Director of the Department of Finance and Administration and 11 public members appointed by the Governor.

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

Arkansas Student
Loan Authority
3801 Woodland Heights Road,
Suite 200
Little Rock, AR 72212

Arkansas Development
Finance Authority
900 West Capitol, Suite 310
Little Rock, AR 72203

In addition, two nonprofit foundations are included as discretely presented component units, following the government-wide financial statements. Although the State does not control the timing or amount of receipts from either of these foundations, the economic resources which the foundations hold and invest are almost entirely restricted by the donors for distribution and use benefiting the State and are significant to the State. As a result, these foundations are considered component units of the State in accordance with GASB Statement No. 39.

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

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

Complete financial statements for each of the foundations can be obtained by contacting their administrative offices.

The University of Arkansas Foundation, Inc.
535 Research Center Blvd.
Suite 120
Fayetteville, AR 72701

The University of Arkansas Fayetteville Campus Foundation, Inc.
535 Research Center Blvd.
Suite 120
Fayetteville, AR 72701

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

(d) Accounting Restatement

Governmental activities net assets, as previously reported on the Statement of Activities for 2010, have been decreased by $71.4 million as follows (expressed in thousands):

Beginning net assets	$ 11,463,490
Tax incentive refunds payable	(105,306)
Grant Revenue	(4,278)
OPEB adjustment	978
Capital assets	9,075
Transfer from enterprise funds	28,091
	$ 11,392,050

Fund balance for the General Fund as previously reported on the Statement of Revenues, Expenditures and Changes in Fund Balance for 2010 have been increased by $22.2 million as follows (expressed in thousands):

Beginning fund balance	$ 3,653,057
Grant revenue	(4,278)
Transfer from enterprise funds	26,459
	$ 3,675,238

Enterprise Funds net assets, as previously reported on the Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds and Business-Type Activities net assets, as previously reported on the Statement of Activities for 2010, have been decreased by $28.0 million as follows (expressed in thousands):

Beginning net assets	$ 2,857,508
OPEB Adjustment	42
Transfer to governmental activities	(28,091)
	$ 2,829,459

(e) Measurement Focus and Basis of Accounting

The accrual basis of accounting, with a "flow of economic resources" measurement focus, is utilized in the government-wide financial statements, proprietary funds, fiduciary funds and discretely presented component units. Under this accounting basis, revenues are recognized when earned, and expenses are recognized when incurred, regardless of the timing of the related cash flows. Significant revenues susceptible to accrual include individual and corporate income taxes, sales and use tax, gas and other taxes, federal reimbursements, federal grants and other reimbursements for use of materials and services. In general, tax revenue is recognized on the government-wide statement of activities when assessed or levied.

The governmental fund financial statements are prepared using a "flow of current financial resources" measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period (i.e., 45 days). Tax revenue is recognized to the extent that it is both measurable and available. Revenues from federal grants and federal reimbursements are recognized when all applicable eligibility requirements and the availability criteria of 45 days have been met, except for Medicaid and State Children's Health Insurance Program revenues, which are recognized using a one-year availability criteria. Revenues from other sources are recognized when received. Expenditures are recorded at the time fund liabilities are incurred except (1) inventories generally are recorded as expenditures when consumed and (2) principal and interest on long-term debt, claims and judgments and compensated absences are recorded when payment is due.

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

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

For the pension trust funds, employee contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Contributions from employees and employers for service through June 30 are accrued. These contributions are considered to be fully collectible, and accordingly, no allowance for uncollectible receivables is reflected in the financial statements. Benefits and refunds are recognized when due and payable in accordance with provisions set forth in Arkansas Code.

(f) Government-Wide Financial Statements

The statement of net assets and the statement of activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are identified as either governmental or 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 provision or enabling legislation.
- Unrestricted net assets do not meet the definition of the two preceding categories and are generally available for government purposes.

In the government-wide statement of activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g., general government, education, health and human services, etc.). Direct expenses are those that are clearly identifiable with a specific function. Revenues are classified as either program or general revenues. Program revenues include (1) charges to customers for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally, dedicated resources are reported as general revenues rather than as program revenue. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue. Certain indirect costs are included in the program expenses reported for individual functions and activities.

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

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

(g) Fund Financial Statements

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

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

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

Governmental Fund

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

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

Proprietary Funds

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

Higher Education Fund

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

Workers' Compensation Commission Fund

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

Department of Workforce Services Fund

The Department of Workforce Services Fund 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.

Arkansas Lottery Commission Fund

The Arkansas Lottery Commission Fund's primary purpose is to supplement higher education scholarships with net proceeds from the State lotteries.

Non-Major Enterprise Funds

The non-major enterprise funds consist of the War Memorial Stadium Commission, which is responsible for the operation of the War Memorial Stadium, a facility available for use to all the schools, colleges and universities in the State under the supervision of the agency; 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 Public School Employee Health and Life Benefit Plan, which is responsible for providing health and life insurance along with a prescription drug benefit to participating public school employees. Other non-major enterprise funds are the Other Revolving Loan Funds, which are responsible for the planning, design, acquisition, construction, expansion, equipping and/or rehabilitation of water systems; for the financing of capitalizable educational and general projects for community and technical colleges; for preventing, assessing, safely cleaning up, and sustainably reusing brownfields; for the development and redevelopment of affordable rental housing related to the five Presidentially-Declared Disaster areas; for incentivizing development of affordable Assisted Living housing in Arkansas and strengthening the financial feasibility of such developments; for financing energy efficiency retrofits and green energy implementation for industries; and for holding equity investments made by the Risk Capital Matching Fund.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the State. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State's own programs. These funds include pension trust and agency funds. The pension trust funds account for the activities of the Arkansas Judicial Retirement System, Arkansas State Highway Employees Retirement System, Arkansas Teacher Retirement System and Arkansas Public Employee Retirement System, which accumulate resources required to be held in trust for members and beneficiaries of the respective plans. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. These funds account for the collection and disbursement of sales and use tax to local governments within the State, the collection of assets of bankrupt insurance companies and payment of claims against those companies and other miscellaneous accounts for the benefit of other parties.

(h) Assets, Liabilities and Net Assets or Fund Balance

Cash and Cash Equivalents

Cash and cash equivalents include demand accounts, imprest accounts, cash on hand, all certificates of deposit with maturities at purchase of 90 days or less and all short-term instruments with maturities at purchase of 90 days or less. Short-term investments for the Arkansas State Highway Employees Retirement System are stated at amortized cost. All other short-term investments are stated at fair value.

Investments

Investments include U.S. Government and government agency obligations, repurchase agreements, mutual funds, real estate, limited partnerships, foreign currency contracts, asset-backed securities, guaranteed investment contracts, state and local government obligations and corporate debt and equity obligations. Investments are reported at fair value.

Investments in the pension trust funds are reported at fair value as determined by the custodial agents. The agents' determination of fair value includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates. Securities on loan for cash collateral are reported in the statement of net assets. Discussion of security lending transactions is 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 external 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, Inc. Board of Trustees are the sponsors of this investment pool and are responsible for the operation and oversight. Participation in the Pool is voluntary. At June 30, 2011, five universities, the University of Arkansas Cooperative Extension Service and four foundations participated in the Pool. The foundations hold approximately $1.1 billion (external portion) of the investments in the Pool, which are reported separately along with the related liability in the Higher Education Fund and in the business-type activities column of the government-wide financial statements. Participation in or withdrawal from the Pool is based on the daily market value of the units within the Pool. Income from the Pool is allocated to the participants in the Pool based on the market value from the previous day. The Pool issues a publicly available financial report, which may be obtained by writing or calling the University of Arkansas System, 2404 North University Avenue, Little Rock, Arkansas 72207, (501) 686-2500.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (current portion) or "advances to/from other funds" (noncurrent portion). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the general fund to indicate that they are not available for appropriation and are not expendable available financial resources.

Inventories and Prepaid Items

Inventories of materials and supplies are valued at cost, principally using the first-in/first-out method. The costs of governmental fund-type inventories are recorded using the consumption method, which records expenditures when consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and fund financial statements. Inventory and prepaid balances, as reported in the general fund financial statements, are recorded as nonspendable components of fund balance indicating that they do not constitute "available, spendable financial resources."

Noncurrent Cash and Investments

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

Capital Assets

Methods Used to Value Capital Assets

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

Capitalization Policies

All land and other non-depreciable assets are capitalized, regardless of cost. All other capital assets, including equipment, are capitalized when the cost of an individual item exceeds $2,500 and the estimated useful life exceeds one year. Intangible assets are recorded at historical cost and depreciated using the same method for tangible assets. It is the State's policy to capitalize when the individual item's cost exceeds $100 thousand for internally generated software or $2,500 for all other intangible assets, and the estimated useful life exceeds one year.

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

The State reported a significant portion of its infrastructure assets for the first time in fiscal year 2002. Estimated costs were retroactive to 1971. The State's current policy is to record new infrastructure acquisitions at historical cost and to use the depreciation method in reporting long-term infrastructure assets.

The University of Arkansas adopted the following separate policy for capitalization of intangible assets:

Asset Class	Capitalization Threshold	Useful Life
Software – Purchased	$500,000	5 years
Software – Internally Developed	$1,000,000	10 years
Easements	$250,000	15 years
Land Use Rights	$250,000	15 years
Trademarks and Copyrights	$250,000	15 years
Patents	$250,000	20 years

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 the 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, 2011, is $55.9 million and is not reflected in the financial statements.

Depreciation and Useful Lives

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

Assets	Years
Equipment	5-20
Buildings & building improvements	20-50
Infrastructure	10-30
Land improvements	10-40
Intangibles	4-99
Other capital assets	4-20

Accrued and Other Current Liabilities

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

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

Income Tax Refunds Payable

Income tax refunds are accounted for as a reduction in the appropriate tax revenue category. The amount reported as income tax refunds payable at June 30, 2011, is related to projected refund estimates attributable to fiscal year 2011 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 being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable.

Bond-Related Items

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

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

Net Assets/Fund Balance

The difference between total assets and total liabilities is presented as “Net Assets” on the government-wide, proprietary and fiduciary fund financial statements and as “Fund Balance” on the governmental fund financial statements.

Fund Balance Classifications

In the fund financial statements, fund balance is reported in one of five classifications based on the constraints imposed on the use of the resources.

The non-spendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form (for example, prepaid items and inventories) or (b) legally or contractually required to be maintained intact.

The spendable portion of fund balance comprises the remaining four classifications: restricted, committed, assigned and unassigned.

> ***Restricted fund balance***. This classification reflects constraints imposed on resources either (a) externally by creditors, grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation
>
> ***Committed fund balance***. These amounts can only be used for specific purposes according to constraints imposed by legislation of the General Assembly – the government’s highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the General Assembly removes or changes the constraint by the same action that imposed the constraint.
>
> ***Assigned fund balance***. This classification reflects amounts constrained by the State’s “intent” to be used for specific purposes but are neither restricted nor committed. The General Assembly has the authority to assign amounts to be used for specific purposes by legislation or by approved Methods of Financing.
>
> ***Unassigned fund balance***. This amount is the residual classification for the general fund.

When more than one spendable classification is available for use, it is the State's policy to use the resources in this order: restricted, committed, assigned and unassigned.

See Note 13 for additional information about fund balances.

Restricted Assets/Net Assets

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

Reclassifications

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

(i) Use of Estimates

The preparation of financial statement 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. 57, *OPEB Measurements by Agent Employers and Agent Multiple-employer Plans*, establishes guidance for measurement of other post-employment benefit (OPEB) obligations by certain employers participating in agent multiple-employer OPEB plans. The statement enables certain agent employers to use the alternative measurement method and clarifies that agent multiple-employer plans and their participating employers are to use the same frequency and timing of determining OPEB measurements. The requirements of this statement regarding use of the alternative measurement method were effective immediately upon issuance of this statement (fiscal year 2010). The provisions related to the frequency and timing of OPEB measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011 (i.e., fiscal year 2012).

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, establishes accounting and financial reporting requirements for service concession arrangements, a type of public-private or public-public partnership arrangements. The requirements would only apply to those arrangements in which specific criteria are present determining whether a transferor has control over the facility. Guidance is also provided when the government is an operator in a service concession arrangement. The requirements of this statement are effective for financial statements prepared by state and local governments for periods beginning after December 15, 2011 (i.e., fiscal year 2013).

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, amends the requirements of Statement 14, *The Financial Reporting Entity*, and the related reporting requirements of Statement 34, *Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments*. The statement modifies certain requirements for inclusion of component units in the financial reporting entity. The statement amends the criteria for reporting component units as if they were part of the primary government (blending) and clarifies the reporting of equity interests in legally-separate organizations. The requirements of this statement are effective for financial statements prepared by state and local governments for periods beginning after June 15, 2012 (i.e., fiscal year 2013).

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* incorporates into the GASB's authoritative literature the applicable guidance previously presented in FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure that were issued before November 30, 1989 . The requirements of this statement are effective for financial statements prepared by state and local governments for periods beginning after December 15, 2011 (i.e., fiscal year 2013).

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. The residual measure in the statement of financial position will be net position, rather than net assets. The requirements of this statement are effective for financial statements prepared by state and local governments for periods beginning after December 15, 2011 (i.e., fiscal year 2013).

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, amends GASB Statement No. 53 provisions regarding termination of hedge accounting. The statement clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Those conditions are as follows: (1) the collectability of swap payments is considered to be probable, (2) the replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in the statement and (3) the counterparty or counterparty credit support provider (and not the government) has committed the act of default or termination event. When all of these conditions exist, the hedging relationship is considered to be continuing, and hedge accounting should continue to be applied. The requirements of Statement 64 are effective for periods beginning after June 15, 2011, (i.e., fiscal year 2012).

(2) Deposits and Investments

The deposits and investments of the State are exposed to risks that have the potential to result in losses. The following information discloses risks related to credit, interest rate and foreign currency risks, as well as policies related to these risks. The higher education component units are not included in the following information. The Foundations are private nonprofit organizations that report under Financial Accounting Standards Board standards and are not required to report under Governmental Accounting Standards Board standards. As such, the Foundations are not required to report deposit and investment risks.

(a) Deposits

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

The State's Board of Finance policy states that collateralizing deposits with securities pledged to a cash fund agency by a financial institution to be held by a third party custodian should be required to protect public funds in case of a default by the financial institution. Institutions of higher education do not have a deposit policy for custodial credit risk. The retirement systems' policy is to place deposits only in collateralized or insured accounts.

At June 30, 2011, the reported bank balances of the general fund were $868,895,540. Of this amount, $26,626 was uninsured and uncollateralized, $8,552,006 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name, and $101,058,788 was uninsured and collateralized with securities held by the pledging financial institution.

At June 30, 2011, the reported bank balances of the enterprise funds were $794,488,615. Of this amount, $379,468 was uninsured and uncollateralized, $17,938,485 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name, and $85,610,504 was uninsured and collateralized with securities held by the pledging financial institution.

At June 30, 2011, the reported bank balances of the fiduciary funds were $89,092,420. Of this amount, $4,740,014 was uninsured and uncollateralized, and $4,193,639 was uninsured and collateralized with securities held by the pledging financial institution.

At June 30, 2011, the reported bank balances of the component units were $20,612,305. Of this amount, $17,183,000 was uninsured and uncollateralized, and $132,000 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name.

(b) Investments

Interest Rate Risk

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

The State Treasury's interest rate risk policy is that the investments will not exceed a maturity of five years except securities used as collateral in repurchase agreements, Arkansas Capital Corporation Bonds, and State Board of Finance and State Building Services Certificates of Indebtedness. The investment policy for funds managed by the State Treasurer for the State Money Management Trust Fund states that the average maturity of the portfolio will not exceed 90 days, and the expected maturity of any security will not exceed 13 months except securities used as collateral in repurchase agreements. The State Board of Finance requires that every effort should be made to match maturity of investments with expenditure requirements. The institutions of higher education and the retirement systems do not have formal investment policies that limit the investment maturities as a means of managing the exposure to fair value losses arising from increased interest rates.

As of June 30, 2011, the State of Arkansas had the following debt investments and maturities (expressed in thousands):

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less Than 1**	**1 to 5**	**6 to 10**	**More Than 10**
General Fund					
Municipal Bonds	$ 13,702	$	$ 13,697	$	$ 5
Negotiable Certificates of Deposit	1,500	99	1,401		
Other Loans	38,245	2,845	10,858	24,542	
Mortgage-backed Securities	5,107				5,107
U.S. Government Agencies	1,415,648	18,507	1,397,141		
U.S. Treasuries	11,944	8,028	3,916		
Subtotal	1,486,146	29,479	1,427,013	24,542	5,112
Enterprise Funds					
Corporate Bonds	13,100	3,962	7,097	1,770	271
Municipal Bonds	837		837		
Mutual Bond Fund	2,844	154	2,477	213	
Negotiable Certificates of Deposit	932	932			
Other Loans	14,122	4,437	8,172	1,513	
Preferred Stock	5				5
Repurchase Agreement	1,409	1,409			
U.S. Government Agencies	122,803	11,415	109,261	1,869	258
U.S. Treasuries	8,477	4,853	3,624		
Subtotal	164,529	27,162	131,468	5,365	534
Fiduciary Funds					
Asset and Mortgage-backed Securities	417,723	7,726	73,025	35,181	301,791
Bonds and Notes	30,572	3	23,696	2,098	4,775
Commercial Loans	1,035		1,035		
Commingled Funds	1,792,119	55,335	637,153	1,059,669	39,962
Convertible Bonds	7,026		7,026		
Conventional Mortgages	44,232	6	17,376	693	26,157
Corporate Bonds	2,011,992	247,645	876,766	427,997	459,584
External Investment Pools	704,311	578,749	125,562		
International Investments	32,556	116	12,554	10,117	9,769
Investment Derivatives	(83)	6	106	(118)	(77)
Municipal Bonds	8,441	728	4,030	1,097	2,586
Mutual Funds	72,686		72,686		
Other Loans	1,299	97	369	833	
Short-term Investments	443,573	443,573			
U.S. Government/ Agencies	408,015	14,329	141,069	65,511	187,106
Subtotal	5,975,497	1,348,313	1,992,453	1,603,078	1,031,653
Component Units					
Guaranteed Investment Contracts	17,365	1,856	1,012	5,110	9,387
Mortgage-backed Securities	563,215			3,807	559,408
Municipal Bonds	122	120	2		
Mutual Bond Funds	987	987			
Other Loans & Notes	4		1	3	
U.S. Government Agencies	13,720	3,088	8,855	1,777	
U.S. Treasuries	16,656	6,785	8,865	1,006	
Subtotal	612,069	12,836	18,735	11,703	568,795
Total	$ 8,238,241	$ 1,417,790	$ 3,569,669	$ 1,644,688	$ 1,606,094

Corporate Bonds

As of June 30, 2011, the Arkansas Public Employees Retirement System (APERS), Arkansas Teachers Retirement System (ATRS), Arkansas State Highway Employees Retirement System (ASHERS) and Arkansas Judicial Retirement System (AJRS) all held corporate bonds with fair values of $577,963,453, $336,189,488, $191,515,750 and $29,784,187, respectively. Corporate bonds are debt instruments that are issued by private corporations. They have a term maturity and can have either a fixed or variable interest rate. Variable interest rate bonds have adjustments that are made periodically and vary directly with movements in interest rates. As of June 30, 2011, none of the bonds were considered highly sensitive to interest rate changes.

Convertible Corporate Bonds

As of June 30, 2011, APERS, ATRS and ASHERS held convertible bonds with fair values of $189,533,791, $414,380,420 and $7,026,250, respectively. Convertible bonds convey an option to the bondholder to exchange each bond for a specified number of shares of common stock of the corporation. Convertible bonds offer lower coupon rates and promised yields to maturity than do nonconvertible bonds. A variable coupon varies directly with movements in interest rates. As of June 30, 2011, none of the retirement systems held convertible securities that were considered highly sensitive to changes in interest rates.

Credit Risk

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

ASHERS policy is that debt securities purchased shall carry an investment rating of Baa or better by Moody's Investors Service and a rating of BBB or better by Standard and Poor's. Energy bonds may be purchased that are below investment grade. The other retirement systems, institutions of higher education and the State Board of Finance do not have a credit risk policy.

The State's exposure to credit risk as of June 30, 2011, is as follows (expressed in thousands):

Standard and Poor's			Moody's Investor's Service		
Rating		**Fair Value**	**Rating**		**Fair Value**
General Fund					
AAA	$	2,537,607	Aaa	$	2,537,607
A		5	Unrated		55,444
Unrated		55,439			
Subtotal		2,593,051			2,593,051
Enterprise Funds					
AAA		506,025	Aaa		352,794
AA		6,028	Aa		814
A		6,081	A		1,134
BBB		1,020	Baa and Below		95
B and Below		569	Unrated		189,153
Unrated		24,267			
Subtotal		543,990			543,990
Fiduciary Funds					
AGY		266,036	AGY		266,036
AAA		429,171	Aaa		415,898
AA		259,461	Aa		337,120
A		567,683	A		298,982
BBB		520,502	Baa		502,465
BB		404,150	Ba		294,384
B		233,159	B		209,919
CCC or Lower		67,600	Caa or Lower		58,653
Unrated		3,264,569	P-1		83,047
			Unrated		3,545,827
Subtotal		6,012,331			6,012,331
Component Units					
AAA		808,463	Aaa		808,464
AA		3,792	Aa		5,868
A		10,147	A		4,726
Unrated		468	Unrated		3,812
Subtotal		822,870			822,870
Total	$	9,972,242		$	9,972,242

Custodial Credit Risk

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

The State Board of Finance requires that investment instruments should be held in safekeeping by financial institutions and that the cash fund manager should obtain safekeeping receipts. The institutions of higher education do not have a formal custodial credit risk policy.

At June 30, 2011, the reported amount of the enterprise funds' investments was $979,623,410. Of this amount, $3,588,756 was uninsured and unregistered with securities held by the counterparty's trust department but not in the government's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of the State's investment in any one issuer that represents 5% or more of total investments.

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

The State places no limit on the amount the State Treasury may invest in U.S. government agency securities. The State total investments in Federal Home Loan Bank securities represented $1,373,163,539 or 52.42% of the general fund and $108,068,983 or 11.03% of the enterprise funds' total investments.

The Arkansas Development Finance Authority (ADFA), a component unit of the State, places no limit on the amount that may be invested in any one issuer. ADFA's investments in FNMA-mortgage backed securities represented $51,800,000 or 6.30% of total component units' investments.

Foreign Currency Risk

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

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

The exposure to foreign currency risk for investments and deposits at June 30, 2011, is as follows (expressed in thousands):

Currency	Fair Value	Fixed Income Securities	Equities	Forward Currency Contract	Cash
Australian Dollar	$ 48,694	$ 3,790	$ 49,894	$ (5,009)	$ 19
Brazilian Real	25,723	2,089	23,725	(102)	11
British Pound Sterling	336,929	814	337,072	(1,192)	235
Canadian Dollar	65,921	22,356	53,614	(10,885)	836
Chilean Peso	2,363	874	1,487		2
Columbian Peso	1,356	1,356			
Czech Koruna	2,446			2,446	
Danish Krone	12,590		18,660	(6,085)	15
Euro	262,091	14,618	315,217	(68,178)	434
Hong Kong Dollar	88,872		95,579	(6,621)	(86)
Hungarian Forint	3,246			3,246	
Indian Rupee	6,668	5,915			753
Indonesian Rupiah	13,346	6,089	7,257	(849)	849
Japanese Yen	131,790	271	143,600	(12,732)	651
Malaysian Ringgit	9,958	1,445	8,513		
Mexico Nuevo Peso	22,874	8,516		14,130	228
New Taiwan Dollar	9,151		9,099		52
New Zealand Dollar	2,353			2,350	3
Norwegian Krone	20,346		26,947	(6,800)	199
Phillipine Peso	7,969	5,948	2,021		
Polish Zloty	2,656	931		1,725	
Singapore Dollar	28,090	498	677	26,914	1
South African Rand	11,146	749	8,600	1,784	13
South Korean Won	11,759	5,650	6,109		
Swedish Krona	39,196	4,764	25,817	8,630	(15)
Swiss Franc	82,948		75,002	7,868	78
Thailand Baht	2,995		5,245	(2,747)	497
Total Fair Value	$ 1,253,476	$ 86,673	$ 1,214,135	$ (52,107)	$ 4,775

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

(3) Derivatives

Primary Government

Forward Currency Contracts

Arkansas Public Employees Retirement System (APERS), Arkansas Teacher Retirement System (ATRS) and Arkansas Judicial Retirement System (AJRS) enter into forward exchange contracts to manage exposure of foreign portfolio holdings to changes in foreign currency exchange rates. A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated rate. Risks associated with such contracts include movement in the value of the foreign currency in relation to the U.S. dollar and the ability of the counterparty to perform. The contracts are valued at forward exchange rates, and the changes in the value of open contracts are recognized as unrealized appreciation/depreciation in the statement of changes in plan net assets. The realized gain or loss on closed forward currency contracts represents the difference between the original value of the original contracts and the closing value of such contracts and is included in the net increase (decrease) in fair value of investments in the statement of changes in plan net assets. At June 30, 2011, the retirement systems referred to above were party to outstanding foreign exchange currency contracts to purchase foreign currencies with contract amounts of $144.7 million, collectively. Market values of these outstanding contracts were $145.1 million resulting in an unrealized gain of $0.4 million. The retirement systems also had outstanding foreign exchange currency contracts to sell foreign currencies with contract amounts of $196.7 million at June 30, 2011. Market values of these contracts were $197.9 million, resulting in an unrealized loss of approximately $1.2 million.

Mortgage-Backed Securities

APERS, ATRS and AJRS invest in various asset-backed securities, mortgage-backed securities and structured corporate debt. These investments are reported at fair value in the balance sheet as government securities, asset and mortgage-backed securities and international securities. They are also included in the totals of government securities, corporate securities and international securities, depending on the issuer, in the disclosure of investment risk (see Note 2 on Deposits and Investments). The retirement systems referred to above invest in these securities to enhance yields on investments. Changes in market interest rates affect the cash flows of these securities and may result in changes in fair value. The overall return or yield of these securities depends on the changes in interest and principal payment patterns and the market value of the underlying assets. As of June 30, 2011, the retirement systems held $293.3 million of mortgage-backed securities.

Asset-Backed Securities

As of June 30, 2011, APERS, ATRS and AJRS held asset-backed securities with the combined fair value of $81.2 million. These securities represent interest in various trusts consisting of pooled financial assets other than mortgage loans conveyed by the issuing parties. The ability to recover the amount of principal invested in these securities depends on the performance and quality of the trust assets.

Pooled Funds

APERS and AJRS had approximately $673.1 million and $25.6 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.

Derivatives

Derivative instruments are financial contracts or agreements whose values depend on the values of one or more underlying assets, reference rates and/or financial indexes. Derivative instruments include futures contracts, forward contracts, swap contracts, options contracts and forward foreign currency exchange. ATRS investment guidelines state that derivatives may be used to reduce the risk in a portfolio but should not be used to create a position of leverage or substantially increase the risk of the overall portfolio. Futures and options should be matched by cash or cash equivalent securities, and all short futures positions should be matched by equivalent long security positions. Each investment manager’s derivative usage is specified in the investment management agreement or specific guidelines. APERS and AJRS, through their external investment managers, could hold such instruments. The external investment managers could enter into swaps and futures contracts to gain or hedge exposure to certain markets and to manage interest rate risk and use forward foreign exchange contracts primarily to hedge foreign currency exposure. APERS and AJRS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. APERS’ and AJRS’ external investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures. APERS’ and AJRS’ external investment managers anticipate that the counterparties will be able to satisfy their obligations under the contracts.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2011, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows (expressed in thousands):

	Changes in Fair Value *		Fair Value at June 30, 2011			
Type	**Classification**	**Amount**	**Classification**	**Amount**		**Notional**
Foreign Currency Forwards						
	Investment revenue	$ 3	Investment	$ 3	AUD	$ 9,009
	Investment revenue	(1)	Investment	(1)	BRL	1,254
	Investment revenue	(63)	Investment	(63)	CAD	21,720
	Investment revenue	(3)	Investment	(3)	CHF	3,550
	Investment revenue	13	Investment	13	CZK	50,887
	Investment revenue	(38)	Investment	(38)	DKK	31,350
	Investment revenue	(521)	Investment	(521)	EUR	54,331
	Investment revenue	149	Investment	149	GBP	7,117
	Investment revenue	3	Investment	3	HKD	51,571
	Investment revenue	62	Investment	62	HUF	485,658
	Investment revenue	(5)	Investment	(5)	IDR	7,278,024
	Investment revenue	1	Investment	1	JPY	(3,820)
	Investment revenue	10	Investment	10	MXN	5,890
	Investment revenue	55	Investment	55	NOK	85,406
	Investment revenue	32	Investment	32	NZD	1,912
	Investment revenue	16	Investment	16	PLN	2,725
	Investment revenue	(259)	Investment	(259)	SEK	73,305
	Investment revenue	25	Investment	25	SGD	3,382
	Investment revenue	34	Investment	34	THB	84,708
	Investment revenue	(270)	Investment	(270)	USD	124,821
	Investment revenue	(21)	Investment	(21)	ZAR	29,466
Total Foreign Currency Forwards		$ (778)		$ (778)		
Rights	Investment revenue	$ 40		$ 40		$ 154
Warrants	Investment revenue	$ (171)		$ 1,982		$ 217
Futures						
U.S. 2-year Treasury note	Investment revenue	$ (53)	Investment	$ (53)		$ 51,107
U.S. 5-year Treasury note	Investment revenue	35	Investment	35		31,229
U.S. 10-year Treasury note	Investment revenue	330	Investment	330		(42,570)
U.S. treasury bond	Investment revenue	(340)	Investment	(340)		25,221
U.S. ultra long bond	Investment revenue	(257)	Investment	(257)		14,393
Australian 90-day bill	Investment revenue	1	Investment	1		2,965
Canadian 90-day Banker's Acceptance	Investment revenue	1	Investment	1		1,233
EuroSwiss 3-month future	Investment revenue	1	Investment	1		998
EuroYen 3-month future	Investment revenue	(1)	Investment	(1)		74,745
New Zealand 3-month bill	Investment revenue	1	Investment	1		3,972
Total Futures		$ (282)		$ (282)		
TBA Securities						
FNMA SF Mortgage 4.50%, 9/01/2026	Investment revenue	$ (2)	Investment	$ (2)		$ 1,700
FNMA SF Mortgage 4.50% 7/20/2041	Investment revenue	(64)	Investment	(64)		10,000
FNMA SF Mortgage 5.50% 8/01/2041	Investment revenue	4	Investment	4		5,000
GNMA II Jumbo 4.50% 7/20/2041	Investment revenue	(14)	Investment	(14)		4,000
Total TBA Securities		$ (76)		$ (76)		
Interest Rate Swaps						
Receive Variable	Investment revenue	$ 50	Investment	$ 50		$ 79,000
Pay Fixed	Investment revenue	(1)	Investment	(1)		2,600
Receive Variable	Investment revenue	1	Investment	1		2,300
Receive Variable	Investment revenue	9	Investment	9		600,000
Receive Variable	Investment revenue	5	Investment	5		45,000
Receive Variable	Investment revenue	10	Investment	10		21,200
Pay Fixed	Investment revenue	(8)	Investment	(8)		800
Receive Variable	Investment revenue	81	Investment	81		16,800
Receive Variable	Investment revenue	13	Investment	13		23,800
Pay Fixed	Investment revenue	(1)	Investment	(1)		4,800
Pay Fixed	Investment revenue	(128)	Investment	(128)		13,625
Receive Variable	Investment revenue	7	Investment	7		35,200
Total Interest Rate Swaps		$ 38		$ 38		

* These amounts denote the net realized and unrealized gains and losses recognized during the period.

Component Units

Mortgage-Backed Securities

Arkansas Development Finance Authority (ADFA) invests in various asset and mortgage-backed securities. These securities are reported at the fair value in the statement of net assets. They are also included in the totals of government securities and corporate securities, depending on the issuer, in the disclosure of investment risk (see Note 2 on Deposits and Investments). ADFA invests in these securities to enhance yields on investments. Changes in market interest rate affect the cash flows of these securities and may result in changes in fair value. The overall return on yield on these securities depends on the changes in the interest and principal payment pattern and the market value of the underlying assets. As of June 30, 2011, ADFA held $563.2 million in mortgage-backed securities.

(4) Securities Lending Transactions

Arkansas Public Employees Retirement System (APERS) and Arkansas Teacher Retirement System (ATRS) participate in securities lending programs, as authorized by Arkansas Code Annotated § 24-3-412 and the Board of Trustees policies, whereby investment securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash and cash equivalents, letters of credit, securities guaranteed by the U.S. Government or an agency thereof equal to at least 100% of the fair value of the securities loaned for ATRS and equal to at least 102% of domestic loans and 105% of international loans for APERS. At all times during the term of each loan, the total value of the collateral is not to be less than the fair value of all securities on loan. The programs are administered by custodial agent banks. The code does not specify the types of securities that may be loaned. The types of securities on loan at June 30, 2011, include U.S. Government securities, corporate securities and international securities. 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 statements of plan net assets. As the pensions must return the cash collateral to the borrower upon expiration of the loan, a corresponding liability is recorded as obligations under securities lending. These securities have also been included in the preceding summary of deposits and investments (see Note 2). The weighted average maturity of collateral investments generally does not match the maturity of the loans. The custodial agents provide the pensions with an indemnification if insolvency causes the borrower to fail to return the securities lent or fail to pay the income on the securities to the trust while lent. However, in the history of the pensions' participation in such programs, no losses resulting from default have occurred. As of June 30, 2011, the carrying value and fair value of the underlying securities was $1.3 billion. At June 30, 2011, the pension systems had no credit risk exposure to borrowers because the amounts the pension systems owed the borrowers exceeded the amounts the borrowers owed the pension systems.

(5) Receivables

Receivables at June 30, 2011, consisted of the following (expressed in thousands):

Primary Government

	Accounts	Taxes	Employee/ Employer	Medicaid	Capital Lease Receivable	Loans	Investment-Related	Other Receivables	Allowance for Uncollectibles	Total
General Fund	$ 241,162 (3)	$ 865,903 (1)	$	$ 182,695	$ 824 (2)	$ 273,777	$ 17,584	$ 29,977	$ (627,720)	$ 984,202
Higher Education Fund	766,033					72,135	466	6,787	(536,717)	308,704
Workers' Compensation Commission	7,344 (3)						461			7,805
Department of Workforce Services	175,103						4		(47,500)	127,607
Lottery Commission	11,230									11,230
Non-major Enterprise Funds	2,096					383,734	660		(46)	386,444
Pension Trust			88,587				38,136	461,151		587,874
Agency							19	54	(11)	62
Total	$ 1,202,968	$ 865,903	$ 88,587	$ 182,695	$ 824	$ 729,646	$ 57,330	$ 497,969	$ (1,211,994)	$ 2,413,928

(1) Receivable balances of $14,682 are not expected to be collected within one year of the date of the financial statements.
(2) See Note 11 - Leases.
(3) $91 and $2 Interfund receivables due to the General Fund and the Workers' Compensation Commission, respectively, from the Pension Trust Fund were reclassified as Accounts Receivable on the Government-wide Statement of Net Assets.

Component Units

	Accounts	Loans	Capital Lease Receivable	Investment-Related	Contributions	Other Receivables	Allowance for Uncollectibles	Net Receivable by Component Unit
Arkansas Student Loan Authority	$	$ 469,302	$	$ 10,190	$	$ 202	$ (1,199)	$ 478,495
Arkansas Development Finance Authority	1,025	363,340	138,054	4,229		11,870	(69,681)	448,837
University of Arkansas Foundation				2,881	68,663		(1,536)	70,008
Total	$ 1,025	$ 832,642	$ 138,054	$ 17,300	$ 68,663	$ 12,072	$ (72,416)	$ 997,340

(6) Intergovernmental Activity

Interfund Receivables and Payables (expressed in thousands):

	Due From							
Due To	General Fund	Higher Education Fund	Workers' Compensation Commission	Department of Workforce Services	Arkansas Lottery Commission	Non-major Enterprise Funds	Pension Trust	Total
General Fund	$	$ 3,609	$ 1	$ 25	$ 63,229	$ 346	$ 91 (1)	$ 67,301
Higher Education Fund	8,079				129	6		8,214
Workers' Compensation Commission	323	350			1		2 (1)	676
Department of Workforce Services	2,377							2,377
Non-major Enterprise Funds	2							2
Pension Trust	2,386							2,386
Total	$ 13,167	$ 3,959	$ 1	$ 25	$ 63,359	$ 352	$ 93	$ 80,956

(1) $91 and $2 Interfund receivables due to the General Fund and the Workers' Compensation Commission, respectively, from the Pension Trust Fund were reclassified as Accounts Receivable on the Government-wide Statement of Net Assets.

Interfund receivables and payables include (1) $3.6 million due from the Higher Education Fund to the General Fund for workers' compensation, unemployment contributions, information technology services and grants; (2) $2.4 million due from the General Fund to the Department of Workforce Services for unemployment contributions; 3) $8.1 million due to the Higher Education Fund from the General Fund for information technology services, college Technical Bond payment requisitions and grants; (4) $63.2 million due from the Arkansas Lottery Commission to the General Fund for trust proceeds to administer the Arkansas Lottery Scholarship Program, audit fees, information technology services, printing and administrative costs and (5) $2.4 million due from the General Fund to the Pension Fund for employers contributions. All amounts are expected to be repaid within one year.

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

	Advances To		
Advances From	**General Fund**	**Higher Education Fund**	**Total**
Non-Major Enterprise Funds	$ 155	$ 6,886	$ 7,041
Pension Trust Funds	2,685		2,685
Total	$ 2,840	$ 6,886	$ 9,726

Advances include (1) an outstanding balance of $2.7 million loaned to the General Fund (i.e. Department of Education) by the Teacher's Pension Trust Fund for the purchase of accounting software to be repaid over 15 years at 8% interest maturing in fiscal year 2012 and (2) advances from the Community/Technical College Revolving Loan program of $6.9 million providing low interest loans to community and technical colleges for capitalizable education and general projects with variable interest rates.

Transfers (expressed in thousands):

	Transfers In				
Transfers Out	**General Fund**	**Higher Education Fund**	**Lottery Commission**	**Non-Major Enterprise Funds**	**Total**
General Fund	$	$ 1,003,959	$ 20,000	$ 8,943	$ 1,032,902
Higher Education Fund	81,169				81,169
Department of Workforce Services	8,593				8,593
Lottery Commission	94,429				94,429
Non-Major Enterprise Funds	4,756				4,756
Total	$ 188,947	$ 1,003,959	$ 20,000	$ 8,943	$ 1,221,849

Transfers include (1) the transfer of $1 billion from the General Fund to the Higher Education Fund for state funding of higher education institutions and (2) the transfer of $81.2 million from the Higher Education Fund includes $76 million to the Department of Human Services within the General Fund for the transfer of a portion of the state funding provided to the University of Arkansas Medical School to be used for the Medicaid Program. Non-Major Enterprise Funds transfers include the Arkansas Natural Resources Commission being reimbursed $1.1 million from the Construction Assistance Loan Fund. $5.6 million was reimbursed from Arkansas Natural Resources Commission to Other Revolving Loan Funds for administrative expenses and monitoring of public drinking water facilities to ensure compliance with federal guidelines. Another transfer of $3.2 million was from the Non-Major Enterprise Funds to reimburse $2.7 million to the Department of Health and $0.5 million to Arkansas Natural Resources Commission for assistance in building clean drinking water facilities. $2.3 million was transferred to the Non-Major Enterprise Funds to reimburse the Arkansas Economic Development Commission for the Industrial Energy Technology Loan Program, and $94.4 million was transferred from the Arkansas Lottery Commission to the General fund for administering the Arkansas Lottery Scholarship Program for the 2010/2011 academic school year. Also, $20 million was transferred from the General Fund to the Arkansas Lottery Commission to fund the Scholarship Shortfall Reserve Trust Account.

(7) Capital Assets

Primary Government

Capital asset activity for the year ended June 30, 2011, was as follows (expressed in thousands):

	Balance June 30, 2010 As Restated (1)	Adjustments/ Transfers (2)	Additions	Deletions	Balance June 30, 2011
Governmental activities:					
Capital assets, not being depreciated:					
Land	$ 678,535	$ 116	$ 41,599	$ (48)	$ 720,202
Construction in progress	1,484,614	(361,656)	571,394	(24)	1,694,328
Other non-depreciable assets	14,340	(3,041)	4,852	(2)	16,149
Total capital assets, not being depreciated	2,177,489	(364,581)	617,845	(74)	2,430,679
Capital assets, being depreciated:					
Land improvements	149,819	1,274	1,349	(293)	152,149
Infrastructure	11,436,051	324,868	2,119	(214,356)	11,548,682
Buildings	1,271,883	48,345	12,485	(1,620)	1,331,093
Equipment	678,786	2,557	41,289	(39,454)	683,178
Other depreciable assets	55,096	3,821	8,785	(3)	67,699
Total capital assets, being depreciated	13,591,635	380,865	66,027	(255,726)	13,782,801
Subtotal	15,769,124	16,284	683,872	(255,800)	16,213,480
Less accumulated depreciation for:					
Land improvements	(77,617)	(74)	(6,612)	266	(84,037)
Infrastructure	(5,161,824)	(3)	(359,190)	214,146	(5,306,871)
Buildings	(493,676)	(5,515)	(25,195)	1,515	(522,871)
Equipment	(447,476)	(1,141)	(50,998)	36,047	(463,568)
Other depreciable assets	(32,239)	(163)	(8,578)	4	(40,976)
Total accumulated depreciation	(6,212,832)	(6,896)	(450,573)	251,978	(6,418,323)
Governmental activities capital assets, net	$ 9,556,292	$ 9,388	$ 233,299	$ (3,822)	$ 9,795,157

(1) Restated to include in general fund capital assets totaling $20,905 less accumulated depreciation of $10,290, previously reported in enterprise fund.

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

	Balance June 30, 2010 As Restated (1)	Adjustments/ Transfers (2)	Additions	Deletions	Balance June 30, 2011
Business-type activities:					
Capital assets, not being depreciated:					
Land	$ 110,407	$ 64	$ 8,532	$ (540)	$ 118,463
Construction in progress	340,109	(47,467)	199,047	(249,842)	241,847
Total capital assets, not being depreciated	450,516	(47,403)	207,579	(250,382)	360,310
Capital assets, being depreciated:					
Improvements other than building	16,310	553	1,962	(1)	18,824
Leasehold improvements	1,581	1,340	17		2,938
Buildings	3,542,719	287,726	173,800	(152,914)	3,851,331
Equipment	617,422	226	56,723	(22,712)	651,659
Infrastructure	257,037	5,395	35,136	(930)	296,638
Intangibles	104,419	(1,814)	1,079	(22)	103,662
Art/historic treasures	68	4	17		89
Library holdings	198,032	(184)	6,504	(2,940)	201,412
Other depreciable assets	48,361		3,921	(3,132)	49,150
Total capital assets, being depreciated	4,785,949	293,246	279,159	(182,651)	5,175,703
Subtotal	5,236,465	245,843	486,738	(433,033)	5,536,013
Less accumulated depreciation for:					
Improvements other than building	(7,220)	(41)	(870)	1	(8,130)
Buildings	(1,269,611)	(852)	(117,220)	1,773	(1,385,910)
Equipment	(439,908)	(353)	(52,007)	20,123	(472,145)
Infrastructure	(114,791)	24	(12,199)	175	(126,791)
Intangibles	(76,990)	(167)	(3,920)	19	(81,058)
Art/historic treasures	(19)				(19)
Library holdings	(156,324)	17	(7,827)	2,387	(161,747)
Other depreciable assets	(25,723)	(1)	(8,995)	4,987	(29,732)
Total accumulated depreciation	(2,090,586)	(1,373)	(203,038)	29,465	(2,265,532)
Business-type activities capital assets, net	$ 3,145,879	$ 244,470	$ 283,700	$ (403,568)	$ 3,270,481

(1) Restated to include in general fund capital assets totaling $20,905 less accumulated depreciation of $10,290, previously reported in enterprise fund.

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

Component Units

Activity for ADFA for the year ended June 30, 2011, was as follows (expressed in thousands):

	Balance July 1, 2010	Additions/ Deletions	Balance June 30, 2011
ADFA:			
Capital assets being depreciated:			
Equipment	$ 504	$ 30	$ 534
Less accumulated depreciation for:			
Equipment	(324)	(40)	(364)
ADFA capital assets, net	$ 180	$ (10)	$ 170

Activity for ASLA for the year ended June 30, 2011, was as follows (expressed in thousands):

	Balance July 1, 2010	Additions/ Deletions	Balance June 30, 2011
ASLA:			
Capital assets not being depreciated:			
Land	$ 670	$	$ 670
Capital assets being depreciated:			
Building	2,009		2,009
Equipment	949		949
Total capital assets, being depreciated	2,958	0	2,958
Subtotal	3,628	0	3,628
Less accumulated depreciation for:			
Building and equipment	(622)	(88)	(710)
ASLA capital assets, net	$ 3,006	$ (88)	$ 2,918

Activity for U of A Foundation, Inc. for the year ended June 30, 2011, was as follows (expressed in thousands):

	Balance June 30, 2010	Additions/ Deletions	Balance June 30, 2011
U of A Foundation:			
Capital assets not being depreciated:			
Land	$ 391	$ (5)	$ 386
Capital assets being depreciated:			
Buildings and equipment	256		256
Less accumulated depreciation for:			
Buildings and equipment	(256)		(256)
Total Assets being depreciated, net	0	0	0
Total Assets U of A Foundation	$ 391	$ (5)	$ 386

Depreciation

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

Primary Government

Governmental Activities:		
Education	$	4,442
Health and human services		9,834
Transportation		368,079
Law, justice and public safety		28,307
Recreation and resources development		19,891
General government		18,813
Regulation of business and professionals		1,207
Total depreciation expense – governmental activities	$	450,573
Business-type Activities:		
Enterprise Funds	$	203,038
Total depreciation expense – business-type activities	$	203,038

Component Units

Component Units:		
ADFA	$	40
ASLA		88
Total depreciation expense – component units	$	128

(8) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2011, are summarized as follows (expressed in thousands):

	Balance June 30, 2010 as restated	Additions	Accretion on capital appreciation bonds	Reductions	Balance June 30, 2011	Due within one year	Due greater than one year
Governmental Activities:							
Bonds payable:							
General obligation	$ 942,722	$	$ (1,106)	$ 185,748 (1)	$ 755,868 (2)	$ 71,695	$ 684,173
Revenue Bond Guaranty Fund		1,385			1,385	255	1,130
Add (deduct):							
Deferred bond refunding loss:							
General Obligation	(17,857)			(3,457)	(14,400)		(14,400)
Debt to Component Unit	(2,736)			(287)	(2,449)		(2,449)
Issuance premium (discount):							
General Obligation	25,949			6,509 (3)	19,440	5,535	13,905
Debt to Component Unit	2,053			206	1,847	206	1,641
Total bonds payable	950,131	1,385	(1,106)	188,719	761,691	77,691	684,000
Notes payable to component unit	100,788	11,391		11,505	100,674	8,432	92,242
Notes payable to Construction Assistance Revolving Loan Fund		155			155	155	
Note payable to pension trust fund	5,172			2,487	2,685	2,685	
Capital leases	692			692			
Capital leases with component unit	137,949			6,481	131,468	6,401	125,067
Total notes and leases payable	244,601	11,546		21,165	234,982	17,673	217,309
Total bonds, notes and leases payable	1,194,732	12,931	(1,106)	209,884	996,673	95,364	901,309
Installment sale with component unit	12,340			470	11,870	490	11,380
Claims, judgments and arbitrage (4)	218,860	277,838		274,744	221,954	116,356	105,598
Compensated absences (5)	144,067	121,790		118,581	147,276	19,735	127,541
Total claims, judgments, arbitrage and compensated absences	362,927	399,628		393,325	369,230	136,091	233,139
Pollution remediation	16,755	1,892		2,988	15,659	1,315	14,344
Net OPEB obligation (6)	369,208	128,838			498,046		498,046
Governmental activities total	$ 1,955,962	$ 543,289	$ (1,106)	$ 606,667	$ 1,891,478	$ 233,260	$ 1,658,218

(1) Principal payments of $23,508 plus defeased $162,240
(2) Includes accretion on capital appreciation bonds of $22,058
(3) Amortized $5,532 plus defeased $977
(4) Beginning balance restated by $105,306
(5) Beginning balance restated by $3,139
(6) Beginning balance restated by $4,866

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

		Balance June 30, 2010 as restated	Additions		Reductions	Balance June 30, 2011	Due within one year	Due greater than one year
Business-type Activities:								
Bonds payable:								
Special obligation:								
Construction Assistance Revolving Loan Fund		$ 57,910	$ 31,225		$ 47,140	$ 41,995	$ 11,310	$ 30,685
War Memorial Bond Payable		1,700	2,300		1,000	3,000	500	2,500
College and University Revenue Bonds		1,402,967	285,081	(5)	93,822	1,594,226	50,605	1,543,621
Add (deduct):								
Deferred bond refunding loss		(5,861)	(618)		(954)	(5,525)	(618)	(4,907)
Issuance premiums/ (discounts)	(1)	15,075	7,244		1,159	21,160	1,471	19,689
Total bonds payable		1,471,791	325,232		142,167	1,654,856	63,268	1,591,588
Notes payable	(2)	45,092	25,112		13,216	56,988	6,836	50,152
Notes payable with component unit		2,550			504	2,046	538	1,508
Total notes payable		47,642	25,112		13,720	59,034	7,374	51,660
Capital leases		40,408	14,722		8,952	46,178	8,465	37,713
Capital leases with component unit		620			200	420	205	215
Total leases payable		41,028	14,722		9,152	46,598	8,670	37,928
Total bonds, notes and leases payable		1,560,461	365,066		165,039	1,760,488	79,312	1,681,176
Claims and judgments		281,921	400,591		395,311	287,201	57,818	229,383
Compensated absences	(3)	93,386	76,216		69,521	100,081	14,840	85,241
Total claims, judgments and compensated absences		375,307	476,807		464,832	387,282	72,658	314,624
Net OPEB obligation	(4)	45,302	10,286			55,588		55,588
Business-type activities total		$ 1,981,070	$ 852,159		$ 629,871	$ 2,203,358	$ 151,970	$ 2,051,388

(1) Beginning balance reclassed by $120K. In prior year, NPCC and SACC netted bond discount, premium and issuance cost together. For FY11, these were reclassed from issuance cost to premium/(discount).
(2) Beginning balance reclassed by ($1,117). This was a loan from UAMS to UAF which is eliminated since it is an inter-agency loan receivable/payable between two State universities.
(3) Beginning balance restated by ($3,139).
(4) Beginning balance restated by ($5,844).
(5) Principal payment of $48,292 plus defeased $45,530.

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Due within one year	Due greater than one year
Component units:						
Arkansas Student Loan Authority:						
Bonds payable	$ 521,450	$ 267,500	$ 547,669	$ 241,281	$ 30,848	$ 210,433
Notes payable	252,700		35,327	217,373	35,700	181,673
Total bonds and notes payable ASLA	774,150	267,500	582,996	458,654	66,548	392,106
Net OPEB obligation	65	22		87		87
Arkansas Development Finance Authority:						
Bonds payable	1,153,676	56,852	256,188	954,340	129,131	825,209
Notes payable	4,236	76,741	67,343	13,634		13,634
Add: issuance premiums	1,756		438	1,318		1,318
Total bonds and notes payable ADFA	1,159,668	133,593	323,969	969,292	129,131	840,161
Net OPEB obligation	672	232		904		904
U of A Foundation						
Annuity obligations	16,669	1,220	1,922	15,967	1,288	14,679
Component units total	$ 1,951,224	$ 402,567	$ 908,887	$ 1,444,904	$ 196,967	$ 1,247,937

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, 2011, were as follows (expressed in thousands):

	Final maturity date (1)	Interest rates %	Balance
Federal Highway Grant Anticipation and Tax Revenue G.O. Bonds:			
2010 Series Federal Highway G.O.Bonds	2015	2.5 - 5.00	$ 253,225
Arkansas Natural Resources Commission Bonds:			
2002A Series Water, Waste and Pollution	2027	4.00 - 5.00	10,310
2002B Series Water, Waste and Pollution	2026	4.25 - 5.00	4,970
2002C Series Water, Waste and Pollution	2021	3.50 - 5.00	5,035
2002D Series Water, Waste and Pollution	2018	3.00 - 4.75	4,510
2002E Series Water, Waste and Pollution	2013	2.75 - 5.80	250
2002F Series Water, Waste and Pollution	2013	2.00 - 4.20	325
2002G Series Water, Waste and Pollution	2036	2.85 - 4.95	4,450
2002H Series Water, Waste and Pollution	2018	4.50 - 5.35	1,035
2002I Series Water, Waste and Pollution	2027	3.00 - 4.75	8,175
2002K Series Water, Waste and Pollution	2027	3.00 - 4.88	6,440
2003A Series Water, Waste and Pollution	2021	2.25 - 5.30	1,495
2003B Series Water, Waste and Pollution	2028	2.00 - 4.10	1,810
2003C Series Water, Waste and Pollution	2034	2.50 - 4.75	13,235
2004A Series Water, Waste and Pollution	2037	3.00 - 5.00	11,635
2005A Series Water, Waste and Pollution	2026	3.25 - 4.35	4,485
2005B Series Water, Waste and Pollution	2028	3.00 - 4.75	7,935
2006A Series Water, Waste and Pollution	2017	5.00	10,410
2006B Series Water, Waste and Pollution	2037	3.50 - 4.50	7,920
2006C Series Water, Waste and Pollution	2034	4.13 - 4.63	4,300
2007A Series Water, Waste and Pollution	2041	4.00 - 4.50	7,210
2008A Series Water, Waste and Pollution	2043	3.50 - 4.60	24,285
2009A Series Water, Waste and Pollution	2044	2.00 - 4.88	14,640
2010A Series Water, Waste and Pollution	2045	2.00 - 4.50	22,895
2010B Series Water, Waste and Pollution	2021	1.00 - 4.10	34,290
2010C Series Water, Waste and Pollution	2021	2.00 - 3.00	8,635
College Savings Bonds:			
1993 Series, G.O. Bonds	2014	5.90 - 5.95	10,643
1996C Series, G.O. Bonds	2016	5.85 - 6.00	9,809
1997A Series, G.O. Bonds	2017	5.85 - 6.05	3,379
1997B Series, G.O. Bonds	2017	5.30 - 5.60	7,254
1998A Series, G.O. Bonds	2017	5.05 - 5.35	7,698
2005 Series, G.O. Bonds	2016	3.20 - 5.00	19,235
Higher Education Bonds:			
2007A Series, G.O. Bonds	2023	4.00 - 5.00	97,120
2007B Series, G.O. Bonds	2029	4.38 - 4.75	126,825
Total			$ 755,868

(1) Fiscal year

Future amounts required to pay principal and interest on general obligation bonds at June 30, 2011, including accrued accreted interest of approximately $22 million on capital appreciation bonds, were as follows (expressed in thousands):

	Principal	Interest	Total
Year Ending June 30:			
2012	$ 69,816	$ 32,126	$ 101,942
2013	88,926	28,869	117,795
2014	90,840	25,015	115,855
2015	96,141	20,839	116,980
2016	23,814	18,057	41,871
2017-2021	123,338	72,029	195,367
2022-2026	126,375	43,896	170,271
2027-2031	75,445	16,497	91,942
2032-2036	20,540	6,989	27,529
2037-2041	14,155	2,965	17,120
2042-2046	4,420	343	4,763
Total	$ 733,810	$ 267,625	$ 1,001,435

Details of general obligation bonds outstanding are as follows:

Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds – Act 1027 of 1999 and a statewide election conducted June 15, 1999, authorized the State to issue Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds. All bonds issued under the authority of this act are general obligations of the State and are secured by an irrevocable pledge of the full faith, credit and resources of the State. The act limited the total principal amount to $575 million to be issued in several series of various principal amounts. The bonds were issued to pay the cost of reconstructing and renovating the interstate highways and related facilities in the State of Arkansas. The bonds are payable primarily from Federal Interstate Maintenance Funds and by State revenues derived from the tax on diesel fuel at the rate of 4 cents per gallon. No bonds were issued under this act in the 2011 fiscal year. Subsequent to year end, voters approved a new issue of Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds. See subsequent event footnote for details.

State Water, Waste Disposal, and Pollution Abatement Facilities General Obligation Bonds – Act 607 of 1997 authorized the Arkansas Soil and Water Conservation Commission (subsequently the Arkansas Natural Resources Commission) and Act 631 of 2007 authorized the Arkansas Natural Resources Commission to issue Water, Waste Disposal and Pollution Abatement Facilities General Obligation Bonds. All bonds issued under the authority of these acts are general obligations of the State and are secured by an irrevocable pledge of the full faith, credit and resources of the State. Each act limits the total principal amount to approximately $300 million, with no more than $60 million being issued during any fiscal biennium for nonrefunding purposes unless the General Assembly by law authorizes a greater amount to be issued. The bonds were issued to provide financing for the development of water, waste disposal, pollution abatement, drainage and flood control, irrigation and wetland preservation facilities projects in the state. Repayment of financial assistance provided for the development of the projects is first used to repay the bonds; any remaining debt service requirement is paid from general revenues. No bonds were issued under these acts in the 2011 fiscal year.

College Savings General Obligation Bonds – Act 683 of 1989, as amended, authorized the State to issue College Savings General Obligation Bonds. All bonds issued under the authority of this act are direct general obligations of the State and are secured by an irrevocable pledge of the full faith, credit and resources of the State. The act limited the total principal amount to approximately $300 million, with no more than $100 million being issued in any fiscal biennium unless the General Assembly of the State by law authorizes a greater principal amount thereof to be issued. The College Series bonds were issued to provide funds to finance capital improvements projects at State institutions of higher education. The bonds are payable from the net general revenues of the State and investment earnings on the proceeds of the bonds. No bonds were issued under this act in the 2011 fiscal year.

Higher Education General Obligation Bonds – Act 1282 of 2005 authorized the State to issue Higher Education General Obligation Bonds. All bonds issued under the authority of this act are direct general obligations of the State and are secured by an irrevocable pledge of the full faith, credit and resources of the State. The act limited the total principal amount to approximately $250 million. However, the total outstanding principal amount of Higher Education General Obligation Bonds issued under Act 1282 of 2005 and the College Savings Bond Act of 1989 shall not have scheduled debt service payments on a combined basis in excess of $24 million in any one fiscal year. The Higher Education General Obligation Bonds were issued to provide funds to finance technology and facility improvements for state institutions of higher education and to refund certain outstanding bonds. The bonds are payable from the net general revenues of the State and investment earnings on the proceeds of the bonds. No bonds were issued under this act in the 2011 fiscal year.

Revenue Bond Guaranty Fund – Under the Arkansas Development Finance Authority Bond Guaranty Act of 1985, the Arkansas Department of Economic Development (ADED) may guarantee amortization payments on industrial development revenue bonds issued by counties and municipalities within the State of Arkansas. At June 30, 2011, total bonds guaranteed by the Revenue Bond Guaranty Fund amounted to $1.4 million.

ADED has security interest in property, plant and equipment purchased with proceeds of revenue bonds guaranteed by the Revenue Bond Guaranty Fund. Assets held by ADED, as a result of bankrupt companies defaulting on revenue bonds, are capitalized for financial statement purposes at an amount equal to the outstanding principle of the defaulted bond issue. ADED maintains these facilities until a buyer can be found. At June 30, 2011, the equity interest in industrial facilities, which totaled approximately $3.0 million, was rented or vacant.

The bonds assumed by the Revenue Bond Guaranty Fund and outstanding at June 30, 2011, were as follows (expressed in thousands):

	Final Maturity Date	**Interest Rate %**	**Balance**
Revenue Bond Guaranty Fund	2016	Varies	$ 1,385

Future amounts required to pay principle and interest on the Revenue Bond Guaranty Fund at June 30, 2011, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2012	$ 255	$ 58	$ 313
2013	265	45	310
2014	275	36	311
2015	290	25	315
2016	300	13	313
Total	$ 1,385	$ 177	$ 1,562

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, 2011, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2012	$ 8,432	$ 5,031	$ 13,463
2013	8,746	4,705	13,451
2014	9,142	4,322	13,464
2015	8,408	3,928	12,336
2016	8,497	3,593	12,090
2017-2021	31,652	12,872	44,524
2022-2026	15,739	7,808	23,547
2027-2031	10,058	4,507	14,565
Total	$ 100,674	$ 46,766	$ 147,440

Note Payable to Construction Assistance Revolving Loan Fund – The note payable to the Construction Assistance Revolving Loan Fund consists of a note issued by the Arkansas Natural Resources Commission for the Wetland Mitigation Project. This project will create a Wetland and Stream Mitigation Bank certified by the Unites States Army Corps of Engineers. This bank will provide compensatory mitigation opportunities to offset any adverse effects of construction projects on wetlands or streams. The loan will be repaid with funds from the sale of the mitigation site.

Future amounts required to pay principal and interest on notes payable to the Construction Assistance Revolving Loan Fund at June 30, 2011, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2012	$ 155	$	$ 155
Total	$ 155	$	$ 155

Note Payable to Pension Trust Fund – The note payable to the pension trust fund consists of a note issued to the Arkansas Teacher Retirement System (ATRS) from the Department of Education (the Agency) for a statewide computer system capable of linking all public school district systems and the Agency's computer system. The note payable provides that interest for the loan(s) for this project shall be at the rate of 8%. The Agency borrowed $24.8 million in nine installments between November 24, 1992, and July 17, 1996, to fund the project. Accrued interest totaled $5 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 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 the note payable to pension trust fund at June 30, 2011 were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2012	$ 2,685	$ 215	$ 2,900
Total	$ 2,685	$ 215	$ 2,900

Installment Sale with Component Units – The installment sale with component units consists of an agreement between the Arkansas Game and Fish Commission and the Arkansas Development Finance Authority (ADFA) to finance the acquisitions of land and interests in land to be utilized in the management and conservation of Arkansas wildlife resources. Principal and interest payments are made from specifically dedicated fees and other revenue sources.

Future amounts required to pay principal and interest on the installment sale with component units at June 30, 2011, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2012	$ 490	$ 528	$ 1,018
2013	510	508	1,018
2014	530	488	1,018
2015	550	466	1,016
2016	575	442	1,017
2017-2021	3,255	1,817	5,072
2022-2026	4,050	995	5,045
2027-2031	1,910	97	2,007
Total	$ 11,870	$ 5,341	$ 17,211

Business-Type Activities

Special Obligation Bonds - Special Obligation Bonds outstanding at June 30, 2011, issued pursuant to specific statutory provisions enacted by the legislature and paid from specifically dedicated fees and other revenues generated by a particular program and do not constitute general debt of the State, were as follows (expressed in thousands):

	Final maturity date	Interest rates %		Balance
Construction Assistance Revolving Loan Fund	2020	.75-5.50	$	41,995

Details of the Special Obligation Bonds outstanding are as follows:

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

Future amounts required to pay principal and interest on the special obligation bonds at June 30, 2011, 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 $2.0 million:

		Principal		Interest		Total
Year ending June 30:						
2012	$	11,310	$	1,016	$	12,326
2013		11,320		878		12,198
2014		11,110		706		11,816
2015		3,250		284		3,534
2016		1,600		158		1,758
2017-2021		3,405		154		3,559
Total	$	41,995	$	3,196	$	45,191

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 renovations 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.

War Memorial Stadium Commission – The Commission issued revenue bonds, Series 2009, on October 1, 2009, for $4.0 million, for the purpose of financing improvements to War Memorial Stadium, including particularly, without limitation, the acquisition, construction and equipping of a press box. The purchase price for the bond will be paid in multiple advances by First Security Bank (the Purchaser) as funds are needed for the project and to pay bond issuance expenses. As of June 30, 2011, all advances totaling $4.0 million had been made, with $3.0 million outstanding after current year payments. The bonds, which are not general debt of the State, are payable from cash revenue.

At June 30, 2011, business type activity 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 discounts/premiums of approximately $19.1 million and unamortized deferred bond refunding losses of $5.5 million:

	Final maturity date (1)	**Interest rates %**	**Balance**
Henderson State University	2036	2.00-5.15 $	$ 31,855
Southern Arkansas University-Magnolia	2042	2.00-5.25	41,201
Southern Arkansas University Tech-Camden	2016	5.00-6.02	360
Arkansas State University-Beebe	2040	3.00-6.60	37,325
Arkansas State University-Jonesboro	2039	0.46-5.25	122,473
Arkansas State University-Mountain Home	2033	2.15-5.50	10,085
Arkansas State University-Newport	2033	2.75-4.50	5,810
Arkansas Tech University	2041	1.10-5.75	58,516
University of Arkansas at Fayetteville	2041	Variable	566,192
University of Arkansas at Little Rock	2035	3.84-5.50	97,090
University of Arkansas for Medical Sciences	2036	1.08-11.99	296,294
University of Arkansas at Monticello	2036	Variable	11,035
University of Arkansas at Pine Bluff	2036	2.80-5.70	21,171
University of Central Arkansas	2041	2.00-7.00	104,825
University of Arkansas Community College at Hope	2039	1.00-5.00	6,765
University of Arkansas Community College at Batesville	2019	1.00-4.22	2,883
University of Arkansas Community College at Cossatot	2031	5.25	295
University of Arkansas Community College at Morrilton	2022	2.00-5.25	3,125
University of Arkansas at Fort Smith	2036	1.00-5.00	87,170
East Arkansas Community College	2040	1.63-4.60	3,505
National Park Community College	2033	3.00-4.70	12,005
Mid-South Community College	2041	2.00-4.70	19,575
Arkansas Northeastern College	2031	4.00-5.35	4,300
North Arkansas College	2037	3.50-4.70	4,275
Phillips Community College of the University of Arkansas	2039	3.00-5.20	11,805
Rich Mountain Community College	2023	Variable	1,315
South Arkansas Community College	2039	3.25-5.00	3,380
Northwest Arkansas Community College	2035	3.00-7.00	34,185
Black River Technical College	2028	2.00-4.00	2,525
Pulaski Technical College	2037	1.70-5.15	48,485
Ozarka College	2036	2.00-5.35	3,435
War Memorial Stadium	2017	4.90-12.00	3,000
Total			$ 1,656,260

(1) Fiscal year

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

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

Future amounts required to pay principal and interest on business type activity revenue bonds and notes payable as of June 30, 2011, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2012	$ 58,479	$ 72,117	$ 130,596
2013	63,080	71,019	134,099
2014	64,344	68,762	133,106
2015	65,768	66,407	132,175
2016	66,940	63,893	130,833
2017-2021	351,738	276,434	628,172
2022-2026	313,700	200,206	513,906
2027-2031	303,551	128,100	431,651
2032-2036	270,605	56,908	327,513
2037-2041	97,645	9,586	107,231
2042-2046	410	10	420
Total	$ 1,656,260	$ 1,013,442	$ 2,669,702

Component Units

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

Conduit debt issued by ASLA is for the purpose of improving market liquidity for student loan agencies. ASLA is subject to monthly payments of ratable financing cost based on an estimate of conduit financing cost. Any ratable financing cost for any yield period not paid from available funds shall increase the funding note balance. The funding note is to be serviced by payments on student loans received on those loans which were pledged under the Funding Note Purchase Agreement. ASLA reports conduit debt obligations as notes payable on its Statement of Net Assets.

Revenue bonds and notes payable outstanding at June 30, 2011, were as follows (expressed in thousands):

	Final maturity date (1)	Interest rates %	Balance
Student Loan Asset-Backed Notes, Series 2010-1 (LIBOR Floating Rate Notes)	2026	Variable	$ 241,281
Note Payable, Conduit with U.S. Department of Education	2014	Variable	217,373
Total			$ 458,654

(1) Fiscal year

Future amounts required to pay principal and interest on revenue bonds at June 30, 2011, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2012	$ 66,458	$ 6,169	$ 72,627
2013	206,630	6,334	212,964
2014	20,519	4,079	24,598
2015	16,169	3,139	19,308
2016	12,820	3,205	16,025
2017-2021	75,076	2,615	77,691
2022-2026	60,982	1,000	61,982
Total	$ 458,654	$ 26,541	$ 485,195

Line of Credit – On June 1, 2008, ASLA entered into an agreement with the State to obtain funding not to exceed $80 million. ASLA was permitted to draw up to $50 million prior to January 1, 2009, and was permitted to draw the remaining $30 million on or after January 1, 2009. Interest on the outstanding principal balance was .94% at June 30, 2009. This rate reset on June 1, 2010, to the six-month CD rate recommended by the State Bank Commissioner and approved by the State Board of Finance. Accrued interest is payable at various dates during the fiscal year with the final installment of accrued and unpaid interest, principal and other charges under the agreement payable on September 30, 2010. ASLA had $24 million outstanding on this note as of June 30, 2010. The note was repaid in full during September 2010. Accrued interest on the note payable was approximately $288,000 at June 30, 2010, and zero at June 30, 2011, due to full payment made during fiscal year 2011.

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

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

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

During the normal course of business, the Authority issues economic development revenue bonds and multi-family housing revenue bonds on behalf of private companies within the State of Arkansas. The bonds are payable solely from and secured by a pledge of revenues from the private companies to which the bond proceeds were remitted and, accordingly, are not obligations of the Authority or the State of Arkansas. At June 30, 2011, the bonds outstanding issued under these programs aggregated $203.8 million.

Bonds and notes payable at June 30, 2011, were as follows (expressed in thousands):

	Final maturity date	Interest rates %	Balance
Single Family Bonds and Notes Payable	2041	0.75-9.878	$ 514,295
Multi-Family Bonds Payable	2035	4.3-9.75	32,421
Bond Guaranty Program	2035	2.0-7.45	58,277
State and Health Facilities Bonds Payable	2040	1.34-7.00	262,090
Economic Development Bonds and Note Payable	2015	5.45-5.70	440
Tobacco Bonds Payable	2046	4.375-5.50	86,817
General Fund Bond and Note Payable	2012	0.14	13,634
Total			$ 967,974

Future amounts required to pay principal and interest on the Authority's debt at June 30, 2011, were as follows (expressed in thousands). The principal amount shown differs from the amount on the balance sheet due to unamortized premiums of $1.3 million less accreted interest of $85.8 million:

	Principal	Interest	Total
Year ending June 30:			
2012	$ 129,131	$ 38,506	$ 167,637
2013	37,699	37,167	74,866
2014	35,748	35,462	71,210
2015	37,361	33,856	71,217
2016	34,926	32,341	67,267
2017-2021	170,052	137,078	307,130
2022-2026	185,981	97,056	283,037
2027-2031	171,075	56,758	227,833
2032-2036	153,110	23,272	176,382
2037-2041	67,588	3,833	71,421
2042-2046	31,100	51	31,151
Total	$ 1,053,771	$ 495,380	$ 1,549,151

U of A Foundation – The U of A Foundation receives gifts in return for lifetime annuities from some of its contributors. The terms of these annuities vary depending upon the life expectancy of the recipients. The quarterly payments as of June 30, 2011, were $460 thousand including interest ranging from 5% to 12%.

Aggregate annual maturities of annuity obligations at June 30, 2011, were as follows (expressed in thousands):

		Principal
Year ending June 30:		
2012	$	1,288
2013		1,255
2014		1,205
2015		1,167
2016		1,122
2017-2021		4,532
2022-2026		2,383
2027-2031		1,654
2032-2036		567
2037-2041		307
2042-2046		266
2047-2051		221
Total	$	15,967

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

Prior Defeasances

Primary Government

Governmental Activities

In prior years, the State defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments of old bonds. Accordingly, these trust account assets and the liability for the defeased bonds are not included in these financial statements. Bonds with total outstanding amounts of approximately $64.1 million were considered defeased at June 30, 2011.

Higher Education

On March 1, 2005, the University of Arkansas Fayetteville (UAF) issued $60.0 million in Various Facility Revenue Refunding Bonds. Series 2005B bonds were issued with an average coupon rate of 4.408% in order to advance refund $44.2 million of Various Facility Revenue Bonds, Series 2002 and $12.1 million of Various Facility Revenue Bonds, Series 2001. The refunded bonds have an average interest rate of 5.472%. Proceeds in the amount of $62.3 million, plus an additional $780 thousand, were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded 2002 and 2001 Series bonds. All outstanding refunded Series 2002 bonds will be redeemed on December 1, 2012, at a price equal to 100% of the principal amount plus interest accrued thereon. All outstanding refunded Series 2001 bonds will be redeemed on December 1, 2011, at a price equal to 100% of the principal amount plus interest accrued thereon. As a result, those portions of the 2002 Series and 2001 Series bonds are considered defeased. The outstanding principal balance at June 30, 2011, was $55.8 million for these issues and the related escrow balance at June 30, 2011, was $57.8 million.

On June 29, 2011, UAF issued $8.9 million in Various Facility Revenue Bonds, Refunding Series 2011B, with interest rates of 3.0% to 5.0% to refund $3.6 million of outstanding bonds dated October 15, 1997, with an interest rate of 5.0%, and $6.3 million of outstanding bonds dated November 1, 2001, with interest rates of 4.10% to 4.75%. Bond proceeds of $3.6 million were used to redeem the 1997 bonds. Bond proceeds of $6.4 million were deposited into the advance refunding fund to retire the 2001 bonds. The combined refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $159 thousand. This difference, reported in the accompanying financial statements as a deduction from bonds payable, will be amortized through the fiscal year 2023 using the straight-line method. UAF completed the refunding to reduce its total debt service payments over the next 11 years by $1.5 million and to obtain an economic gain of $1.1 million. The escrow balance at June 30, 2011, was $6.4 million. The bonds dated October 15, 1997, were redeemed on July 29, 2011. The bonds dated November 1, 2001, were refunded on December 1, 2011.

On June 1, 2010, the University of Arkansas Fort Smith Campus (UAFS) issued $30.0 million in Student Fee Refunding Revenue Bonds, Series 2010, with interest rates of 2% to 4% to advance refund $28.9 million of outstanding Student Fee Revenue Bonds, Series 2001, with interest rates of 2% to 5%. Bond and premium proceeds of $30.6 million were deposited in the advance refunding fund to retire the 2001 bonds. Premium proceeds of $342 thousand were utilized for the payment of issuance costs. Other proceeds and accrued interest of $83 thousand were deposited in the debt service fund to be applied to subsequent interest payments. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1.7 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, will be amortized through the fiscal year 2022 using the straight-line method. UAFS completed the refunding to reduce its total debt service payments over the next 12 years by $1.0 million and to obtain an economic gain of $1.1 million. The escrow balance at June 30, 2011, was $27.6 million. The bonds were refunded on December 1, 2011.

Component Units

In prior years, the Arkansas Development Finance Authority defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments of old bonds. Accordingly, these trust account assets and the liability for the defeased bonds are not included in these financial statements. Bonds with total outstanding amounts of approximately $18.3 million were considered defeased at June 30, 2011. The bonds include the 1979 Series A Single Family Conventional Bonds and the 2001 Series C Multi-Family Mortgage Revenue Refunding Bonds (partial defeasance).

Current Refundings

Primary Government

During fiscal year 2010, the State issued $253.2 million of advance refunding general obligation bonds to redeem the 2000A, 2001A and 2002 bond series of the Highway and Transportation Department. The bonds bear interest rates ranging from 2.5% to 5.0% and mature in 2015. A portion of the proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the 2002 bond series. The remainder of the proceeds were placed in a trust account to be used in early fiscal year 2011 to redeem the 2000A and 2001A bond series. As of June 30, 2011, $162.2 million of outstanding bonds are considered defeased, resulting in an economic present value savings of $5.5 million and a reduction of $24.9 million in future debt service.

Higher Education

On June 30, 2010, UAF issued $24.0 million in Athletic Facilities Revenue Refunding Bonds, Series 2010 (taxable), with interest rates of 1.00% to 4.82% to refund $19.1 million of outstanding Athletic Facilities Revenue Bonds, Series 1999, with interest rates of 3.35% to 5.05%, and $4.0 million of outstanding Athletic Facilities Revenue Bonds, Subordinate Series 2001, with an interest rate of 4.20%. Bond proceeds of $19.5 million were deposited into the current refunding fund to retire the 1999 bonds. Bond proceeds of $4.2 million were deposited into the advance refunding fund to retire the 2001 bonds. The combined refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $544 thousand. This difference, reported in the accompanying financial statements as a deduction from bonds payable, will be amortized through the fiscal year 2021 using the straight-line method. The UAF completed the refunding to reduce its total debt service payments over the next 11 years by $1.3 million and to obtain an economic gain of $355 thousand. The escrow balance at June 30, 2011, was $4.1 million. The bonds dated May 1, 1999, were refunded on July 16, 2010. The bonds dated November 1, 2001, were refunded on December 1, 2011.

On December 7, 2010, Arkansas State University (ASU) issued $6.1 million in refunding bonds for the Jonesboro campus with interest rates of 2% to 4.125% to refund $5.7 million of outstanding bonds dated March 1, 2001, with interest rates of 3.6% to 5.25%. Net proceeds of $5.9 million, after payment of $166 thousand bond issuance costs and a discount of $25 thousand were remitted to an escrow agent to provide for all future payments of the defeased bonds. The bonds were called on March 1, 2011. The interest paid was $146 thousand. Additionally, bond proceeds of $3 thousand were received. ASU refunded the bonds to reduce its total debt service payments by $781 thousand over the next 20 years and to obtain an economic gain of $548 thousand. ASU received accrued interest of $3 thousand from the bond issue to apply toward the debt payments of the new issue.

On December 7, 2010, ASU issued $2.6 million in refunding bonds for the Jonesboro campus with interest rates of 2.0% to 4.125% to refund $2.5 million of outstanding bonds dated March 1, 2001 with interest rates of 3.6% to 5.25%. Net proceeds of $2.5 million, after payment of $73 thousand bond issuance costs and a discount of $10 thousand were remitted to an escrow agent to provide for all future payments of the defeased bonds. The bonds were called on March 1, 2011. The interest paid was $62 thousand. Additionally, bond proceeds of $4 thousand were received. ASU refunded the bonds to reduce its total debt service payments by $331 thousand over the next 20 years and to obtain an economic gain of $233 thousand. ASU received accrued interest of $1 thousand from the bond issue to apply toward the debt payments of the new issue.

On December 7, 2010, ASU issued $3.4 million in refunding bonds for the Jonesboro campus with interest rates of 2.0% to 4.0% to refund $3.3 million of outstanding bonds dated November 15, 2002, with interest rates of 1.6% to 5.0%. Net proceeds of $3.4 million, after payment of $90 thousand bond issuance costs and a premium of $30 thousand were remitted to an escrow agent to provide for all future payments of the defeased bonds. The bonds were called on January 6, 2011. The interest paid was $14 thousand. Additionally, bond proceeds of $21 thousand were received. ASU refunded the bonds to reduce its total debt service payments by $247 thousand over the next 20 years and to obtain an economic gain of $191 thousand. ASU received accrued interest of $1 thousand from the bond issue to apply toward the debt payments of the new issue.

On December 7, 2010, ASU issued $2.9 million in refunding bonds for the Mountain Home campus with interest rates of 2.0% to 2.45% to refund $2.9 million of outstanding bonds dated December 1, 2002, with interest rates of 1.6% to 4.4%. Net proceeds of $2.9 million, after payment of $77 thousand bond issuance costs and a premium of $29 thousand were remitted to an escrow agent to provide for all future payments of the defeased bonds. The bonds were called on January 6, 2011. Additionally, bond proceeds of $6 thousand were received. ASU refunded the bonds to reduce its total debt service payments by $180 thousand over the next 7 years and to obtain an economic gain of $164 thousand. ASU received accrued interest of $1 thousand from the bond issue to apply toward the debt payments of the new issue.

On October 1, 2010, the University of Arkansas Monticello Campus (UAM) issued $2.9 million in Auxiliary Facilities Refunding Revenue Bonds, Series 2010, with interest rates of 2% to 2.35% to refund $2.8 million of outstanding Auxiliary Facilities Refunding Revenue Bonds, Series 2005, with interest rates of 2.65% to 4.0%. Bond proceeds of $2.8 million were deposited in an escrow account to retire the 2005 bonds. Remaining bond proceeds of $51 thousand and premium proceeds of $29 thousand were earmarked for the payment of issuance costs. After the payment of actual issuance costs, there was a balance of $6 thousand, which will be utilized for subsequent interest payments. Additionally, the accrued interest of $3 thousand was deposited in the debt service fund to be applied to subsequent interest payments. UAM completed the refunding to reduce its total debt service payments over a period of nine years by $171 thousand and to obtain an economic gain of $156 thousand which was recognized as interest expense. The bonds were refunded on November 2, 2010, and the escrow balance at June 30, 2011, was zero.

On September 29, 2010, the University of Central Arkansas (UCA) issued $19.3 million in revenue refunding bonds collectively referred to as Series 2010A and Series 2010B. An additional $22.0 million in capital improvement bonds referred to as the Series 2010C was also issued. The Bank of the Ozarks was appointed as the trustee for the 2010 series bond issues. The Series A bond proceeds of $4.1 million were used to refinance the Parking Facilities Revenue Bonds, 1997 Series B and Auxiliary Revenue Capital Improvement and Refunding Bonds, 2003 Series B in order to recognize certain savings from more favorable interest rates. The total present value cost savings to UCA on the 2010A refunding issue is $261 thousand. In addition, bond issuance costs of $74 thousand were recorded on the UCA's books as an asset, and the amount amortized in fiscal year 2011 was $4 thousand. The Series B bond proceeds of $15.2 million were used to refinance the Recreation Facilities Allocated Revenue Bonds, 1997 Series C, Student Fee Refunding and Construction Bond, Series 1998, Student Fee Revenue Capital Improvement and Refunding Bonds, 2003 Series A, and Student Fee Revenue Capital Improvement Bonds, Series 2004A in order to recognize certain savings from more favorable interest rates. The total present value cost savings to the UCA on the 2010B refunding issue is $1.2 million. In addition, bond issuance costs of $291 thousand were recorded on UCA's books as an asset, and the amount amortized in fiscal year 2011 was $9 thousand. The Series C bond proceeds of $22.0 million will be used for construction and furnishing of a new residence hall on campus and the updating of additional housing facilities on campus. Bond issuance costs of $493 thousand were recorded on UCA's books as an asset, and the amount amortized in fiscal year 2011 was $12 thousand.

On September 15, 2010, Black River Technical College issued refunding bonds of $2.7 million with interest rates of 2.0% to 4.0% to refund $2.6 million of outstanding bonds dated June 1, 2003, with interest rates of 1.35% to 4.75%. Bond proceeds of $2.6 million were deposited in the current refunding fund to retire the 2003 bonds. Remaining bond proceeds of $37 thousand were utilized for the payment of issuance costs. The bonds were sold with an original issue discount of $5 thousand. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $38 thousand. This difference, reported in the accompanying financial statements as a deduction from bonds payable, will be amortized through the fiscal year 2028 using the straight-line method.

On November 1, 2010, East Arkansas Community College issued refunding bonds of $3.6 million with interest rates of 1.625% to 4.65% to refund $310 thousand of outstanding bonds dated September 1, 1992, with interest rates of 2.5% to 6% and to acquire project funding for capital improvements. Bond proceeds of $315 thousand were deposited in the current refunding fund to retire the 1992 bonds. Bond proceeds of $78 thousand were utilized for the payment of issuance costs. The remaining proceeds of $3.2 million were deposited into a project fund to be used for capital improvements. The bonds were sold with an original issue discount of $29 thousand. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $5 thousand. This difference, reported in the accompanying financial statements as a deduction from bonds payable, will be amortized through the fiscal year 2012 using the straight-line method.

(9) Pledged Revenues

Primary Government

Governmental Activities

The State has committed to appropriate each year, from various fee revenues, amounts sufficient to cover the principal and interest requirements on bonds issued by the Arkansas Development Finance Authority (ADFA). ADFA has pledged, as the sole security for the bonds, the annual appropriations from the State. The following is a summary of the pledged gross revenues collected, principal and interest paid during the fiscal year ended June 30, 2011, and the remaining principal and interest as of June 30, 2011 (expressed in thousands):

Revenue Pledged	Purpose of Debt	Term of Commitment (1)	Approximate Amount of Pledge	Approximate Proportion of Revenue Pledged	FY11 Pledged Revenue	FY11 Principal and Interest
Rental income	Purchase of building	2014	$ 1,092	26%	$ 1,393	$ 368
Court filing fees	Construction of building	2030	14,723	80%	990	912
Rental income	Purchase of building	2030	25,732	69%	1,961	1,330
License fees	Prison construction	2039	52,791	48%	3,935	1,889
Vital records fees	Health lab construction	2029	23,444	55%	2,380	2,261
State park revenue	Construction of state park facilites	2024	33,855	63%	4,153	3,967
Permit fees	Construction of building	2041	34,097	10%	11,377	1,150
Hunting/Fishing License fees	Land purchases/ building facilities	2028	17,211	5%	21,529	1,018
Drivers license revenue	Wireless network/construction of building	2018	36,020	76%	6,785	5,210

(1) Fiscal Year

Business-Type Activities

For purposes of extinguishing long-term debt issues, certain revenues have been pledged as security. The following is a summary of the pledged gross revenues collected, principal and interest paid during the fiscal year ended June 30, 2011, and the approximate amount of pledged revenues as of June 30, 2011 (expressed in thousands):

Entity	Revenue Pledged	Purpose of Debt	Term of Commitment (1)	Approximate Amount of Pledge	Approximate Proportion of Revenue Pledged	Fiscal Year 2011 Pledged Revenue	Fiscal Year 2011 Principal and Interest
Henderson State University	Student housing revenue	Construction and renovation of student housing and refunding of existing student housing bond	2036	$ 24,998	25%	$ 3,924	$ 1,221
	Student recreation center revenue	Construction of student recreation center	2032	11,454	63%	869	544
	Auxiliary revenue	Renovation and maintenance of other auxiliary services and refunding of existing auxiliary service bonds	2017	517	2%	4,657	88
	Student tuition & fee revenue	Refunding of prior issues	2027	10,319	3%	23,673	741
Southern Arkansas University - Magnolia	Student fees	Construction of facilities, capital improvements and refunding of prior issues	2041	54,252	9%	20,484	1,722
	Auxiliary revenue	Athletic improvements, capital improvements to facilities and refunding of prior issues	2039	19,669	10%	7,321	694
Southern Arkansas University-Tech Branch	Student tuition & fee revenue	Capital improvements	2016	338	9%	729	70
Arkansas State University - Beebe	Student tuition & fee revenue	Construction, renovation and refunding of prior issues	2036	46,816	18%	10,523	2,046
	Housing fees	Construction of facilities	2040	16,331	100%	280	375
Arkansas State University - Jonesboro	Student tuition & fee revenue	Construction of facilities, property purchase and refunding of prior issues	2034	19,046	1%	75,498	1,370
	Housing fees	Construction of facilities and refunding of prior issues	2039	124,557	49%	9,012	5,496
	Student union fees	Refunding of prior issues	2025	15,906	47%	2,409	1,197
	Parking fees	Refunding of prior issues	2025	5,420	30%	1,311	407
	Recreation center fees	Construction of facilities	2037	27,508	63%	1,686	1,059
Arkansas State University - Mountain Home	Student fees and ad valorem tax	Construction of facilities and refunding of prior issues	2033	10,435	9%	5,389	1,206
Arkansas State University - Newport	Student tuition & fee revenue	Construction of facilities and refunding of prior issues	2033	8,433	9%	4,350	464
Arkansas Tech University	Housing fees	Construction and renovation of facilities	2041	49,368	25%	6,635	1,878
	Student tuition & fee revenue	Construction and renovation of facilities and upgrade computer system and software	2041	45,469	3%	44,726	2,286
	Athletic revenues	Construction of facilities	2037	6,078	6%	3,944	267
University of Arkansas at Fayetteville	Various facility revenue	Construction and renovation of facilities, refunding of prior issues and land purchases	2041	796,370	11%	231,361	26,388
	Athletic fees	Construction of facilities and refunding of prior issues	2023	68,597	10%	58,643	6,140
University of Arkansas at Little Rock	Student fees	Refunding of prior issues, general improvements and capital improvements	2030	73,722	6%	69,689	6,937
	Housing fees	Construction of facilities	2030	23,210	40%	3,017	1,048
	Housing and athletic fees	Construction of facilities	2035	49,126	24%	8,389	1,299

(1) Fiscal Year

Continued on the following page

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Entity	Revenue Pledged	Purpose of Debt	Term of Commitment (1)	Approximate Amount of Pledge	Approximate Proportion of Revenue Pledged	Fiscal Year 2011 Pledged Revenue	Fiscal Year 2011 Principal and Interest
University of Arkansas for Medical Sciences	Clinical programs revenue	Construction of facilities and refunding of prior issues	2036	$ 459,303	3%	$ 543,340	$ 18,287
	Parking fees	Construction of facilities and refunding of prior issues	2035	23,264	27%	3,528	1,476
University of Arkansas at Monticello	Auxiliary revenue	Construction of facilities and refunding of prior issues	2036	3,146	2%	6,601	389
	Student fee & auxiliary revenue	Construction of facilities and refunding of prior issues	2036	14,119	3%	21,080	570
University of Arkansas at Pine Bluff	Education and non appropriated general funds	Refunding of prior issues and capital improvements	2036	34,213	4%	32,683	1,646
	Student fees	Construction of facilities	2014	281	1%	19,959	96
University of Central Arkansas	Student fees	Construction of facilities, capital improvements and refunding of prior issues	2038	60,837	4%	69,803	2,129
	Housing fees	Construction of facilities and refunding of prior issues	2041	88,154	21%	13,890	2,912
	Auxiliary revenue	Construction of facilities, capital improvements and refunding of prior issues	2038	21,535	5%	18,860	929
University of Arkansas Community College at Hope	Student fees	Construction of facilities and refunding of prior issues	2039	9,501	14%	2,419	744
University of Arkansas Community College at Batesville	Student fees	Construction of facilities and refunding of prior issues	2019	2,313	8%	3,505	252
East Arkansas Community College	Millage revenue	Construction and renovation of facilities and refunding of prior issues	2040	6,275	77%	282	118
National Park Community College	Student tuition & fee revenue	Construction and renovation of facilities	2033	5,964	4%	7,245	161
Arkansas Northeast College	Millage revenue	Construction of facilities and refunding of prior issues	2031	7,033	58%	606	350
University of Arkansas Community College - Phillips	Student fees	Construction of facilities and refunding of prior issues	2039	21,412	24%	3,169	693
Rich Mountain Community College	Millage revenue	Capital improvements	2023	1,737	51%	283	157
South AR Community College	Millage revenue	Construction of facilities	2039	6,087	69%	317	220
University of Arkansas - Ft. Smith	Student Fee Revenue	Construction of facilities, refunding of prior issues and general improvements	2036	124,654	15%	34,058	5,217
Northwest Arkansas Community College	Millage revenue	Construction of facilities and refunding of prior issues	2035	57,489	83%	2,880	1,966
	Infrastructure fees	Refunding of prior issues	2025	7,385	57%	918	791
Black River Technical College	Student tuition & fee revenue	Renovation and expansion of facilities	2028	3,309	9%	2,099	198
Ozarka College	Student tuition & fee revenue	Construction of facilities and refunding of prior issues	2037	6,196	6%	3,724	238
University of Arkansas Community College - Morrilton	Student fees	Construction of facilities and refunding of prior issues	2022	3,798	6%	6,249	422
Pulaski Technical College	Student tuition & fee revenue	Construction and renovation of facilities	2037	77,977	47%	6,400	3,663
War Memorial Stadium Commission	Cash revenue	Construction of facilities	2017	4,000	67%	1,000	1,127

(1) Fiscal Year

Component Units

The Arkansas Student Loan Authority (ASLA) has pledged certain revenues as security for an outstanding bond issue. The purpose of the debt was to redeem auction rate bonds. The following is a summary of the pledged gross revenues collected, principal and interest paid during the fiscal year ended June 30, 2011 and the approximate amount of the pledged revenues as of June 30, 2011 (expressed in thousands):

Entity	Revenue Pledged	Purpose of Debt	Term of Commitment	Approximate Amount of Pledge	Approximate Proportion of Revenue Pledged	Fiscal Year 2011 Pledged Revenue	Fiscal Year 2011 Principal and Interest
Arkansas Student Loan Authority	Student loan principal & interest revenue	Redeem auction rate bonds	2026	$ 264,647	50%	$ 35,420	$ 37,020

(10) Arbitrage Rebate and Excess Earnings Liability

The interest paid on most debt issued by state governments is exempt from federal income tax. State governments sometimes temporarily reinvest the proceeds of such tax-exempt debt in materially higher-yielding taxable securities. This practice is known as arbitrage. Any excess earnings resulting from arbitrage must be rebated to the federal government. Arbitrage is calculated and rebated at the end of each five-year period that the tax-exempt debt is outstanding (90% of the amount due), as well as at maturity. The State’s outstanding bonds are subject to federal government yield and adjustment excess earnings laws, which limit the earnings rate on funds received by an organization that issues tax exempt bonds. Additionally, all of the State’s outstanding bonds are subject to federal government arbitrage rebate laws.

Governmental Activities

At June 30, 2011, the governmental activities of the State had an arbitrage rebate liability of $1.1 million.

Component Units

Previously, the Arkansas Student Loan Authority’s (ASLA) bonds were subject to federal government yield adjustment excess earnings laws, which limit the earnings rate on funds received by an organization which issues tax-exempt bonds. Since the 2010-1 Series bonds are taxable, no liability for arbitrage rebate or excess earnings liability existed as of June 30, 2011.

Previously, ASLA trust indentures required such excess earnings and arbitrage rebate provisions to be placed in the respective rebate funds and held until the amounts are due to the federal government. The excess earnings were periodically adjusted when the calculations reveal changes in the current amount that may be due if the bonds were redeemed. There were no amounts remitted by ASLA to the federal government related to its excess earnings liability during the year ended June 30, 2011.

The Arkansas Development Finance Authority’s (ADFA) liability related to arbitrage rebate is $54 thousand at June 30, 2011. The determination of the arbitrage rebate and excess earnings liability is based on estimates that are susceptible to significant changes in market conditions.

(11) Leases

Capital Lease Receivables

In February 2009, a capital lease receivable was entered into with the Arkansas Development Finance Authority (ADFA), a discretely presented component unit of the State, and the Arkansas Department of Economic Development (ADED), a department of the State of Arkansas, as lessors, and Victory Lumber, LLC, as lessee. The capital lease term continues until February 29, 2024. The original amount of the lease is $927 thousand, which includes buildings, all movable property, fixtures, furniture, and equipment located on the premises. The capital lease bears no interest rate and the future lease payments below represent only principal payments. There are no contingent rentals or unearned income at June 30, 2011.

Future amounts required to pay principal amounts as of June 30, 2011, are as follows (expressed in thousands):

		Principal
Year ending June 30:		
2012	$	65
2013		65
2014		65
2015		65
2016		65
2017-2021		325
2022-2026		174
Total	$	824

Capital Lease Obligations

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

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

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

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

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

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

	Governmental activities	Business-type activities
Assets:		
Land	$	$ 259
Buildings	180,320	20,238
Machinery and equipment		52,218
Intangibles		
Less: Accumulated depreciation	(17,606)	(24,608)
Total	$ 162,714	$ 48,107

Future minimum commitments under operating and capital leases by fund type as of June 30, 2011, were as follows (expressed in thousands):

	Business-type activities
Year ending June 30:	
2012	$ 10,455
2013	9,912
2014	8,364
2015	6,924
2016	5,376
2017-2021	10,755
2022-2026	1,476
2027-2031	1,476
2032-2036	1,156
Total minimum lease payments	55,894
Less: Interest	(9,716)
Present value of future minimum lease payments	$ 46,178

	Capital leases with component unit			
	Governmental activities		Business-type activities	
Year ending June 30:				
2012	$	12,227	$	221
2013		12,216		221
2014		11,803		
2015		10,820		
2016		11,439		
2017-2021		54,029		
2022-2026		42,217		
2027-2031		25,138		
2032-2036		14,306		
2037-2041		5,163		
Total minimum lease payments		199,358		442
Less: Interest		(67,890)		(22)
Present value of future minimum lease payments	$	131,468	$	420

	Operating leases			
	Governmental activities		Business-type activities	
Year ending June 30:				
2012	$	23,387	$	17,059
2013		16,066		12,764
2014		9,940		8,446
2015		6,513		5,044
2016		4,138		2,394
2017-2021		4,727		5,294
2022-2026		1,406		4,498
2027-2031		96		4,404
2032-2036				3,491
Total minimum lease payments	$	66,273	$	63,394
Total rental expenditure/ expense (2011)	$	30,310	$	20,710

(12) Pollution Remediation

Primary Government

Governmental Activities

The State estimates and reports the potential costs of pollution remediation in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation.* While GASB 49 does not require the State to search for pollution, it does require the State to reasonably estimate and report a remediation liability when specified obligating events occur. Site investigation, planning and design, cleanup and site monitoring are typical remediation activities currently underway. The standard requires the State to calculate pollution liabilities using the expected cash flow technique. The State has the knowledge and expertise to estimate the remediation obligations presented herein based upon prior experience in identifying and funding similar remediation activities. Estimations of the liability for current remediation projects are based on historical data, adjusted for current costs. Recoveries are not anticipated. The remediation obligation estimates that appear in this report are subject to change over time because of price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, recoveries, changes to statutes or regulations and/or other factors.

Changes in the liability for pollution remediation obligations are as follows (expressed in thousands):

	2011	2010
Balance, beginning of year	$ 16,755	$ 15,703
Incurred Claims	1,892	3,337
Payments	(2,988)	(2,285)
Balance, end of year	$ 15,659	$ 16,755
Current portion	$ 1,315	$ 892
Non current portion	14,344	15,863
	$ 15,659	$ 16,755

The State's polluted sites are primarily from chemical and fuel spills, asbestos and former landfills where pollution remediation has already commenced, with monitoring being completed as necessary. The State is aware of approximately three sites that may result in pollution remediation liabilities; however, no liability has been recorded because the State cannot reasonably estimate a pollution remediation obligation.

Most of the above-mentioned obligations are covered by the Arkansas Remedial Action Trust Fund (RATFA), which was established by Act 479 of 1985 to provide for investigation and clean-up of abandoned hazardous substance sites within the State of Arkansas. Funding for RATFA is generated mostly by fees collected from companies that require disposal of large quantities of hazardous waste annually as well as other fees assessed by RATFA if required. The Fund had a cash balance of about $8.3 million at June 30, 2011.

Higher Education Fund

On July 21, 2009, the University of Arkansas, Fayetteville campus was awarded a grant in the amount of $1.9 million from the United States Department of Energy to conduct a study to determine what obligation, if any, the campus may have for potential remediation of the Southwest Experimental Fast Oxide Reactor site (SEFOR), including estimated remediation cost and development of a plan for necessary remediation. As of June 30, 2011, the University was under no obligation to complete the remediation of the site.

(13) Fund Balance/Net Assets

Governmental Fund Balances – Restricted, Committed and Assigned

The State's fund balances represent the following: (1) Restricted Purposes, which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors or laws or regulations of other governments; (2) Committed Purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislature; and (3) Assigned Purposes, which includes balances that are constrained by the government's intent to be used for specific purposes but are neither restricted nor committed. A summary of the nature and purpose of these reserves by fund type at June 30, 2011, follows:

	Restricted Purposes	Committed Purposes	Assigned Purposes
Capital Projects	$ 640	$ 1,928	$ 141,167
Debt Service	136,092		
Program Requirements	182,942	259,032	21,339
Lottery Funds	74,544		
Tobacco Settlement	173,574	57,385	
Transportation Programs		374,629	
Other		862,165	219,802
Total	$ 567,792	$ 1,555,139	$ 382,308

Net Assets Restricted by Enabling Legislation

Enabling legislation is limited to legislation that the government itself approves. It establishes the restriction "if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation." Legally enforceable means that a government can be compelled by an external party, such as citizens, public interest groups or the judiciary, to use resources created by enabling legislation only for the purpose specified by the legislation. At June 30, 2011, the government-wide statement of net assets reported $1.2 billion in restricted net assets for governmental activities, of which $180.0 million were restricted by enabling legislation.

Donor-Restricted Endowments

The State has donor-restricted endowments with net appreciation of $47.2 million on investments which are available for expenditure by the respective governing boards. Such amounts are included in Restricted Net Assets in accordance with the restriction of the gift instrument. Three sections of the Arkansas Code outline the restrictions placed on the endowment fund and the net appreciation. First, Arkansas Code Annotated §28-69-603 restricts the expenditure of endowment funds that the governing body determines to be prudent under the standard established by Arkansas Code Annotated §28-69-607 for the uses and purposes for which an endowment fund is established. This section does not limit the authority of the governing board to expend funds as permitted under other law, the terms of the applicable gift instrument or the charter of the institution. Second, Arkansas Code Annotated §28-69-604 rule of construction states the restriction on the expenditures may not be implied for endowment funds. Third, Arkansas Code Annotated §28-69-607 standard of conduct states that members of a governing board shall exercise ordinary business care and prudence in decision making and retaining investments and shall consider long and short-term needs of the institution's financial requirements.

Deficit Net Assets

The Workers' Compensation Commission (WCC) had a $92.7 million deficit in net assets as of June 30, 2011. The deficit is due to a change in actuarial assumptions during the fiscal year ended June 30, 1997. During 1987, the structure of the law changed by tying workers' compensation payments to the State's average weekly wage, beginning on January 1, 1989. However, the threshold at which the agency's Permanent and Total Disability Trust Fund takes over indemnity payments was not changed and has remained static at $75 thousand since 1981, although the State maximum total disability rate has increased over 300% since that time. This increased payout of claims, without a concomitant increase in the takeover threshold and without any increase in the premium tax that funds the agency, has led to the deficit. A major step towards eliminating the deficit was taken during the 2007 legislative session with the passage of Act 1599, which sets the threshold to 325 times the maximum total disability rate, or $187 thousand for 2011.

Arkansas Department of Workforce Services (ADWS) had a $157.9 million deficit in net assets as of June 30, 2011. The deficit is due primarily to the State's Unemployment Insurance Trust Fund (Fund). The Fund, which is managed by the ADWS, is designed to be self-supporting through employer contributions. The Fund became insolvent in 2009 when unemployment insurance claims significantly exceeded funding available to pay benefits. Under provisions of Title XII of the Social Security Act of 1935, Arkansas received $359.9 million in advances from the Federal Unemployment Account (FUA) through June 30, 2011 to cover eligible claims.

Changes have been made to increase collections and decrease disbursements within the Fund. Effective January 1, 2010, the taxable wage base was increased from $10 thousand to $12 thousand, which will increase total collections by approximately $50.0 million per year. Additional legislation during the 2011 regular session made changes to benefit payment calculations, duration and other provisions that will reduce the total cost of benefit payments. Current projections are that the total outstanding balance of Title XII advances at June 30, 2012, will be approximately $330.0 million. The Fund has not received any advances since April 12, 2011, and a voluntary repayment in the amount of $29.1 million was made September 14, 2011, reducing the total Title XII advances outstanding to $330.0 million. As the Unemployment Insurance Trust Fund has had outstanding Title XII advances for two consecutive years, Arkansas employers will experience a 0.3% reduction in the FUTA Tax Credit when paying their FUTA taxes for 2011. The collections resulting from this reduction are estimated to be $21.0 million and will be applied by the IRS and U.S. Treasury against the outstanding Title XII advances.

The Federal American Recovery and Reinvestment Act (Public Law 111-5, enacted February 17, 2009) provided for interest forgiveness on all such advances through December 31, 2010. However, interest began to accrue on the advances, effective January 1, 2011. This triggered "on" the Arkansas Advance Interest Tax at 0.2% on taxable wages. The first interest payment was made September 26, 2011, in the amount of $10.1 million. Interest payments on the advances are due on or before September 30 of each year until all interest is paid and all advances are repaid.

(14) Pensions

(a) Plan Descriptions

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

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

Arkansas Highway and Transportation Retirement Plan
10324 I-30
Little Rock, AR 72209
(501) 569-2000

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

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

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

(b) Funding Policies

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

	APERS	APERS District Judges	ASPRS	Teacher	Highway	Judicial
Number of participating employers/contributing entities	705	63	1	338	1	1
Contribution rates for the fiscal year ended June 30, 2011 (% of covered payroll):	4.00%-24.46%	23.35%	22.00%	14.00%	12.90%	12.00%
Legal or contractual maximum rates	24.46%	23.35%	22.00%	14.00%	12.90%	12.00%
Covered Payroll (in thousands)	$ 1,623,000	$ 3,345	$ 28,164	$ 2,728,000	$ 129,000	$ 19,338
State Plan Members - contributory plans	5.00%	5.00%	9.25%	6.00%	6.00%	6.00%
Annual pension cost (in thousands)	$ 195,629	$ 1,847	$ 14,128	$ 400,209	$ 17,661	$ 5,221
Contributions made (in thousands)	$ 195,629	$ 1,847	$ 14,128	$ 400,209	$ 17,661	$ 5,221

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

Fiscal year	**Plan**		**Annual Required Contribution**	**Percentage contributed**
2011	APERS	$	195,629	100.00%
	District Judges	$	1,951	95.00%
	ASPRS	$	12,581	112.30%
	Teacher	$	417,319	95.90%
2010	APERS	$	169,604	100.00%
	District Judges	$	1,907	93.00%
	ASPRS	$	12,748	161.18%
	Teacher	$	362,850	107.30%
2009	APERS	$	159,232	100.00%
	District Judges	$	1,581	102.05%
	ASPRS	$	10,536	115.25%
	Teacher	$	344,030	104.37%

APERS consists of both a contributory plan and a noncontributory plan. The contributory plan has been in effect since the beginning of the plan and is available to all persons who became members prior to January 1, 1978. The noncontributory plan was created by Act 793 of 1977 and was effective January 1, 1978. It automatically applied to all members hired between January 1, 1978, and June 30, 2005. Act 2084 of 2005 requires that beginning July 1, 2005, all new hires become APERS members and are required to contribute 5% of their earnings to APERS. All other noncontributory members were given the opportunity to become contributory if they so elected by December 31, 2005.

Act 177 of 2007 abolished the Arkansas District Judges Retirement System (District Judges) and transferred the powers, duties and plan liabilities to APERS effective July 1, 2007. District Judges is treated as a separate division of APERS with its own individual actuarial valuation.

The Arkansas State Police Retirement System (ASPRS) consists of both a contributory plan and a noncontributory plan. The contributory plan has been in effect since the beginning of the plan and is available to all persons who became members prior to January 1, 1978. The noncontributory plan was created by Act 793 of 1977 and was effective January 1, 1978. It automatically applied to all members after that date. All non-retired members of the State Police are now covered by noncontributory benefits. Act 1071 of 1997 created a second tier of benefits for new hires and prior members electing the new program. Act 1242 of 2009 transferred all assets of ASPRS to APERS effective July1, 2009. ASPRS is treated as a separate division of APERS with its own individual actuarial valuation.

Members of the Teacher plan contribute 6% of their salaries, with one exception. Those who became members before July 1, 1971, can contribute only on the first $7,800 of their annual salary. Effective July 1, 1993, all new members, including any former active members, were automatically enrolled as noncontributory members. By individual election, members of the Teacher plan may choose to contribute.

Active members of the Judicial plan contribute either 5% or 6% of their salaries depending upon the member's appointment date. Members of the Judicial plan with 20 or more years of service and members age 65 or older with 10 or more years of service do not contribute to the plan. Active members of the Highway plan contribute 6% of their salaries.

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

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

No pension liability exists for APERS as the State's contribution to each plan was equal to or exceeded its annual required contributions (ARC). Beginning with the 1997 fiscal year, the State no longer contributes to the Teacher plan. As required by Act 1194 of 1995, the State increased the local state-supported school appropriation so that such retirement contributions are made directly by the school districts.

No pension liability exists for Teacher, Highway or Judicial as the State's contribution to each plan for the year ended June 30, 2011, was equal to the ARC.

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

	Year ending	Annual pension cost (APC)	Percentage of APC contributed
Highway	6/30/2011	$ 17,661	100.00%
	6/30/2010	17,999	100.00%
	6/30/2009	16,691	100.00%
Judicial	6/30/2011	5,221	100.00%
	6/30/2010	4,668	100.00%
	6/30/2009	4,467	100.00%

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

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

(c) Funded Status

The funded status of the State's Highway and Judicial plans as of June 30, 2011, is as follows:

	Highway	Judicial
Actuarial accrued liability	$ 1,342,700	$ 186,635
Acturial value of plan assets	1,227,700	165,377
Unfunded actuarial accrued liability (UAAL)	$ 115,000	$ 21,258
Funded ratio	91.44%	88.61%
Covered payroll	$ 129,000	$ 19,338
UAAL as a percentage of covered payroll	89.15%	109.93%

(d) Actuarial Assumptions

	APERS	APERS District Judges (1)	ASPRS (1)	Teacher	Highway	Judicial
Actuarial valuation date	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011
Actuarial cost method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Amortization method	Level Percentage of Payroll, Open (State & Local) Level Dollar, Closed (General Assembly Members)	Level Dollar, Closed	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open
Remaining amortization period	30 years (State & Local Employees) 17 years (General Assembly Members)	26 Years	30 years	66 years (2)	27.7 years	30 years
Asset valuation method	4 Year Smoothing Market-25% Corridor	4 Year Smoothing Market-25% Corridor	4 Year Smoothing Market	4 Year Smoothing 80%-120% Corridor	5 Year Smoothing Market	4 Year Smoothing Market
Actuarial assumptions:						
Inflation rate	4.00%	4.00%	4.00%	3.25%	3.50%	3.00%
Investment rate of return*	8.00%	8.00%	8.00%	8.00%	8.00%	7.50%
Projected salary increases*	4.7%-10.6%	4.7%-9.8%	4.00%	3.25% - 9.10%	4.5%-11.5%	4.00%
Postretirement benefit increases	3.00% Compounded	3.00% Compounded	3.00% Compounded	3.00% Simple	3.00% Compounded	(3)

* Includes assumed inflation.

(1) Operated as Divisions of APERS

(2) The amortization period is the number of years it will take to pay off the unfunded liability of $4.4 billion assuming that the employer contribution rate remains at the 14% of payroll level. Since 2000, the period has varied from a low of 19 years to a high of 125 years. Unless there is a substantial investment gain in FY 2012, it is very likely that the amortization period will increase significantly in the next valuation.

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

(e) State Employee Deferred Compensation Plan

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

In 1991, the Attorney General opined (Opinion 91-088) that the annuity contracts purchased with the employees' deferred compensation were covered by the Arkansas Life and Disability Insurance Guaranty Association Act, as described in Arkansas Code Annotated § 23-96-101 et. Seq., and liability for losses due to failure or nonperformance of contractual obligations due to impairment or insolvency of member insurers was insured under this act, to the extent of $100,000 per participating employee. Act 1604 of the Regular Session of 2001 increased the coverage amount to $300,000 per participating employee.

The assets of the plan are held in trust by the custodian, State Street Bank and Trust Company of Boston, Massachusetts, according to terms specified by contract, for the exclusive benefit of plan participants and their beneficiaries. The plan is administered by ING Institutional Plan Services, LLC, acting under contract in an agency capacity for the Department of Finance and Administration – Employee Benefits Division to provide investment direction, asset transfer or withdrawal instruction or other instruction to the custodian. In accordance with GASB Statement No. 32, plan balances and activities are not reflected in the agency's financial statements. According to the custodian, plan assets totaled $452.5 million at June 30, 2011.

(f) Higher Education

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

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

Each college or university contributes a percentage of an employee's salary ranging from 5% to 14% to a VALIC, TIAA-CREF, Fidelity Fund or other retirement account. These amounts are allocated between the funds according to the employee's choice. In addition, employees may make voluntary contributions of any amount up to the individual maximum allowance. During 2011, total employer contributions to VALIC, TIAA-CREF and Fidelity were $102.9 million, while contributions to other plans were $1.4 million. Employee contributions to VALIC, TIAA-CREF and Fidelity were $100.7 million, while contributions to other plans were $1 million.

(g) Component Units

The University of Arkansas Foundation has a defined contribution (money-purchase) retirement plan covering substantially all employees. The University of Arkansas Foundation's contributions to the plan are 5% of the participants' salaries. In addition, the University of Arkansas Foundation will match all contributions made by employees up to and including 5%. Contributions are limited to 10% of the total compensation paid to participants during the plan year. Participants' interests are immediately vested. Contributions to the plan were $102,900 in 2011.

(15) Postemployment Benefits Other Than Pensions

Governmental Activities

In June, 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which became effective with the fiscal year ending June 30, 2008. The Statement establishes standards for the measurement, recognition and display of Other Postemployment Benefits (OPEB). The Statement has been implemented prospectively.

(a) Plan Descriptions

The State contributed to these single-employer defined benefit healthcare plans:

- Arkansas State Police Medical and Rx Plan (ASP) (administered by CoreSource, Inc.)
- Arkansas State Employee Health Insurance Plan (AEP) (administered by Department of Finance and Administration - Employee Benefits Division)

Each plan provides medical and prescription drugs benefits to eligible state employees as established by State law:

- Arkansas State Police Medical and Rx Plan (ASP)
  - Arkansas Code § 12-8-210
- Arkansas State Employee Health Insurance Plan (AEP)
  - Arkansas Code § 21-5-401 to § 21-5-414

Participants were as follows:

- ASP: 696 active employees and 387 retirees and beneficiaries
- AEP: 32,822 active employees and 12,255 retirees and beneficiaries

(b) Funding Policies, Annual OPEB Cost and Net OPEB Obligation

For both plans, the contribution requirements of plan members and the State are established and may be amended by the Legislature. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2011, the State contributed $4.3 million to ASP and $42.5 million to AEP. Plan members receiving benefits contributed $1.7 million to ASP and $26.3 million to AEP. The contribution requirements of plan members receiving benefits are as follows:

	ASP	AEP
Under age 65		
Retiree Only	$ 224	$ 236
Retiree & Spouse	350	576
Medicare Eligible		
Retiree Only	$ 91	$ 117
Retiree & Spouse	182	278

The State's annual OPEB cost (expense) for each plan is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The State's annual OPEB cost for the current year and related information for each plan are as follows (expressed in thousands):

	ASP	AEP
Number of participating employers/contributing entities	1	1
Contribution rates for the fiscal year ended June 30, 2011 (% of covered payroll)	Pay-as-you-go	Pay-as-you-go
State plan members - retirees (% of premium)	28%	38%
Annual required contribution (ARC)	$ 6,292	$ 178,702
Interest on net OPEB obligation	227	16,700
Adjustment to ARC	(269)	(22,784)
Annual OPEB cost	6,250	172,618
Contribution made	(4,298)	(42,478)
Increase in net OPEB obligation	1,952	130,140
Net OPEB obligation - beginning of year (1)	5,683	371,119
Net OPEB obligation - end of year	$ 7,635	$ 501,259

(1) Balance July 1, 2011, restated by $978K by ASP.

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current and two preceding years for each of the plans are as follows (expressed in thousands):

Plan	Fiscal year		Annual OPEB Cost	Percentage contributed		Net OPEB Obligation
ASP	2009	$	4,469	74%	$	3,146
	2010	$	6,133	59%	$	5,683 (1)
	2011	$	6,250	69%	$	7,635
AEP	2009	$	165,223	21%	$	239,935
	2010	$	171,888	24%	$	371,119
	2011	$	172,618	25%	$	501,259

(1) FY10 OPEB Obligation was restated by $978 thousand by ASP.

(c) Funded Status and Funding Progress

The funded status of the plans as of June 30, 2011, was as follows (expressed in thousands):

		ASP		AEP
Actuarial accrued liability	$	82,260	$	1,684,000
Actuarial value of plan assets				
Unfunded actuarial accrued liability (funding excess)	$	82,260	$	1,684,000
Funded ratio		0%		0%
Covered payroll	$	42,237	$	1,346,374
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll		195%		125%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(d) Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the State and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

	ASP	AEP
Actuarial valuation date	July 1, 2009	July 1, 2010
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Amortization method	Level Dollar Closed	Level Dollar Open
Remaining amortization period	30 years	30 years
Asset valuation method	N/A	Market Value
Actuarial assumptions:		
Discount rate	4.00%	4.50%
Projected salary increases	N/A	N/A
Healthcare inflation rate	7% initial	Initial: 5% pre-Medicare 5% post-Medicare
	5% ultimate	4.5% ultimate

(e) Reconciliation of net OPEB liability to amounts recorded on the financial statements (expressed in thousands):

Governmental	$	498,046
Business-type		55,588
Component units		991
Pensions		2,297
Total net OPEB obligation	$	556,922

Business-Type Activities

Higher Education

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, which became effective with the fiscal year ending June 30, 2008. The Statement establishes standards for the measurement, recognition and display of Other Postemployment Benefits (OPEB). The statement has been implemented prospectively.

(a) Plan Descriptions

The State contributed to these single-employer defined benefit healthcare plans administered by the respective higher education institution except as noted:

- Arkansas State University Self Insured Retiree Medical Plan (ASU)
- Arkansas Tech University Retiree Medical and Life Insurance Plan (ATU)
- Henderson State University Postemployment Benefit Plan (HSU) (administered by Health Advantage and MetLife)
- Northwest Arkansas Community College Healthcare Plan (NWACC) (administered by Arkansas Blue Cross and Blue Shield)
- Southern Arkansas University – Technical Campus Early Retirement Program (SAUT) (administered by Health Advantage)
- Southern Arkansas University Group Health Plan (SAU) (administered by Blue Advantage)
- University of Arkansas at Fort Smith Benefit Plan (UAFS)
- University of Arkansas System Self-Funded Plan (UAS1)
- University of Central Arkansas Retiree Benefits Plan (UCA)

Participants in these plans included 22,508 active employees and 1,947 retirees.

The State contributed to the following defined postemployment benefit plans which are affiliated with and administered by the Arkansas Higher Education Consortium (AHEC), an agent multi-employer defined benefit healthcare plan:

- Arkansas Northeastern College Retirement Option (ANC)
- Black River Technical College Health Insurance Plan (BRTC)
- East Arkansas Community College Post-Employment Benefit Plan (EACC)
- Mid-South Community College Plan (MSCC)
- North Arkansas College Continued Health/Dental Insurance (NAC)
- National Park Community College Other Post-Employment Benefits Policy (NPCC)
- Ozarka College Early Retirement Incentive Program (OC)
- Pulaski Technical College Post Employment Healthcare (PTC)
- Rich Mountain Community College Retirement Program (RMCC)
- South Arkansas Community College Post-Employment Benefits (SACC)
- University of Arkansas System AHEC Benefits (UAS2)

Participants in these plans included 1,833 active employees and 77 retirees.

Each institute of higher education has the authority to affiliate with AHEC and establish by policy the defined benefits and amount contributed by the employer to AHEC.

Benefits provided to retirees by the plans and eligibility requirements are established by policy by the Board of Trustees of each higher education institution. All plans include individual medical insurance and may include prescription drug programs, dental insurance, life insurance and dependent coverage. Benefits are provided through age 65 for all plans. After age 65, benefits may be reduced or terminated.

(b) Funding Policies

Contribution requirements are established and may be amended by each college's or university's board of trustees. The required contribution is based on projected pay-as-you-go financing requirements.

Participating retirees are required to pay from $0 to $1,318 per month.

The State's annual OPEB cost (expense) for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The State's annual OPEB cost for the current year and related information for each plan is as follows (expressed in thousands):

	ANC	ASU	ATU	BRTC	EACC
Number of participating employers/contributing entities	1	1	1	1	1
Contribution rates for the fiscal year ended June 30, 2011 (% of covered payroll):	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go
State Plan Members - retirees, (% of premium)	10%	76%	0%	0% up to age 65;100% after age 65	0% to 75%
Annual required contribution (ARC)	$ 30	$ 1,495	$ 1,106	$ 99	$ 48
Interest on net OPEB obligation	12	90	79	7	4
Adjustment to ARC	(24)	(153)	(110)	(8)	(6)
Annual OPEB cost	18	1,432	1,075	98	46
Contribution made	(30)	(160)	(454)	(25)	(19)
Increase in net OPEB obligation	(12) *	1,272	621	73	27
Net OPEB obligation - beginning of year	203	3,006	1,971	109	79
Net OPEB obligation - end of year	$ 191	$ 4,278	$ 2,592	$ 182	$ 106

*Decrease in FY11 Net OPEB Obligation is due to the change in agency early retirement policy which lowered cost.

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	OC	HSU	MSCC	NAC	NPCC
Number of participating employers/contributing entities	1	1	1	1	1
Contribution rates for the fiscal year ended June 30, 2011 (% of covered payroll):	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go
State Plan Members - retirees, (% of premium)	0% up to age 65;100% after age 65	17%	0%	100%	0% up to age 65;100% after age 65
Annual required contribution (ARC)	$ 48	$ 341	$ 64	$ 28	$ 59
Interest on net OPEB obligation	4	18	11	5	10
Adjustment to ARC	(4)	(31)	(13)	(5)	(12)
Annual OPEB cost	48	328	62	28	57
Contribution made	(15)	(92)	(4)	(22)	(7)
Increase in net OPEB obligation	33	236	58	6	50
Net OPEB obligation - beginning of year	64	609	184	74	161
Net OPEB obligation - end of year	$ 97	$ 845	$ 242	$ 80	$ 211

	NWACC	PTC	RMCC	SACC	SAUT
Number of participating employers/contributing entities	1	1	1	1	1
Contribution rates for the fiscal year ended June 30, 2011 (% of covered payroll):	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go
State Plan Members - retirees, (% of premium)	100%	0% to 100%	10%	0% to 75%	39%
Annual required contribution (ARC)	$ 54	$ 159	$ 99	$ 42	$ 102
Interest on net OPEB obligation	6	17	11	5	11
Adjustment to ARC	(7)	(13)	(13)	(6)	(13)
Annual OPEB cost	53	163	97	41	100
Contribution made	(2)	(5)	(41)	(12)	(22)
Increase in net OPEB obligation	51	158	56	29	78
Net OPEB obligation - beginning of year	104	378	189	83	184
Net OPEB obligation - end of year	$ 155	$ 536	$ 245	$ 112	$ 262

	SAU	UAFS	UAS1	UAS2	UCA
Number of participating employers/contributing entities	1	1	10	3	1
Contribution rates for the fiscal year ended June 30, 2011 (% of covered payroll):	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go
State Plan Members - retirees, (% of premium)	0% to 100%	100%	100%	0% to 100%	44%
Annual required contribution (ARC)	$ 383	$ 144	$ 5,960	$ 72	$ 313
Interest on net OPEB obligation	31	18	1,386	9	13
Adjustment to ARC	(53)	(22)	(1,149)	(12)	(22)
Annual OPEB cost	361	140	6,197	69	304
Contribution made	(18)	(22)	(1,674)	(19)	(160)
Increase in net OPEB obligation	343	118	4,523	50	144
Net OPEB obligation - beginning of year	1,032	298	30,808	152	426
Net OPEB obligation - end of year	$ 1,375	$ 416	$ 35,331	$ 202	$ 570

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current and two preceding years for each of the plans are as follows (expressed in thousands):

Plan	Fiscal year	Annual OPEB Cost	Percentage contributed	Net OPEB Obligation
ANC	2009	$ 167	17%	$ 215
	2010	19	163%	203 *
	2011	18	168%	191 **
ASU	2009	1,276	15%	1,820
	2010	1,397	15%	3,006
	2011	1,432	11%	4,278
ATU	2009	1,084	41%	1,340
	2010	1,085	42%	1,971
	2011	1,075	42%	2,592
BRTC	2009	52	32%	76
	2010	52	37%	109
	2011	98	26%	182
EACC	2009	99	47%	53
	2010	47	44%	79
	2011	46	41%	106
OC	2009	31	33%	33
	2010	48	36%	64
	2011	48	31%	97
HSU	2009	338	39%	394
	2010	325	34%	609
	2011	328	28%	845
MSCC	2009	61	0%	122
	2010	62	0%	184
	2011	62	6%	242
NAC	2009	30	0%	60
	2010	27	45%	74
	2011	28	79%	80
NPCC	2009	108	57%	119
	2010	57	25%	161
	2011	57	13%	211
NWACC	2009	43	37%	54
	2010	54	8%	104
	2011	53	5%	155
PTC	2009	116	4%	221
	2010	161	3%	378
	2011	163	3%	536
RMCC	2009	164	34%	129
	2010	119	49%	189
	2011	97	42%	245
SACC	2009	41	29%	54
	2010	41	30%	83
	2011	41	30%	112
SAUT	2009	76	23%	129
	2010	75	27%	184
	2011	100	22%	262
SAU	2009	427	11%	722
	2010	349	11%	1,032
	2011	361	5%	1,375
UAFS	2009	89	19%	162
	2010	142	5%	298
	2011	140	16%	416
UAS1	2009	9,340	22%	25,730
	2010	7,061	28%	30,808
	2011	6,197	27%	35,331
UAS2	2009	46	0%	92
	2010	70	15%	152
	2011	69	27%	202
UCA	2009	410	53%	321
	2010	297	65%	426
	2011	304	53%	570

* Decrease in FY10 Net OPEB Obligation is due to agency over accruing by 60K in FY09.

**Decrease in FY11 Net OPEB Obligation is due to the change in agency early retirement policy which lowered cost.

(c) Funded Status and Funding Progress

The funded status of the plans as of June 30, 2011, was as follows (expressed in thousands):

	ANC	ASU	ATU	BRTC	EACC
Actuarial accrued liability	$ 316	$ 10,139	$ 9,093	$ 572	$ 354
Actuarial value of plan assets					
Unfunded actuarial accrued liability (funding excess)	$ 316	$ 10,139	$ 9,093	$ 572	$ 354
Funded ratio	0%	0%	0%	0%	0%
Covered payroll	$ 8,509	$ 113,897	$ 38,868	$ 5,608	$ 5,252
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll	4%	9%	23%	10%	7%

	OC	HSU	MSCC	NAC	NPCC
Actuarial accrued liability	$ 282	$ 2,741	$ 334	$ 201	$ 372
Actuarial value of plan assets					
Unfunded actuarial accrued liability (funding excess)	$ 282	$ 2,741	$ 334	$ 201	$ 372
Funded ratio	0%	0%	0%	0%	0%
Covered payroll	$ 3,737	$ 18,742	$ 6,876	$ 6,885	$ 10,572
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll	8%	15%	5%	3%	4%

	NWACC	PTC	RMCC	SACC	SAUT
Actuarial accrued liability	$ 261	$ 776	$ 661	$ 277	$ 612
Actuarial value of plan assets					
Unfunded actuarial accrued liability (funding excess)	$ 261	$ 776	$ 661	$ 277	$ 612
Funded ratio	0%	0%	0%	0%	0%
Covered payroll	$ 10,354	$ 15,148	$ 3,956	$ 7,328	$ 6,619
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll	3%	5%	17%	4%	9%

	SAU	UAFS	UAS1	UAS2	UCA
Actuarial accrued liability	$ 2,604	$ 789	$ 58,439	$ 422	$ 2,682
Actuarial value of plan assets					
Unfunded actuarial accrued liability (funding excess)	$ 2,604	$ 789	$ 58,439	$ 422	$ 2,682
Funded ratio	0%	0%	0%	0%	0%
Covered payroll	$ 16,329	$ 27,108	$ 934,781	$ 14,841	$ 64,339
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll	16%	3%	6%	3%	4%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(d) Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the valuation date and the historical pattern of sharing benefit costs between the employer and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

	ANC, BRTC, MSCC, RMCC, SAUT	EACC, OC, NAC, NPCC, NWACC, SACC, UAFS, UAS2	ASU, HSU, SAU, UCA	ATU	PTC	UAS1
Actuarial valuation date	July 1, 2010	July 1, 2009	July 1, 2009	July 1, 2009	July 1, 2009	July 1, 2010
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level Dollar, Open	Level Dollar, Open	Level Dollar, Open	Level Dollar, Open	Level percentage of payroll, open	Level percentage of payroll, open
Remaining amortization period	30 years	30 years	30 years	30 years	30 years	30 years
Asset valuation method	N/A	N/A	N/A	N/A	N/A	N/A
Actuarial assumptions:						
Discount rate	6.00%	6.00%	3.00%	4.00%	4.50%	4.50%
Projected salary increases	N/A	N/A	N/A	N/A	4.00%	4.00%
Healthcare inflation rate	10% initial	10% initial	9% initial*	7.8% initial	8.1% initial	9% initial
	5% ultimate	5% ultimate	4.5% ultimate*	4.4% ultimate	4.4% ultimate	5% ultimate

* Trend rates are not used after 2008 for HSU and UCA because the agencies have frozen employer contributions to the plan at fiscal 2007 levels.

(16) Additional Information – Enterprise Funds

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

Condensed Statement of Net Assets (expressed in thousands):

		Construction Assistance Revolving Loan Fund
Assets		
Current assets	$	86,654
Noncurrent assets		245,489
Total assets		332,143
Liabilities		
Current liabilities		11,794
Noncurrent liabilities		29,228
Total liabilities		41,022
Net Assets		
Restricted		291,121
Total net assets	$	291,121

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

		Construction Assistance Revolving Loan Fund
Licenses, permits, and fees	$	2,581
Investment earnings (pledged against bonds)		5,773
Other operating income		6
Amortization of bond discounts and premiums		264
Other operating expense		(7,078)
Operating income (loss)		1,546
Nonoperating revenue/expenses:		
Grants and contributions		13,438
Transfers (to)/from other funds		919
Change in net assets		15,903
Total net assets, beginning of year		275,218
Total net assets, end of year	$	291,121

Condensed Statement of Cash Flows (expressed in thousands):

	Construction Assistance Revolving Loan Fund
Net cash provided (used) by:	
Operating activities	$ 5,485
Noncapital financing activities	(4,398)
Investing activities	16,473
Net increase (decrease)	17,560
Cash and cash equivalents, beginning	59,535
Cash and cash equivalents, end	$ 77,095

(17) Risk Management Program

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

(a) Health and Life Plans

Primary Government

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

The Board provides the following employee benefits to State employees: a self-funded comprehensive major medical plan that includes prescription drug benefits, a health savings account, a fully-funded mental health parity and employee assistance program and fully-funded basic and supplemental group term life insurance. EBD offers a cafeteria plan that includes a flexible medical spending account and a dependent daycare/elder care account. In addition, state employees are given the option to participate in a deferred compensation plan.

Basic group term life insurance and accidental death and dismemberment coverage are offered to all State employees. Basic life insurance is provided to all full-time active State employees and is paid from the insurance trust fund. Costs are based on the age of the employee and level of coverage. Supplemental coverage is offered to State employees for employee and dependent coverage. Supplemental life insurance premiums are based upon age and amount of coverage.

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

	2011	2010
Claim liability, beginning of year	$ 24,250	$ 21,500
Incurred Claims:		
Provision for insured events of current year	228,653	214,249
Total incurred claims and claim adjustment expense	228,653	214,249
Payments:		
Claims payments attributed to insured events of current year	212,364	197,214
Claims payments attributed to insured events of prior years	16,289	14,285
Total Payments	228,653	211,499
Claim liability, end of year	$ 24,250	$ 24,250

Enterprise Fund

Public School Employee Health and Life Benefit Plan

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

Through September 30, 2003, the health and life plans were fully insured. Subsequent to that date, the health plan became self-insured, and the life component remained fully insured. The pharmacy plan has been self-insured since its inception. While the health plan was fully insured, most plan participants' premiums for health, life and pharmacy coverage were collected from the school districts by the health insurance companies, and the life and pharmacy components of the premium were paid by the health insurance companies to the life insurance company and the Department of Finance and Administration – Employee Benefits Division, respectively. Premiums for certain retirees and COBRA participants were collected by the Department of Finance and Administration – Employee Benefits Division, and the health and life components were paid to the health and life insurance companies, respectively.

Employee contributions and school district matching provide funding for the Public School Employee Health and Life Benefit Plan. Premiums are set by the State and Public School Life and Health Insurance Board and are based upon family composition and claims history. The mix of employee contributions and school district matching was determined individually by the school districts with school district match being at least $131. Some school districts provided additional support for their employees through locally generated funding. Act 1745 of 2001 provides the Legislature the authority to establish the minimum school district matching amount. The plans have not purchased any annuity contracts on behalf of claimants. Effective July 1 of 2007, Arkansas Code §6-17-1117 authorizes the Department of Education to pay an additional matching amount of $35.0 million per fiscal year to the Employee Benefits Division. Effective July 1 of 2009, Act 1421 of 2009 authorizes the Department of Education to pay an additional matching amount of $15.0 million per fiscal year, for a total of $50.0 million, to the Employee Benefits Division.

Basic group term life insurance and accidental death and dismemberment coverage are offered to all public school employees covered by the health plan. Supplemental coverage is offered to public school employees for employee and dependent coverage without regard to health plan enrollment. Supplemental life insurance premiums are based upon age and amount of coverage for public school employees.

Health plan claims liabilities for claims submitted after the close of the plan year or after plan termination of the self-insured medical health plans and the prescription drug plan for public school employees are based on actuarial estimates of the ultimate cost of claims that have been incurred (both reported and unreported) and are recorded in the Public School Employee Health and Life Benefit Plan Enterprise Fund. An analysis of changes in aggregate liabilities for claims and claims adjustments expenses for the current and prior fiscal year (expressed in thousands) are as follows:

	2011	2010
Claim liability, beginning of year	$ 27,840	$ 24,500
Incurred Claims:		
Provision for insured events of current year	251,536	240,566
Total incurred claims and claim adjustment expense	251,536	240,566
Payments:		
Claims payments attributed to insured events of current year	230,561	217,031
Claims payments attributed to insured events of prior years	20,975	20,195
Total Payments	251,536	237,226
Claim liability, end of year	$ 27,840	$ 27,840

b) Risk Management Office

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

For those State buildings covered by commercial insurance, the building and contents are generally insured for replacement cost subject to $100 thousand deductible from the Arkansas Multi-Agency Trust Fund (AMAIT), ACT 1762 of 2003, and varying deductible amounts up to $100 thousand per occurrence for the state agency involved. The total annual payout by AMAIT is capped at $1 million. The University of Arkansas System has its own program that the State Risk Management Office does not oversee. Losses arising from earthquakes are generally insured for the full amount of losses subject to a deductible of 5% of the building's total value. Due to market conditions, limited availability and excessive cost, total earthquake coverage is limited to $100.0 million in earthquake zones 2 and 3 and $200.0 million for zones 4 and 5. The State has secured domestic and foreign terrorism insurance coverage. Certain State agencies have chosen not to purchase commercial insurance on certain buildings, and as such, losses for these buildings are recorded as expenditures in Governmental Activities when incurred. Flood coverage is provided with varying limits and deductibles according to the various flood zones. Limits vary from $30.0 million in high hazard Zone A ($500 thousand deductible) to $100.0 million in Zone X ($100 thousand deductible). Both earthquake and flood coverage limits are annual total maximum coverage for the State, not per occurrence and not per agency.

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

For those State vehicles covered by commercial insurance, each participating agency determines which, if any, vehicles to insure for physical damage and is subject to a deductible of $500 or $1,000. In addition, all losses are subject to a $25 thousand liability and $25 thousand physical damage deductible paid by AMAIT. The total annual payout by AMAIT is capped at $800 thousand. Also, such commercial insurance generally provides coverage against liability losses up to $100 thousand per occurrence in state and $1.0 million per occurrence out of state. Eight higher education institutions have elected to purchase $1.0 million liability both in and out of state, and 13 State agencies purchased $500 thousand in state and $1.0 million out of state coverage. Two State agencies have elected not to purchase commercial vehicle insurance, and losses on such vehicles are recorded as expenditures in Governmental Activities as incurred. Liability losses arising from uninsured vehicles are heard and adjudicated by the State Claims Commission.

(c) State Claims Commission

The State Claims Commission (the 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. The Commission may authorize awards up to $10 thousand without further approval (unless State-provided death and disability benefits for specified public employees are involved), while amounts exceeding $10 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 amount of claims at June 30, 2011, is $448 thousand. This liability is included in Note 18 Governmental Activities (a) as part of litigation.

(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 were also included in the plan, and the State continues to pay benefits to those employees injured prior to that date. Prior to July 1, 1986, employees of the counties and cities were included in the plan, and the State continues to pay benefits to those employees injured prior to that date. An injury is covered under workers' compensation if it is caused by an accident that arose out of and in the course of employment. Losses payable by the Program include medical claims, loss of wages, disability and death benefits.

The Program is self-insured and is administered by the Public Employees Claims Division of the State Insurance Department. Each State agency is responsible for contributing to the Program each year an amount determined by the division based on past claims experience.

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

	2011	2010
Claim liability, beginning of year	$ 70,141	$ 74,064
Incurred Claims:		
Provision for insured events of current year	15,654	15,319
Increase (decrease) in provision for insured events of prior years	(2,068)	(7,371)
Total incurred claims and claim adjustment expense	13,586	7,948
Payments:		
Claims payments attributed to insured events of current year	4,385	4,430
Claims payments attributed to insured events of prior years	9,296	7,441
Total Payments	13,681	11,871
Claim liability, end of year	$ 70,046	$ 70,141

(e) Special Funds Division of the Arkansas Workers' Compensation Commission

The State provides two forms of loss protection to employers and insurance companies operating in the State to minimize workers' compensation claims paid for wage losses. The first such plan was created by State law and is known as the Death and Permanent Total Disability Trust Fund (Disability Trust Fund). The second such plan was created by State law and is known as the Second Injury Trust Fund.

Death and Permanent Total Disability Trust Fund

Initiated Act 4 of 1948, as amended, established workers' compensation laws to provide for the timely payment of temporary and permanent disability payments to all legitimately injured workers who suffer injury or disease arising out of their employment. Employers are required to provide coverage for compensation with insurance carriers authorized to write workers' compensation insurance or to pay benefits directly as a self-insurer. Generally, employers are liable for medical services and supplies for injured employees. Arkansas Code Annotated § 11-9-502 provides for the first $75 thousand of weekly benefits (the indemnity threshold) for death or permanent total disability to be paid by the employer or its insurance carrier. Act 1599 of 2007 amended § 11-9-502 to move the indemnity threshold up to 325 times the maximum total disability rate, or $186,875, for 2011. All indemnity benefits in excess of the threshold are the liability of the agency. Accordingly, the Disability Trust Fund was established, in part, to administer this liability. The taxation rate is determined by the Workers' Compensation Commission in accordance with Arkansas Code Annotated § 11-9-306, which limits the tax rate to three percent of written manual premiums of workers' compensation insurance written on all risks within the State. Similarly, self-insured employers and public employers are taxed based on what they would have to pay if they were covered by insurance.

Claim liabilities are established based on the present value of future benefits for known cases currently receiving benefits, known cases to receive benefits in the future and claims incurred but not reported. The following represents the changes in claim liabilities for the fund during the last two fiscal years (expressed in thousands):

	2011	2010
Claim liability, beginning of year	$ 239,005	$ 221,448
Incurred Claims:		
Provision for insured events of current year	6,464	5,648
Increase (decrease) in provision for insured events of prior years	1,032	(3,347)
Increase due to decrease in discount period	11,557	10,714
Total incurred claims and claim adjustment expense	19,053	13,015
Payments:		
Claims payments attributed to insured events of prior years	15,839	14,462
Total Payments	15,839	14,462
Transfers:		
Transfer in from second injury trust fund	1,090	19,004
Total Tranfers	1,090	19,004
Claim liability, end of year	$ 243,309	$ 239,005

Total claim liability, beginning of year does reflect the impact of Act 327 of 2009,which transfers some of the Second Injury Fund to the Death and Permanent Total Disability Fund effective January 1, 2010.

Second Injury Trust Fund

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

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

Act 327 of 2009 transferred existing permanent total disability claims to the Death and Permanent Total Disability Fund effective January 1, 2010. Other claims in the Second Injury Fund that later develop into permanent total claims will also be transferred to the Death and Permanent Total Disability Fund.

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

	2011	2010
Claim liability, beginning of year	$ 3,333	$ 32,155
Incurred Claims:		
Provision for insured events of current year		
Increase (decrease) in provision for insured events of prior years	(1,018)	(9,479)
Increase due to decrease in discount period	161	633
Total incurred claims and claim adjustment expense	(857)	(8,846)
Payments:		
Claims payments attributed to insured events of prior years	239	972
Total Payments	239	972
Transfers:		
Transfer to death and permanent total disability trust fund	(266)	(19,004)
Total Transfers	(266)	(19,004)
Claim liability, end of year	$ 1,971	$ 3,333

Total claim liability, beginning of year does reflect the impact of Act 327 of 2009, which transfers some of the Second Injury Fund to the Death and Permanent Total Disability Fund effective January 1, 2010.

(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 reimburses tank owners up to $1.5 million per occurrence with a $7,500 deductible as well as third-party property claims or bodily injury claims for damages up to $1.0 million per occurrence, also with a $7,500 deductible. The Storage Tank Fund is funded by an environmental assurance fee of three-tenths of a cent for each gallon of fuel collected at the wholesale level. The first-party claim liability is determined through the use of engineering estimates of the remaining corrective action for each site. The third-party claim liability is estimated at one half the plan limits for each third-party claim filed until actual damages are determined and the liability is recorded in Governmental Activities.

Changes in the claim liability for the Storage Tank Fund during the current and prior fiscal years are as follows (expressed in thousands):

	2011	2010	
Claim liability, beginning of year	$ 15,630	$ 17,185	
Incurred Claims:			
Provision for insured events of current year	4,753	6,599	(1)
Total incurred claims and claim adjustment expense	4,753	6,599	
Payments:			
Claims payments attributed to insured events of current year	8,332	8,154	(1)
Total Payments	8,332	8,154	
Claim liability, end of year	$ 12,051	$ 15,630	

(1) - Amounts restated. Increase of $0.4 million as a result of overhead allocation.

(g) Higher Education Health Plans

The University of Arkansas System (UA System) and Arkansas State University (ASU) sponsor self-funded health plans for employees and their eligible dependents. Within the UA System, four four-year institutions, one two-year institution, the Medical Sciences campuses, and the Arkansas School for Mathematics, Sciences and the Arts participate in the health insurance programs, along with the UA System’s divisions of Criminal Justice Institute, the Winthrop Rockefeller Center, Inc., Arkansas Archeological Survey, Division of Agriculture, System Administration, and the University of Arkansas Foundation. Also, all ASU campuses participate in the health insurance programs, which are administered by third parties and 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):

	2011	2010
Claim liability, beginning of year	$ 11,743	$ 12,292
Incurred Claims:		
Provision for insured events of current year	129,784	115,722
Increase (decrease) in provision for insured events of prior years	(15)	59
Total incurred claims and claim adjustment expense	129,769	115,781
Payments:		
Claims payments attributed to insured events of current year	115,708	104,432
Claims payments attributed to insured events of prior years	11,723	11,898
Total Payments	127,431	116,330
Claim liability, end of year	$ 14,081	$ 11,743

The universities purchase specific reinsurance to reduce their exposure on large claims. Under the specific arrangements, the reinsurance carrier pays for claims for covered individuals that exceed specified limits. Such limits are $750 thousand and $175 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

Pursuant to Arkansas Code Annotated § 12-8-210, the Arkansas State Police offers health care benefits to active uniformed members and retirees. The Arkansas State Police Human Resource section serves as Plan Administrator. A contracted third party administrator (TPA) is selected each plan year to serve as claims processor. The TPA also administers the COBRA Act of 1985 and provides certain actuarial estimates for the Plan. Health care benefits are funded by employer and retired employee contributions and Act 1500 of 2001. Act 1500 stipulates that for every Arkansas driver's license sold, $6 of the license fee is used to fund the Arkansas State Police Health Plan. The Plan is partially self-funded; reinsurance stop loss coverage for aggregate benefit utilization is contracted for each plan year. Plan years cover January 1 through December 31 of any given year. Employer contribution rates are set by the Arkansas State Police with final approval by the Arkansas State Police Commission. The Arkansas State Police Commission is authorized by Arkansas Code Annotated § 12-8-210 to direct the Plan. The current monthly budgeted premium, set on July 1, 2011, is $390 per budgeted civilian position and $805 per budgeted commissioned position.

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

Liabilities for claims incurred but not reported are included in the Arkansas State Police Health Insurance Plan. These liabilities exist because of the span of time between the incurrence of obligations to pay claims and the liquidation of the obligations by the agency cross reporting periods. The amounts of these liabilities, based on evaluation of claims data for those claims that were incurred before year-end and paid after year-end for June 30, 2011, are as follows (expressed in thousands):

	2011	2010
Claim liability, beginning of year	$ 1,132	$ 1,622
Incurred Claims:		
Provision for insured events of current year	10,170	11,129
Increase (decrease) in provision for insured events of prior years	130	(305)
Total incurred claims and claim adjustment expense	10,300	10,824
Payments:		
Claims payments attributed to insured events of current year	9,366	9,997
Claims payments attributed to insured events of prior years	1,262	1,317
Total Payments	10,628	11,314
Claim liability, end of year	$ 804	$ 1,132

(18) Commitments and Contingencies

Primary Government

Governmental Activities

(a) Litigation

The State, its agencies and its 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 $2.4 million for the repayment 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 $13.3 million.

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

	2011	2010
Litigation, beginning of year	$ 1,051	$ 1,429
Incurred litigation	2,357	551
Litigation payments/dismissals	(976)	(929)
Litigation, end of year	$ 2,432	$ 1,051

(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, 2011, the amount of expenditures which may be disallowed by the grantor cannot be determined, although the State expects such amounts, if any, to be immaterial.

(c) Loan Forgiveness

In compliance with terms of the Little Rock School District desegregation case settlement agreement, the State loaned $20.0 million to the Little Rock School District (LRSD) between the dates of July 1, 1989, and July 1, 1999. On March 19, 2001, the State and the Little Rock School District executed an agreement in which $15.0 million of the loans made to the LRSD was immediately forgiven and the remaining $5.0 million would be forgiven if the LRSD obtained complete unitary status and release from federal court supervision on or before July 1, 2004. The remaining loans were to be amortized over a 20-year period beginning seven years following the execution of the loan with an interest rate of three percent per annum. As of June 30, 2011, the State's loan receivable is $3.4 million and is recorded in the General Fund.

(d) Construction and Other Commitments

At June 30, 2011, the State has commitments of approximately $727.8 million for construction and other contracts and approximately $56.4 million for professional service contracts. The Arkansas Natural Resource Commission has approved $31.4 million in loans for projects for water systems, waste water, or pollution abatement that have not been disbursed at June 30, 2011.

(e) Bond Guarantees

The Arkansas Economic Development Commission (AEDC) Bond Reserve Guarantee 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, 2011, total bonds guaranteed by the AEDC Bond Guarantee Reserve Fund were approximately $61.4 million. In addition, AEDC has committed to guarantee approximately $5.5 million in industrial development revenue bonds that have not closed at June 30, 2011. As of June 30, 2011, one of these loans was in default.

(f) Tobacco Settlement

In November 1998, the Attorney General joined 46 other states and five territories in a settlement with the nation's largest tobacco manufacturers. The settlement includes base payments to states totaling $206 billion over the next 25 years and continues in perpetuity. All disbursements from the Master Settlement Agreement were initially deposited to the Tobacco Settlement Cash Holding Account. In 2001, funds were distributed to various accounts within the General Fund, including the Arkansas Healthy Century Trust Account, in the amount needed to bring the principal balance to $100 million, and the remainder was distributed to the Tobacco Settlement Program Account. For 2002 and thereafter, the first $5 million must be distributed to the Tobacco Settlement Debt Service Account, and the amounts remaining are distributed to the Tobacco Settlement Program Account.

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

In fiscal year 2006, the Arkansas Development Finance Authority (the Authority) issued $36.8 million in Tobacco Settlement Revenue Bonds. The Authority has made the proceeds of the bonds available to the University of Arkansas Board of Trustees (UA Board) to fund an expansion to the Arkansas Cancer Research Center (ACRC) on the campus of the University of Arkansas for Medical Sciences (UAMS). The bonds have an approximate yield to maturity of 4.77% to 5.10% and principal and accumulated interest are payable beginning in 2021 through 2031 for $22.2 million of serial bonds and beginning in 2036 through 2046 for $14.6 million of term bonds. Funds received from the Arkansas Tobacco Settlement Funds Act of 2000 are pledged for debt service and are the primary source of payment for the bonds. In accordance with a Loan Agreement dated June 1, 2006, between the UA Board and the Authority, the UA Board will be required to make debt service payments on the Series 2006 bond issue in the event of a shortfall in tobacco settlement revenues. However, no such payments will be made unless the Debt Service Revenues are insufficient to make such payments. Management believes the Debt Service Revenues will be sufficient to service the entire principal and interest due. The latest *Global Insights USA, Inc.* report, prepared in August 2006 on the *Forecast of U.S. Cigarette Consumption (2004-2046)*, indicates that tobacco consumption in 2046 is expected to decline by 54% from the 2003 level. For fiscal year 2003, Arkansas received $60.1 million from the Tobacco Settlement Fund. Using the 54% decline from above, Arkansas should receive approximately $27.6 million in 2046 with the first $5 million dedicated to pay the debt service on the above bond issue. If Debt Service Revenues would have been considered insufficient at June 30, 2011, the University would have incurred a liability of $47.1 million related to the issue. This amount includes draw down of funds related to the project, issuance costs, discounts, accreted interest and other expenses related to the issue.

While Arkansas's share of the base payments will not change over time, the amount of the annual payment is subject to a number of modifications, including adjustments for inflation and usage volumes. Some of the adjustments may result in increases in the payments (inflation, for example), while other adjustments will likely cause decreases in payments (volume adjustments, for example). The net effect of these adjustments on future payments is unclear; therefore, the financial statements only reflect the amounts that were earned in fiscal year 2011. In fiscal year 2011, the State recorded a total of $49.5 million, with $5.0 million being transferred to the Authority for the Tobacco Settlement Debt Service Account.

(g) Business Incentives

The Create Rebate program is authorized by the Consolidated Incentives Act of 2003 (Arkansas Code Annotated § 15-4-2701 et. seq.). Financial incentive agreements are offered to non-retail, for-profit businesses in highly competitive circumstances at the discretion of the director of the Arkansas Economic Development Commission. The agreements can be offered for a period of up to 10 years. Cash payments are based on a company's annual payroll for new, full-time permanent employees. To be eligible for payment, a company is required to maintain a minimum payroll of $2.0 million annually for new, full-time permanent employees and file a claim with the Department of Finance and Administration. No claims may be filed until the minimum annual payroll of $2.0 million is met. The threshold must be met within 24 months of inception of the agreement. During fiscal year 2011, new Create Rebate agreements approved totaled $5.5 million.

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

		2011
Business incentives, beginning of year	$	118,968
Incurred business incentives, net of allowance		5,188
Business incentives payments/dismissals		(12,851)
Business incentives, end of year	$	111,305

Business-Type Activities

(a) Litigation

The State's business activities and employees may be defendants in numerous legal proceedings, many of which normally occur in governmental operations. Such litigation includes, but is not limited to claims assessed against the State for property damage and personal injury, other alleged torts, alleged breaches of contract, condemnation proceedings, challenges of State law and other alleged violations of state and federal laws. At June 30, 2011, there were no accrued liabilities for business-type activities. 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 there is no liability at June 30, 2011.

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

	2011	2010
Litigation, beginning of year	$ 0	$ 275
Incurred litigation	0	0
Litigation payments/dismissals	0	(275)
Litigation, end of year	$ 0	$ 0

(b) Construction and Other Commitments

At June 30, 2011, the State has commitments in its business type activities of approximately $138.0 million for construction and other contracts and approximately $1.1 million for professional service contracts.

(19) Subsequent Events

Primary Government

Governmental Activities

Arkansas Building Authority

During 2011, the Arkansas Building Authority (ABA) was designated the manager of a revolving loan fund created by a $12.0 million American Reinvestment and Recovery ACT grant obtained by the Arkansas Economic Development Commission – Energy Office. Interest-free loans for periods of up to 10 years are provided to qualifying agencies to make energy efficient improvements in their buildings. From July 1, 2011, through the report date, the following loans have been made or committed: University of Arkansas – Medical Science (UAMS) $3.0 million; University of Arkansas at Little Rock (UALR), $2.0 million; University of Arkansas at Fort Smith (UAFS), $2.2 million; Southern Arkansas University (SAU), $1.6 million; Arkansas State Police, $2.0 million; and Oil & Gas Commission, $0.6 million.

Arkansas Highway and Transportation Department

On November 8, 2011, the People of the State authorized the issuance of up to $575.0 million in Guaranteed Anticipated Revenue Bonds. The proceeds of the issue are to be used for rehabilitation and reconstruction of the existing Interstate Highway System. The bonds will be financed by future federal interstate maintenance money and a 4 cent per gallon diesel-fuel tax. The Arkansas Highway and Transportation Department is in the process of selecting the Underwriter and Bond Counsel. It is anticipated that the Bonds will not be issued until late in fiscal year 2012.

Department of Correction

On November 29, 2011, the Board approved a $5.0 million expansion of a farm facility at the Cummins unit which will be financed by a loan to be negotiated with Arkansas Development Finance Authority.

Arkansas State Police

Series 2011 Arkansas Development Finance Authority Drivers' License Refunding Revenue Bonds were issued September 22, 2011, in the amount of $11.4 million to replace the Series 2004 Drivers' License Refunding Revenue Bonds.

Business-Type Activities

Arkansas Department of Workforce Services

On September 14, 2011, the Arkansas Department of Workforce Services (the Department) made a voluntary payment against the outstanding Title XII Advances in the amount of $29.1 million. This payment was made to take advantage of a Provision in Section 1202 of the Social Security Act that allows the states to obtain cash flow advances interest free when the advances are fully repaid prior to September 30 of the year in which the advances are obtained. The interest saved by the Department from making the repayment is approximately $0.6 million.

On September 26, 2011, the Department made a payment on the accrued interest on the TitleXII advances of $10.1 million.

University of Arkansas

UALR, UAFS and UAMS have received a combined $7.2 million in loans or loan commitments from ABA – managed revolving loan fund for energy conserving projects.

On September 16, 2011, three refunding bond issues were approved for UAMS, UAFS and the University of Arkansas at Monticello (UAM). The $9.7 million UAMS issue was sold December 1, 2011. Due to a change in bond interest rates, it is not known when, or if, the UAFS and the UAM issues, in amounts not to exceed $18.9 million and $9.3 million, respectively, will be sold.

University of Central Arkansas

On September 9, 2011, approval was given to issue additional Student Fee Revenue Bonds not to exceed $18.0 million to finance the Health, Physical Education and Recreation Center expansion project.

Arkansas Northeastern College

Series 2011 General Obligation Refunding Bonds were issued October 27, 2011, in the amount of $4.3 million to replace the Series 2001 General Obligation Refunding and Improvements Bonds.

Arkansas Tech University

On June 16, 2011, approval was given by the Board of Trustees to issue Housing System Revenue Bonds in the amount not to exceed $12.5 million to construct a new residence hall on the Russellville campus that will house approximately 290 students. The first series of the issue ($7.6 million) was sold November 29, 2011.

East Arkansas Community College

On November 28, 2011, a bid for the construction of a new $2.4 million Allied Health facility was accepted. The facility is being financed with proceeds from the 2010 General Obligation Bond Issue.

Henderson State University

Effective October 1, 2011, Henderson State University issued $2.0 million in Student Fee Revenue Refunding Bonds and $1.4 million in Auxiliary Enterprises Revenue Refunding Bonds to replace the Series 2006 issues.

Mid South Community College

On October 26, 2011, Mid South Community College entered into a $5.3 million contract for the construction of a new Wellness Center and Safe House. The project is to be financed by a federal grant, restricted funds and a property tax millage.

Pulaski Technical College

On September 29, 2011, Pulaski Technical College issued Student Tuition and Fee Revenue Capital Improvement and Refunding Bonds in the amount of $69.5 million. The $13.3 million balance of the 2003 Series Bonds is being refunded. The net proceeds will be used to construct a new Fine Arts Center and a new building to house the Culinary School.

Southern Arkansas University

SAU has been approved for a $1.6 million loan from ABA – managed revolving loan fund for energy conserving projects.

GREAT SEAL OF THE STATE OF ARKANSAS

REGNAT POPULUS

MERCY

JUSTICE

Required Supplementary Information

2011

Required Supplementary Information
Pension Funds
Schedule of Funding Progress
(Expressed in thousands)

Plan	Fiscal year	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Highway	2011	6/30/2011	$ 1,227,700	$ 1,342,700	$ 115,000	91.4%	129,000	89.1%
	2010	6/30/2010	1,199,400	1,305,000	105,600	91.9%	127,000	83.2%
	2009	6/30/2009	1,193,400	1,235,800	42,400	96.6%	122,800	34.6%
Judicial	2011	6/30/2011	165,377	186,635	21,258	88.6%	19,338	109.9%
	2010	6/30/2010	165,244	182,912	17,668	90.3%	18,630	94.8%
	2009	6/30/2009	167,433	180,166	12,733	92.9%	18,875	67.5%

Actuarial assumptions are presented in Note 14.

Required Supplementary Information
Schedule of Expenditures – Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2011
(Expressed in thousands)

	Budgeted amounts		Actual	Variance with final budget – positive
	Original	Final	amounts	(negative)
Expenditures*				
Current:				
General Government	$ 5,402,214	$ 5,757,694	$ 1,835,417	$ 3,922,277
Education	4,063,704	4,264,248	3,803,082	461,166
Health and Human Services	7,046,598	6,279,582	5,845,118	434,464
Law, Justice and Public Safety	898,464	941,952	747,876	194,076
Recreation and Resource Development	453,069	580,986	362,838	218,148
Regulation of Business and Professionals	179,381	187,167	118,371	68,796
Transportation	570,888	572,037	356,988	215,049
Debt Service	165,984	172,759	121,184	51,575
Capital Outlay	1,056,546	1,093,606	622,762	470,844
Total Expenditures	$ 19,836,848	$ 19,850,031	$ 13,813,636	$ 6,036,395

* 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.

Required Supplementary Information
Notes to Schedule of Expenditures – Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2011

(a) Budgetary Basis of Accounting

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

(b) Budgetary Basis Reporting – Budgetary Process

State finance law requires that a balanced budget be approved by the Governor and the General Assembly. The Governor presents an annual budget to the General Assembly. The General Assembly, which has full authority to amend the budget, adopts a line item expenditure budget by appropriating monies in annual appropriation acts. Before signing the appropriation act, the Governor may veto any specific item, subject to legislative override.

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

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

The General Assembly also must enact legislation pursuant to the Revenue Stabilization Law (the Stabilization Law) to provide an allotment process of funding appropriations in order to comply with the State law prohibiting deficit spending. The Governor may restrict spending to a level below appropriations amounts. The State uses specific funds (i.e., general and special revenue allotment accounts) for receipt and distribution of revenues. Pursuant to the Stabilization Law, all receipts are deposited in the General Revenue Allotment Account. From the General Revenue Allotment Account, 3% of all revenues are distributed to the Constitutional Officers Fund and the Central Services Fund to provide support for the State's elected constitutional offices (legislators, executive department and judges), their staffs and the DFA. The balance, net of income tax refunds, court settlement arrangements, etc., is then distributed to separate funds proportionately as established by the Stabilization Law. Special revenues are deposited into the Special Revenue Allotment Account from which 3% of revenues collected by DFA and 1½% of all special revenues collected by other agencies are first distributed to support the State's elected officials, their staffs and DFA. The balance is then distributed to the funds for which the special revenues were collected as provided by law. Special revenues, which are primarily user taxes, are generally earmarked for the program or agency providing the related service.

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

Pursuant to the Stabilization Law, the General Assembly establishes three levels of priority for general revenue spending levels, “A”, “A1” and “B.” Successive levels of appropriations are funded only in the event sufficient revenues have been generated to fully fund any prior level. Accordingly, appropriations made to programs and agencies are only maximum authorizations to spend. Actual expenditures are limited to the lesser of monies flowing into programs or agencies’ funds maintained by the Treasurer or the maximum appropriation by the General Assembly.

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

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

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

Budget is controlled at the appropriation line item (commitment item), which is the legal level of budgetary control. For financial reporting, the State groups these appropriation account categories by function to conform to its organizational structure. The separately issued Budget Compliance Report tracks budget compliance at the funds center and commitment item level.

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

Total GAAP basis expenditures General Fund	$	14,034,917
Less non-cash federal grant expenditures		(775,931)
Less non appropriated expenditures		(4,881,465)
Plus expenditures eliminated or reclassed as transfers for reporting purposes		4,748,969
Refunds treated as reduction of revenue for financial statements purposes		669,501
Basis of accounting differences		17,645
Total statutory basis expenditures General Fund	$	13,813,636

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Premium and Investment Revenues:										
Premium Income	$ 40,709,995	$ 45,694,279	$ 158,499,272	$ 209,344,487	$ 230,564,982	$ 230,141,726	$ 239,686,872	$ 252,028,277	$ 265,671,434	$ 271,802,235
Investment Interest Income	32,734	68,853	233,550	586,801	1,570,234	2,352,048	2,482,253	1,322,380	442,355	302,462
Totals	$ 40,742,729	$ 45,763,132	$ 158,732,822	$ 209,931,288	$ 232,135,216	$ 232,493,774	$ 242,169,125	$ 253,350,657	$ 266,113,789	$ 272,104,697
Unallocated Expenses:										
Operating Costs	$ 317,988	$ 675,968	$ 905,564	$ 1,234,945	$ 1,175,832	$ 1,703,938	$ 4,288,268	$ 5,569,196	$ 3,788,158	$ 3,423,965
Reinsurance Premium Expense	0	0	0	0	0	0	0	0	0	0
Totals	$ 317,988	$ 675,968	$ 905,564	$ 1,234,945	$ 1,175,832	$ 1,703,938	$ 4,288,268	$ 5,569,196	$ 3,788,158	$ 3,423,965
Estimated incurred claims and expenses, end of fiscal year	$ 33,852,966	$ 35,916,834	$ 164,172,038	$ 198,727,802	$ 220,169,782	$ 236,300,587	$ 208,506,000	$ 235,781,000	$ 237,226,000	$ 251,536,000
Paid (cumulative) claims and claims adjustment expenses:										
End of Fiscal Year	N/A	34,316,834	148,172,038	181,727,802	198,419,782	213,550,587	185,756,000	211,281,000	209,386,000	224,266,659
One Year Later	N/A	35,916,834	163,888,838	198,426,902	219,834,832	235,854,687	207,975,925	235,244,450	236,679,328	
Two Years Later	N/A	N/A	164,172,038	198,678,502	220,245,907	236,359,737	208,449,125	235,757,056		
Re-estimated incurred claims and expenses (2):										
End of Fiscal Year	N/A	35,916,834	164,172,038	198,727,802	220,169,782	236,300,587	208,506,000	235,781,000	237,226,000	251,536,000
One Year Later	N/A	35,916,834	164,172,038	198,727,802	220,169,782	236,300,587	208,506,000	235,781,000	237,226,000	
Two Years Later	N/A	N/A	164,172,038	198,727,802	220,169,782	236,300,587	208,506,000	235,781,000		
Increase (decrease) in estimated incurred claims and expense from end of policy year	0	0	0	0	0	0	0	0	0	0
Increase (decrease) in net incurred claims and claim adjustment expenses from original estimate	0	0	0	0	0	0	0	0	0	0
Number of Plan Participants	N/A	43,632	44,797	45,463	47,268	48,846	50,370	50,277	52,094	53,347

Note 1: Government Accounting Standards Board Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Activities* , effective for fiscal periods beginning after June 15, 1990, requires certain disclosures for public entity risk pools. Note 17 of the financial statements describes the Public School Employee Health and Life Benefit Plan and also provides certain other required information. This schedule provides ten-year claim development information for the program as described by Statement No. 10.

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

N/A: Information not available

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Premium and Investment Revenues:										
Premium Income	$ 8,602,220	$ 12,640,933	$ 8,380,469	$ 9,236,142	$ 8,326,813	$ 7,536,378	$ 9,016,067	$ 9,075,784	$ 8,226,832	$ 7,390,622
Investment Interest Income	4,556,109	2,036,317	1,672,189	1,932,354	4,055,947	6,098,515	6,325,923	3,590,255	2,315,616	1,701,541
Totals	$ 13,158,329	$ 14,677,250	$ 10,052,658	$ 11,168,496	$ 12,382,760	$ 13,634,893	$ 15,341,990	$ 12,666,039	$ 10,542,448	$ 9,092,163
Unallocated Expenses:										
Operating Costs (2)	$ 316,858	$ 334,881	$ 321,328	$ 324,698	$ 123,637	$ 129,292	$ 120,693	$ 271,386	$ 285,516	$ 257,079
Estimated incurred claims and expenses, end of fiscal year	$ 7,407,010	$ 7,707,310	$ 7,952,310	$ 9,343,245	$ 10,612,346	$ 11,605,274	$ 10,896,034	$ 6,619,914	$ 5,640,789	$ 6,413,633
Paid (cumulative) claims and claims adjustment expenses:										
End of Fund Year	0	0	0	0	0	0	0	0	0	0
One Year Later	0	55,000	0	12,500	45,000	40,000	23,750	20,000	0	
Two Years Later	0	55,500	60,000	254,500	60,000	116,115	53,750	20,000		
Three Years Later	8,844	125,695	155,312	443,594	258,442	456,230	188,555			
Four Years Later	193,912	492,077	559,647	1,084,352	666,938	963,169				
Five Years Later	581,617	960,636	1,110,691	1,746,038	1,527,999					
Six Years Later	1,068,701	1,921,699	1,941,198	2,737,246						
Seven Years Later	1,704,187	2,664,563	2,852,760							
Eight Years Later	2,452,829	3,584,430								
Nine Years Later	3,275,965									
Re-estimated incurred claims and expenses:										
End of Fund Year	2,711,400	2,829,345	3,767,145	3,968,387	5,146,235	3,606,231	3,135,931	2,675,997	2,546,952	3,904,725
One Year Later	4,823,740	6,632,484	7,407,958	10,855,431	6,578,501	6,720,442	7,448,896	4,215,186	6,118,056	
Two Years Later	8,885,376	9,082,661	11,023,365	13,658,153	9,955,357	11,299,265	9,810,061	5,837,915		
Three Years Later	13,013,925	11,151,447	12,323,811	6,417,676	12,165,161	12,884,190	11,188,480			
Four Years Later	12,753,443	11,454,147	14,614,740	13,325,459	14,248,771	14,829,242				
Five Years Later	11,864,813	14,265,211	8,096,016	14,096,948	12,526,550					
Six Years Later	12,684,999	14,130,937	14,278,584	18,320,630						
Seven Years Later	12,126,528	14,829,670	16,018,643							
Eight Years Later	13,152,890	16,329,870								
Nine Years Later	14,149,268									
Increase (decrease) in estimated incurred claims and expense from end of policy year	6,742,258	8,622,560	8,066,333	8,977,385	1,914,204	3,223,968	292,446	(781,999)	477,267	(2,508,908)
Number of fund participants receiving benefits at end of year	1,293	1,336	1,347	1,324	1,336	1,342	1,356	1,349	1,454	1,501

Note 1: Government Accounting Standards Board Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Activities,* effective for fiscal periods beginning after June 15, 1990, requires certain disclosures for public entity risk pools. Note 17 of the financial statements describes the Workers' Compensation Death and Permanent Total Disability Fund and also provides certain other required information. This schedule provides ten-year claim development information for the program as described by Statement No. 10.

Note 2: The amounts reflected as operating costs of the program for the respective years which were paid from the Workers' Compensation Trust Fund.

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Premium and Investment Revenues:										
Premium Taxes	$ 4,982	$ 1,784,175	$ 1,186,860	$ 1,294,907	$ 3,620,160	$ 2,763,390	$ 1,327,517	$ 1,082,496	$ 659,098	$
Interest Income	344,714	142,761	80,943	60,958	74,445	101,278	91,863	35,500	18,800	9,679
Totals	$ 349,696	$ 1,926,936	$ 1,267,803	$ 1,355,865	$ 3,694,605	$ 2,864,668	$ 1,419,380	$ 1,117,996	$ 677,898	$ 9,679
Unallocated Expenses:										
Operating Costs (2)	$ 464,976	$ 480,666	$ 526,768	$ 544,817	$ 584,142	$ 583,796	$ 642,794	$ 582,490	$ 531,955	$ 526,189
Estimated incurred claims and expenses, end of fiscal year	$ 2,651,701	$ 2,189,848	$ 2,486,600	$ 3,338,891	$ 3,611,824	$ 3,419,705	$ 1,628,431	$ 0	$ 0	$ 0
Paid (cumulative) claims and claims adjustment expenses:										
End of Fund Year	0	0	0	0	0	0	0	0	0	0
One Year Later	25,106	208,690	70,605	34,500	51,755	169,875	0	0	0	
Two Years Later	673,422	814,873	299,505	751,613	449,159	625,574	0	0		
Three Years Later	1,215,361	1,348,617	1,219,840	1,044,728	766,086	672,724	0			
Four Years Later	1,507,797	1,273,914	1,542,077	1,269,810	899,440	679,624				
Five Years Later	1,732,228	1,368,925	1,720,501	1,314,373	912,714					
Six Years Later	1,861,762	1,457,445	1,807,660	1,461,398						
Seven Years Later	2,039,061	1,538,540	1,807,660							
Eight Years Later	2,073,068	1,588,879								
Nine Years Later	2,113,318									
Re-estimated incurred claims and expenses:										
End of Fund Year	0	0	0	0	0	0	0	0	0	0
One Year Later	328,677	208,690	70,605	34,500	51,755	169,875	0	0	0	
Two Years Later	1,369,710	1,253,217	437,313	1,013,605	449,159	625,574	0	0		
Three Years Later	2,440,234	2,277,287	1,947,770	1,503,828	933,751	672,724	0			
Four Years Later	2,576,594	1,742,436	2,665,638	2,042,671	899,440	679,624				
Five Years Later	2,542,065	2,166,470	3,710,566	1,314,373	912,714					
Six Years Later	2,764,092	2,261,324	1,807,660	1,461,398						
Seven Years Later	2,861,592	1,673,149	1,807,660							
Eight Years Later	2,073,068	1,938,242								
Nine Years Later	2,113,318									
Increase (decrease) in estimated incurred claims and expense from end of policy year	(538,383)	(251,606)	(678,940)	(1,877,493)	(2,699,110)	(2,740,081)	(1,628,431)	0	0	0
Number of Fund Participants receiving benefits at end of year	97	102	111	122	128	119	112	109	2	3

Note 1: Government Accounting Standards Board Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Activities,* effective for fiscal periods beginning after June 15, 1990, requires certain disclosures for public entity risk pools. Note 17 of the financial statements describes the Workers' Compensation Second Injury Trust Fund and also provides certain other required information. This schedule provides ten-year claim development information for the program as described by Statement No. 10.

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

Required Supplementary Information
Other Postemployment Benefits
Schedule of Funding Progress
(Expressed in thousands)

Plan	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
Arkansas Northeast College	7/1/2007	$ 0	$ 866	$ 866	0.0%	$ 8,424	10%
	7/1/2010	0	316	316	0.0%	8,509	4%
Arkansas State University	7/1/2007	0	8,081	8,081	0.0%	87,213	9%
	7/1/2008	0	8,842	8,842	0.0%	98,803	9%
	7/1/2009	0	9,523	9,523	0.0%	110,245	9%
Arkansas Tech University	7/1/2007	0	9,054	9,054	0.0%	30,326	30%
	7/1/2009	0	9,093	9,093	0.0%	38,868	23%
Black River Technical College	7/1/2007	0	454	454	0.0%	4,948	9%
	7/1/2010	0	572	572	0.0%	5,608	10%
East Arkansas Community College	7/1/2007	0	389	389	0.0%	7,214	5%
	7/1/2009	0	354	354	0.0%	5,252	7%
Ozarka College	7/1/2007	0	186	186	0.0%	4,026	5%
	7/1/2009	0	282	282	0.0%	3,737	8%
Henderson State University	7/1/2007	0	2,668	2,668	0.0%	18,187	15%
	7/1/2008	0	2,809	2,809	0.0%	18,240	15%
	7/1/2009	0	2,741	2,741	0.0%	18,742	15%
Mid South Community College	7/1/2007	0	295	295	0.0%	6,314	5%
	7/1/2010	0	334	334	0.0%	6,876	5%
North Arkansas College	7/1/2007	0	225	225	0.0%	2,135	11%
	7/1/2009	0	201	201	0.0%	6,885	3%
National Park Community College	7/1/2007	0	686	686	0.0%	9,443	7%
	7/1/2009	0	372	372	0.0%	10,572	4%
Northwest Arkansas Community College	7/1/2007	0	185	185	0.0%	18,827	1%
	7/1/2009	0	261	261	0.0%	10,354	3%
Pulaski Technical College	7/1/2007	0	571	571	0.0%	12,332	5%
	7/1/2009	0	776	776	0.0%	15,148	5%
Rich Mountain Community College	7/1/2007	0	725	725	0.0%	3,052	24%
	7/1/2010	0	661	661	0.0%	3,956	17%
South Arkansas Community College	7/1/2007	0	263	263	0.0%	6,369	4%
	7/1/2009	0	277	277	0.0%	7,328	4%
Southern Arkansas University - Technical Branch	7/1/2007	0	468	468	0.0%	5,853	8%
	7/1/2010	0	612	612	0.0%	6,619	9%
Southern Arkansas University	7/1/2007	0	2,604	2,604	0.0%	14,283	18%
	7/1/2008	0	3,005	3,005	0.0%	15,432	19%
	7/1/2009	0	2,604	2,604	0.0%	16,329	16%
University of Arkansas of Fort Smith	7/1/2007	0	644	644	0.0%	24,674	3%
	7/1/2009	0	789	789	0.0%	27,108	3%
University of Arkansas System Self-Funded Plan	7/1/2007	0	171,807	171,807	0.0%	780,954	22%
	7/1/2008	0	82,056	82,056	0.0%	911,203	9%
	7/1/2009	0	66,620	66,620	0.0%	880,256	8%
	7/1/2010	0	58,439	58,439	0.0%	934,781	6%
University of Arkansas System AHEC Benefits	7/1/2007	0	255	255	0.0%	13,847	2%
	7/1/2009	0	422	422	0.0%	14,841	3%
University of Central Arkansas	7/1/2007	0	2,446	2,446	0.0%	47,660	5%
	7/1/2008	0	3,033	3,033	0.0%	62,441	5%
	7/1/2009	0	2,696	2,696	0.0%	62,713	4%
Arkansas State Police	1/1/2008	0	76,505	76,505	0.0%	40,568	189%
	7/1/2009	0	82,260	82,260	0.0%	42,237	195%
Arkansas Employee Benefits Plan	7/1/2007	0	1,464,934	1,464,934	0.0%	1,044,880	140%
	7/1/2009	0	1,711,348	1,711,348	0.0%	1,262,628	136%
	7/1/2010	0	1,684,000	1,684,000	0.0%	1,346,374	125%

Actuarial assumptions are presented in Note 15.

2011 *Combining Financial Statements*


GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
MERCY
JUSTICE

NON-MAJOR ENTERPRISE FUNDS

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

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 wastewater treatment facilities for municipalities and other public entities.

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

Other Revolving Loan Funds – These programs are responsible for providing a perpetual fund for financing the planning, design, acquisition, construction, expansion, equipping and/or rehabilitation of water systems and the financing of capitalizable educational and general projects for community and technical colleges; to prevent, assess, safely clean up, and sustainably reuse brownfields; to develop and redevelop affordable rental housing related to the five Presidentially-Declared Disaster areas; to incentivize development of affordable Assisted Living housing in Arkansas and to strengthen the financial feasibility of such developments; to finance energy efficiency retrofits and green energy implementation for industries; and to hold equity investments made by the Risk Capital Matching Fund.

Combining Statement of Net Assets
Non-major Enterprise Funds
June 30, 2011
(Expressed in thousands)

	War Memorial Stadium Commission	Construction Assistance Revolving Loan Fund	Public School Employee Health and Life Benefit Plan	Other Revolving Loan Funds	Total
Assets					
Current assets:					
Cash and cash equivalents	$ 575	$ 77,095	$ 13,902	$ 34,025	$ 125,597
Investments	142	8,606		1,440	10,188
Receivables:					
Accounts		567	959	524	2,050
Loans				5,937	5,937
Interest		386	29	245	660
Due from other funds	1		1		2
Advances to other funds				750	750
Inventories	9				9
Deferred charges	3				3
Total current assets	730	86,654	14,891	42,921	145,196
Noncurrent assets:					
Investments - restricted		2,752	58,893		61,645
Capital assets:					
Buildings	22,219				22,219
Equipment	1,003		94		1,097
Improvements other than building	446				446
Other depreciable/amortizable assets			240		240
Less accumulated depreciation/amortization	(7,830)		(117)		(7,947)
Advances to other funds				6,136	6,136
Loans receivable, restricted		242,324		135,628	377,952
Other noncurrent assets	15	413			428
Total noncurrent assets	15,853	245,489	59,110	141,764	462,216
Total assets	$ 16,583	$ 332,143	$ 74,001	$ 184,685	$ 607,412

Combining Statement of Net Assets
Non-major Enterprise Funds
June 30, 2011
(Expressed in thousands)

	War Memorial Stadium Commission	Construction Assistance Revolving Loan Fund	Public School Employee Health and Life Benefit Plan	Other Revolving Loan Funds	Total
Liabilities					
Current liabilities:					
Accounts payable	$	$ 391	$ 6,550	$ 119	$ 7,060
Accrued interest	61	93			154
Accrued and other current liabilities	35			23	58
Due to other funds	66		6	280	352
Loans and bonds payable	500	11,310			11,810
Claims, judgments and compensated absences	5		27,495		27,500
Deferred revenue			1,368	2,775	4,143
Total current liabilities	667	11,794	35,419	3,197	51,077
Noncurrent liabilities:					
Loans and bonds payable	2,500	28,641			31,141
Net postemployment benefits payable	102				102
Claims, judgments and compensated absences	33		345		378
Deferred revenue		587			587
Total noncurrent liabilities	2,635	29,228	345		32,208
Total liabilities	3,302	41,022	35,764	3,197	83,285
Net Assets					
Net assets:					
Invested in capital assets, net of related debt	12,838				12,838
Restricted for:					
Program requirements		291,121		181,488	472,609
Unrestricted	443		38,237		38,680
Total net assets	13,281	291,121	38,237	181,488	524,127
Total liabilities and net assets	$ 16,583	$ 332,143	$ 74,001	$ 184,685	$ 607,412

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Non-major Enterprise Funds
For the Fiscal Year Ended June 30, 2011
(Expressed in thousands)

	War Memorial Stadium Commission	Construction Assistance Revolving Loan Fund	Public School Employee Health and Life Benefit Plan	Other Revolving Loan Funds	Total
Operating revenues:					
Charges for sales and services	$ 2,760	$	$ 274,073	$	$ 276,833
Licenses, permits and fees		2,581		1,420	4,001
Investment earnings		5,773		3,030	8,803
Miscellaneous		6			6
Total operating revenues	2,760	8,360	274,073	4,450	289,643
Operating expenses:					
Cost of sales and services	1,136		3,648		4,784
Compensation and benefits	543				543
Supplies and services	786		19,074		19,860
General and administrative expenses	303	267	93	244	907
Benefits and aid payments		3,836	252,910	5,882	262,628
Depreciation and amortization	617		18		635
Amortization of bond costs		(264)			(264)
Interest	160	2,975			3,135
Total operating expenses	3,545	6,814	275,743	6,126	292,228
Operating income (loss)	(785)	1,546	(1,670)	(1,676)	(2,585)
Nonoperating revenues (expenses):					
Investment earnings	4		284		288
Grants and contributions	227	13,438	224	24,603	38,492
Other non-operating revenue (expense)	25				25
Total nonoperating revenues (expenses)	256	13,438	508	24,603	38,805
Income (loss) before transfers and contributions	(529)	14,984	(1,162)	22,927	36,220
Transfers in	1,103	1,999		5,841	8,943
Transfers out	(187)	(1,080)	(260)	(3,229)	(4,756)
Change in net assets	387	15,903	(1,422)	25,539	40,407
Total net assets - beginning	12,894	275,218	39,659	155,949	483,720
Total net assets - ending	$ 13,281	$ 291,121	$ 38,237	$ 181,488	$ 524,127

Combining Statement of Cash Flows
Non-major Enterprise Funds
For the Fiscal Year Ended June 30, 2011
(Expressed in thousands)

	War Memorial Stadium Commission	Construction Assistance Revolving Loan Funds	Public School Employee Health and Life Benefit Plan	Other Revolving Loan Funds	Total
Cash flows from operating activities:					
Cash received from customers	$ 2,760	$	$ 273,665	$	$ 276,425
Payments to employees	(492)				(492)
Payments of benefits			(252,910)		(252,910)
Payments to suppliers	(2,176)	(245)	(19,859)		(22,280)
Interest received (paid)	(133)	3,418		2,937	6,222
Loan administration received (paid)		3,763		(23,619)	(19,856)
Federal grant funds expended		(3,836)		(5,882)	(9,718)
Other receipts (payments)		2,385	(3,741)	1,024	(332)
Net cash provided by (used in) operating activities	(41)	5,485	(2,845)	(25,540)	(22,941)
Cash flows from noncapital financing activities:					
Direct lending receipts	1,800				1,800
Direct lending payments	(634)	(50,284)			(50,918)
Grants and contributions	227	13,048	224	24,472	37,971
Proceeds from bond issuance	(19)	31,919			31,900
Transfers in	1,103	1,999		5,841	8,943
Transfers out	(187)	(1,080)	(260)	(3,210)	(4,737)
Net cash provided by (used in) noncapital financing activities	2,290	(4,398)	(36)	27,103	24,959
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(3,234)				(3,234)
Net cash used in capital and related financing activities	(3,234)				(3,234)
Cash flows from investing activities:					
Purchase of investments		(37,416)		(8,434)	(45,850)
Proceeds from sale and maturities of investments		53,889	9,701	11,000	74,590
Interest and dividends on investments	4		336		340
Advance disbursements				(3,700)	(3,700)
Advance repayments				1,066	1,066
Net cash provided by (used in) investing activities	4	16,473	10,037	(68)	26,446
Net increase (decrease) in cash and cash equivalents	(981)	17,560	7,156	1,495	25,230
Cash and cash equivalents - beginning	1,556	59,535	6,746	32,530	100,367
Cash and cash equivalents - ending	$ 575	$ 77,095	$ 13,902	$ 34,025	$ 125,597
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	$ (785)	$ 1,546	$ (1,670)	$ (1,676)	$ (2,585)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	617		18		635
Amortization of bond costs		219		(165)	54
Net appreciation (depreciation) of investments		85		(6)	79
Net changes in assets and liabilities:					
Accounts receivable		9	(305)	(65)	(361)
Loans receivable		3,763		(23,583)	(19,820)
Inventory	(1)				(1)
Other current assets		80	627	(87)	620
Current liabilities	27			18	45
Accounts payable and other accrued liabilities	62	(12)	(1,412)	24	(1,338)
Net OPEB	26				26
Compensated absences	13				13
Deferred revenue		(205)	(103)		(308)
Net cash provided by (used in) operating activities	$ (41)	$ 5,485	$ (2,845)	$ (25,540)	$ (22,941)

FIDUCIARY FUNDS

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

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

Combining Statement of Fiduciary Net Assets
Pension Trust Funds
June 30, 2011
(Expressed in thousands)

Assets	**Teacher**	**APERS**	**Highway**	**Judicial**	**Total**
Cash and cash equivalents	$ 220,659	$ 151,493	$ 100,288	$ 4,233	$ 476,673
Receivables:					
Employee	31,029	401	351	70	31,851
Employer	53,750	2,116	687	183	56,736
Interest and dividends	18,326	16,284	2,938	588	38,136
Advances to other funds	2,685				2,685
Other	405,454	55,504	12	181	461,151
Due from other funds	2,384	2			2,386
Total receivables	513,628	74,307	3,988	1,022	592,945
Investments at fair value:					
U.S. government securities	131,974	248,987	45,499	17,126	443,586
Bonds, notes, mortgages and preferred stock	509,268	88,126	5,763	1,036	604,193
Common stock	2,484,999	2,133,014	940,235	42,501	5,600,749
Real estate	85,550	214,302			299,852
International investments	3,532,464	1,159,481	4,262	1,373	4,697,580
Mutual funds		715,743		14,077	729,820
Pooled investment funds	1,936,406	45,626		54,988	2,037,020
Corporate obligations	262,459	767,497	198,542	29,784	1,258,282
Asset and mortgage-backed securities	69,844	210,927		7,041	287,812
Other	2,632,981	307,241		(6)	2,940,216
Total investments	11,645,945	5,890,944	1,194,301	167,920	18,899,110
Securities lending collateral	704,311	556,717			1,261,028
Capital assets	253	66			319
Other assets	140	14			154
Total assets	13,084,936	6,673,541	1,298,577	173,175	21,230,229
Liabilities					
Accounts payable and other liabilities	11,045	7,738	75	265	19,123
Investment principal payable	470,435	79,251		2,113	551,799
Obligations under securities lending	707,311	569,984			1,277,295
Postemployment benefit liability	1,259	1,038			2,297
Due to other funds	9	84			93
Total liabilities	1,190,059	658,095	75	2,378	1,850,607
Net assets					
Held in trust for employees' pension benefits	$ 11,894,877	$ 6,015,446	$ 1,298,502	$ 170,797	$ 19,379,622

Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Fiscal Year Ended June 30, 2011
(Expressed in thousands)

	Teacher	APERS	Highway	Judicial	Total
Additions:					
Contributions:					
Members	$ 139,460	$ 36,075	$ 8,486	$ 873	$ 184,894
Employers	400,331	201,346	17,662	2,274	621,613
Supplemental contributions		6,907		2,031	8,938
Court fees		1,518		903	2,421
Reinstatement fees		1,157	427		1,584
Total contributions	539,791	247,003	26,575	6,081	819,450
Investment income:					
Net increase (decrease) in fair value of investments	2,117,162	1,140,790	282,637	27,624	3,568,213
Interest, dividends and other	136,294	119,933	20,823	3,665	280,715
Real estate operating income (loss)	7,522	(55)			7,467
Securities lending income	3,342	986			4,328
Total investment income	2,264,320	1,261,654	303,460	31,289	3,860,723
Less investment expense	44,766	21,310	5,192	839	72,107
Net investment income	2,219,554	1,240,344	298,268	30,450	3,788,616
Miscellaneous	280	7,554		(28)	7,806
Total additions (losses)	2,759,625	1,494,901	324,843	36,503	4,615,872
Deductions:					
Benefits paid to participants or beneficiaries	731,866	365,700	77,554	8,983	1,184,103
Refunds of employee/employer contributions	8,907	6,124	961	16	16,008
Administrative expenses	7,549	6,852	61	21	14,483
Total deductions	748,322	378,676	78,576	9,020	1,214,594
Change in net assets held in trust for employees' pension benefits	2,011,303	1,116,225	246,267	27,483	3,401,278
Net assets - beginning	9,883,574	4,899,221	1,052,235	143,314	15,978,344
Net assets - ending	$ 11,894,877	$ 6,015,446	$ 1,298,502	$ 170,797	$ 19,379,622

Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2011
(Expressed in thousands)

	Insurance Department	Other Agencies	Total
Assets			
Cash and cash equivalents	$ 9,966	$ 29,815	$ 39,781
Receivables:			
Interest and dividends	1	18	19
Other		43	43
Total receivables	1	61	62
Investments at fair value:			
Certificates of deposit	1,210	20,669	21,879
Bonds, government securities, notes and mortgages		79,330	79,330
Total investments	1,210	99,999	101,209
Financial assurance instruments	299,207	2,249	301,456
Total assets	$ 310,384	$ 132,124	$ 442,508
Liabilities			
Accounts payable and other liabilities	$	$ 9	$ 9
Due to other governments		115,623	115,623
Due to third parties	310,384	16,492	326,876
Total liabilities	$ 310,384	$ 132,124	$ 442,508

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Fiscal Year Ended June 30, 2011
(Expressed in thousands)

Insurance Department

Assets	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011
Cash and cash equivalents	$ 9,090	$ 1,074	$ 198	$ 9,966
Receivables:				
Interest and dividends	1	1	1	1
Investments at fair value:				
Certificates of deposit	1,260		50	1,210
Financial assurance instruments	310,059		10,852	299,207
Total assets	$ 320,410	$ 1,075	$ 11,101	$ 310,384
Liabilities				
Due to third parties	$ 320,410	$ 1,075	$ 11,101	$ 310,384
Total liabilities	$ 320,410	$ 1,075	$ 11,101	$ 310,384

Other Agencies

Assets	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011
Cash and cash equivalents	$ 17,318	$ 1,885,647	$ 1,873,150	$ 29,815
Receivables:				
Interest and dividends	52	18	52	18
Other	27	219	203	43
Investments at fair value:				
Certificates of deposit	35,926	12,815	28,072	20,669
Bonds, government securities, notes, mortgages and preferred stock	76,259	79,330	76,259	79,330
Financial assurance instruments	6,311		4,062	2,249
Total assets	$ 135,893	$ 1,978,029	$ 1,981,798	$ 132,124
Liabilities				
Accounts payable and other liabilities	$	$ 24,098	$ 24,089	$ 9
Due to other governments	114,683	920,407	919,467	115,623
Due to third parties	21,210	1,034,510	1,039,228	16,492
Total liabilities	$ 135,893	$ 1,979,015	$ 1,982,784	$ 132,124

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Fiscal Year Ended June 30, 2011
(Expressed in thousands)

	Total - All Agency Funds			
Assets	**Balance July 1, 2010**	**Additions**	**Reductions**	**Balance June 30, 2011**
Cash and cash equivalents	$ 26,408	$ 1,886,721	$ 1,873,348	$ 39,781
Receivables:				
Interest and dividends	53	19	53	19
Other	27	219	203	43
Investments at fair value:				
Certificates of deposit	37,186	12,815	28,122	21,879
Bonds, government securities, notes, mortgages, and preferred stock	76,259	79,330	76,259	79,330
Financial assurance instruments	316,370		14,914	301,456
Total assets	$ 456,303	$ 1,979,104	$ 1,992,899	$ 442,508
Liabilities				
Accounts payable and other liabilities	$	$ 24,098	$ 24,089	$ 9
Due to other governments	114,683	920,407	919,467	115,623
Due to third parties	341,620	1,035,585	1,050,329	326,876
Total liabilities	$ 456,303	$ 1,980,090	$ 1,993,885	$ 442,508

GREAT SEAL OF THE STATE OF ARKANSAS

REGNAT POPULUS

MERCY

JUSTICE

Statistical Section

2011

Statistical Section – Table of Contents

This section contains statistical tables that reflect financial trends information, revenue capacity information, debt capacity information, demographic and economic information, operating information and other information. These tables differ from the financial statements because they usually cover more than two fiscal years and may present non-accounting data.

The Statistical Section is divided into 6 sections as follows:

Contents **Page**

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

Primary Government	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Governmental Activities										
Invested in capital assets, net of related debt	$ 9,289,091	$ 8,886,979	$ 8,766,290	$ 8,210,615	$ 7,937,210	$ 7,880,406	$ 7,563,452	$ 7,375,246	$ 7,009,304	$ 6,730,616
Restricted	1,190,245	1,253,570	734,837	863,721	812,989	672,391	506,508	231,314	178,871	179,988
Unrestricted	1,045,962	1,251,501	1,922,388	2,349,314	2,469,825	2,001,993	1,803,726	1,657,482	1,399,219	1,477,114
Total governmental activities net assets	11,525,298	11,392,050	11,423,515	11,423,650	11,220,024	10,554,790	9,873,686	9,264,042	8,587,394	8,387,718
Business-Type Activities										
Invested in capital assets, net of related debt	1,805,096	1,757,523	1,690,161	1,500,418	1,456,147	1,244,773	1,200,731	1,159,058	1,106,738	1,014,975
Restricted	849,209	760,352	726,800	954,661	882,865	879,536	760,011	649,458	567,056	663,139
Unrestricted	429,293	311,584	325,596	459,677	410,378	509,394	463,153	419,697	388,486	381,757
Total business-type activities net assets	3,083,598	2,829,459	2,742,557	2,914,756	2,749,390	2,633,703	2,423,895	2,228,213	2,062,280	2,059,871
Total Primary Government										
Invested in capital assets, net of related debt	11,094,187	10,644,502	10,456,451	9,711,033	9,393,357	9,125,179	8,764,183	8,534,304	8,116,042	7,745,591
Restricted	2,039,454	2,013,922	1,461,637	1,818,382	1,695,854	1,551,927	1,266,519	880,772	745,927	843,127
Unrestricted	1,475,255	1,563,085	2,247,984	2,808,991	2,880,203	2,511,387	2,266,879	2,077,179	1,787,705	1,858,871
Total primary government activities net assets	$ 14,608,896	$ 14,221,509	$ 14,166,072	$ 14,338,406	$ 13,969,414	$ 13,188,493	$ 12,297,581	$ 11,492,255	$ 10,649,674	$ 10,447,589

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Governmental										
Expenses										
General government	$ 1,477,309	$ 1,356,657	$ 1,310,341	$ 1,296,232	$ 1,156,301	$ 1,187,512	$ 1,042,440	$ 1,071,734	$ 1,048,805	$ 940,426
Education	3,769,004	3,605,065	3,338,002	3,291,054	3,153,653	3,048,477	2,881,337	2,342,543	2,326,854	2,236,210
Health and human services	6,411,416	6,144,706	5,457,305	5,195,317	4,855,759	4,663,898	4,538,242	4,100,830	3,785,128	3,304,714
Transportation	759,872	731,317	699,737	668,305	625,911	642,297	626,138	606,900	620,424	522,826
Law, justice and public safety	748,590	779,374	820,960	631,793	587,413	620,905	518,579	529,693	441,258	428,701
Recreation and resources development	350,530	277,402	243,419	244,959	219,283	201,955	175,097	189,406	243,519	218,534
Regulation of business and professionals	120,320	105,968	107,347	105,620	119,225	115,887	117,525	130,349	115,983	98,494
Interest on long-term debt	44,824	52,145	55,193	57,923	56,143	59,501	60,101	56,906	55,677	51,215
Total Expenses	13,681,865	13,052,634	12,032,304	11,491,203	10,773,688	10,540,432	9,959,459	9,028,361	8,637,648	7,801,120
Program Revenues										
Charges for services										
General government	336,193	325,072	276,112	291,216	269,310	256,641	270,746	279,902	252,146	279,099
Education	6,675	6,469	18,637	16,638	14,322	13,501	9,217	4,617	10,057	6,948
Health and human services	385,693	362,532	303,174	244,706	234,181	217,429	214,646	124,321	173,949	202,307
Transportation	110,831	107,818	147,267	146,463	137,338	133,993	130,190	122,873	132,673	12,819
Law, justice and public safety	75,051	73,601	70,262	72,066	64,666	63,251	60,540	61,163	24,350	9,262
Recreation and resources development	81,076	79,780	106,988	79,438	61,844	55,223	55,026	52,597	51,626	45,582
Regulation of business and professionals	87,526	80,079	76,695	81,585	86,721	89,950	76,026	67,172	75,160	68,180
Operating grants	6,092,989	5,868,623	4,943,264	4,410,782	4,180,653	4,150,897	3,997,615	3,805,225	3,802,814	3,425,029
Capital grants and contributions	551,523	493,064	455,765	413,055	422,270	392,744	431,739	454,668	15,419	6,707
Total Program Revenues	7,727,557	7,397,038	6,398,164	5,755,949	5,471,305	5,373,629	5,245,745	4,972,538	4,538,194	4,055,933
Net (Expense) Revenue	(5,954,308)	(5,655,596)	(5,634,140)	(5,735,254)	(5,302,383)	(5,166,803)	(4,713,714)	(4,055,823)	(4,099,454)	(3,745,187)
General Revenues and Transfers										
Taxes:										
Personal and corporate income	2,688,093	2,468,798	2,507,368	2,655,399	2,522,806	2,374,801	2,164,445	1,920,448	1,722,167	1,678,750
Consumer sales and use	2,483,908	2,376,891	2,487,944	2,544,356	2,618,936	2,509,664	2,380,921	1,956,032	1,788,327	1,780,774
Gas and motor carrier	444,555	449,274	444,496	456,223	462,732	456,223	450,281	449,960	439,483	477,384
Other	927,922	903,113	815,206	790,010	785,213	760,431	720,948	695,623	638,469	556,739
Investment earnings	43,232	52,809	82,681	172,081	162,603	96,369	58,348	36,651	46,139	63,121
Miscellaneous income	343,874	330,397	286,173	274,730	247,395	370,352	203,101	295,706	292,716	45,374
Loss on sale of fixed assets									(31,910)	(14,696)
Transfers-internal activities	(844,028)	(885,711)	(955,484)	(947,339)	(811,518)	(719,933)	(654,686)	(637,949)	(596,261)	(609,619)
Restatement		(71,440)	(34,379)	(6,580)	(20,550)			16,000		
Total General Revenues and Transfers	6,087,556	5,624,131	5,634,005	5,938,880	5,967,617	5,847,907	5,323,358	4,732,471	4,299,130	3,977,827
Total Governmental Activities Change in Net Assets	$ 133,248	$ (31,465)	$ (135)	$ 203,626	$ 665,234	$ 681,104	$ 609,644	$ 676,648	$ 199,676	$ 232,640

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Business-Type										
Expenses										
Higher Education	$ 3,362,705	$ 3,191,697	$ 3,021,439	$ 2,851,140	$ 2,628,963	$ 2,422,557	$ 2,256,317	$ 2,121,960	$ 1,987,141	$ 1,856,264
Workers' Compensation Commission	29,768	15,918	29,349	53,967	33,363	36,629	35,517	31,829	33,938	28,544
Department of Workforce Services	776,734	1,211,812	901,064	432,661	384,313	322,205	325,595	310,539	482,669	479,834
Lottery Commission (1)	371,716	302,579	16							
War Memorial Stadium Commission	3,545	3,439	2,585	3,990	3,293	4,310	1,830	1,726	1,799	1,623
Public School Employee Health and Life										
Benefit Plan (2)	275,743	260,194	259,385	232,252	240,944	219,544	202,137			
Revolving loans	12,940	18,675	3,941	4,203	4,406	4,603	4,766	5,671	5,866	8,791
Total Expenses	4,833,151	5,004,314	4,217,779	3,578,213	3,295,282	3,009,848	2,826,162	2,471,725	2,511,413	2,375,056
Program Revenues										
Charges for services										
Higher Education	1,471,639	1,529,344	1,424,219	1,345,783	1,196,351	1,160,194	1,054,808	991,698	915,015	1,160,109
Workers' Compensation Commission									6	
Lottery Commission (1)	465,075	384,565								
War Memorial Stadium Commission	2,760	1,852	1,803	1,860	1,980	1,436	746	1,349	1,556	1,365
Public School Employee Health and Life										
Benefit Plan (2)	274,073	268,312	252,927	241,839	232,558	233,250	211,430			
Revolving loans	4,001	3,732	3,485	3,335	3,120	2,838	2,364			
Operating grants	1,325,685	1,498,215	928,570	626,798	578,648	566,200	602,649	549,004	544,918	160,833
Capital grants and contributions	44,313	33,052	52,438	72,677	60,447	59,025	70,432	56,889	88,396	70,832
Total Program Revenues	3,587,546	3,719,072	2,663,442	2,292,292	2,073,104	2,022,943	1,942,429	1,598,940	1,549,891	1,393,139
Net (Expense) Revenue	(1,245,605)	(1,285,242)	(1,554,337)	(1,285,921)	(1,222,178)	(986,905)	(883,733)	(872,785)	(961,522)	(981,917)
Business-Type Revenues and Transfers										
Taxes:										
Other	449,146	377,460	320,271	310,728	306,019	326,343	310,431	318,555	265,911	249,225
Investment earnings	52,979	54,846	(8,628)	57,064	96,394	61,462	48,310	40,237	48,295	39,565
Miscellaneous income	153,592	82,176	108,788	136,156	123,934	88,975	65,988	35,119	58,436	65,672
Loss on sale of fixed assets									(4,972)	(1,956)
Transfers-internal activities	844,027	885,711	955,484	947,339	811,518	719,933	654,686	637,949	596,261	609,619
Restatement		(28,049)	6,223					6,858		
Total Business-Type Revenues and Transfers	1,499,744	1,372,144	1,382,138	1,451,287	1,337,865	1,196,713	1,079,415	1,038,718	963,931	962,125
Total Business-Type Activities Changes in Net Assets	254,139	86,902	(172,199)	165,366	115,687	209,808	195,682	165,933	2,409	(19,792)
Total Primary Government Change in Net Assets	$ 387,387	$ 55,437	$ (172,334)	$ 368,992	$ 780,921	$ 890,912	$ 805,326	$ 842,581	$ 202,085	$ 212,848

(1) The Lottery Commission was created in 2009; operations commenced in 2010.

(2) Starting in fiscal year 2005, Public School Employee Health and Life Benefit Plan revenues and expenditures were recorded in the Enterprise fund.

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

	2011*	2010	2009	2008
General Fund				
Nonspendable	$ 306,275			
Restricted	567,792			
Committed	1,555,139			
Assigned	382,308			
Unassigned	700,000			
Total General Fund	3,511,514			
Total Fund Balances, Governmental Funds	$ 3,511,514			
General Fund				
Reserved		$ 1,838,326	$ 1,276,214	$ 1,257,856
Unreserved		1,836,912	2,256,642	2,309,421
Total General Fund		3,675,238	3,532,856	3,567,277
Total Fund Balances, Governmental Funds		$ 3,675,238	$ 3,532,856	$ 3,567,277

***** Change in presentation for Fiscal Year 2011 is due to implementation of GASB No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. Restatement of prior year balances is not feasible.

2007		2006		2005		2004		2003		2002
1,227,194	$	954,015	$	988,971	$	712,864	$	769,067	$	839,209
2,272,762		1,988,211		1,532,038		1,384,917		973,152		839,121
3,499,956		2,942,226		2,521,009		2,097,781		1,742,219		1,678,330
3,499,956	$	2,942,226	$	2,521,009	$	2,097,781	$	1,742,219	$	1,678,330

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

	2011	2010	2009	2008
Revenues:				
Taxes:				
Personal and corporate income	$ 2,697,352	$ 2,471,420	$ 2,549,965	$ 2,644,852
Consumer sales and use	2,491,772	2,390,819	2,502,403	2,551,222
Gas and motor carrier	444,232	449,754	444,573	456,216
Other	927,452	903,618	813,733	790,122
Intergovernmental	6,642,135	6,364,695	5,394,538	4,832,649
Licenses, permits and fees	1,109,258	1,055,693	1,031,568	957,424
Investment earnings	43,232	52,809	82,681	172,081
Miscellaneous	344,241	336,775	278,046	275,646
Total Revenues	14,699,674	14,025,583	13,097,507	12,680,212
Expenditures:				
Current:				
General government	1,367,985	1,237,895	1,190,436	1,190,857
Education	3,764,814	3,600,560	3,333,875	3,286,143
Health and human services	6,401,101	6,129,257	5,441,822	5,184,858
Transportation	391,019	365,980	348,665	338,062
Law, justice and public safety	719,401	747,379	794,793	606,633
Recreation and resources development	330,301	258,322	225,461	228,663
Regulation of business and professionals	119,058	108,748	105,752	109,818
Debt service:				
Principal retirement	204,701	95,924	101,054	107,070
Interest expense	52,665	53,303	55,766	59,671
Bond issuance costs		1,675	406	345
Capital outlay	683,872	614,241	561,354	628,536
Total Expenditures	14,034,917	13,213,284	12,159,384	11,740,656
Excess (deficiency) of revenues over expenditures	664,757	812,299	938,123	939,556
Other financing sources (uses):				
Issuance of debt	11,391	324,745	18,721	35,417
Proceeds from bond refunding				
Bond discounts/premiums		21,045	(618)	(306)
Payment to refunding escrow agent		(174,165)		(4,523)
Capital leases		19,520	3,892	32,047
Installment sales				13,210
Sale of capital assets	4,083	2,476	2,924	2,943
Transfers in	188,947	160,402	72,467	82,277
Transfers out	(1,032,902)	(1,046,121)	(1,027,604)	(1,033,300)
Restatement		22,181	(42,326)	
Total other financing sources and uses	(828,481)	(669,917)	(972,544)	(872,235)
Net change in fund balances	(163,724)	142,382	(34,421)	67,321
Fund balances-July 1	3,675,238	3,532,856	3,567,277	3,499,956
Fund balances-June 30	$ 3,511,514	$ 3,675,238	$ 3,532,856	$ 3,567,277
Debt Service as a percentage of noncapital expenditures:	1.93%	1.18%	1.35%	1.50%

2007	2006	2005	2004	2003	2002
$ 2,515,958	$ 2,374,853	$ 2,169,849	$ 1,914,067	$ 1,714,603	$ 1,671,615
2,624,325	2,519,443	2,382,865	1,951,475	1,770,946	1,719,686
463,362	456,569	450,269	450,444	439,614	430,735
784,936	760,799	721,144	694,802	638,510	647,387
4,594,212	4,540,408	4,418,148	4,249,189	3,823,171	3,417,665
886,106	853,616	836,688	717,092	750,872	591,817
162,603	96,369	57,999	36,651	46,139	63,167
287,031	345,978	248,138	313,952	250,566	49,403
12,318,533	11,948,035	11,285,100	10,327,672	9,434,421	8,591,475
1,213,597	1,137,458	1,058,514	1,029,316	1,044,164	902,922
3,149,468	3,044,735	2,877,770	2,336,813	2,324,631	2,231,401
4,844,657	4,653,553	4,526,132	4,065,745	3,772,155	3,293,609
297,816	320,417	319,140	312,688	346,282	257,976
552,728	588,661	480,246	496,109	416,353	405,434
187,970	186,137	159,709	159,895	221,987	196,731
112,833	112,623	114,484	125,968	108,378	96,655
103,782	97,583	46,723	36,809	40,066	49,478
59,752	61,065	58,866	56,769	50,341	43,578
1,317	818	2,905	1,194	624	336
611,567	673,624	704,117	755,373	692,898	810,947
11,135,487	10,876,674	10,348,606	9,376,679	9,017,879	8,289,067
1,183,046	1,071,361	936,494	950,993	416,542	302,408
38,320	71,993	116,717	24,974	224,020	185,000
224,855	15,540			31,150	45,145
5,248	1,967	2,844	620	10,329	9,365
(107,806)	(24,371)	(60,325)		(32,737)	(44,393)
22,855	2,223	80,010	4,961	10,846	15,086
2,717	2,297	2,289	2,296		
60,316	47,254	46,495	49,099	5,266	757
(871,821)	(767,047)	(701,296)	(677,381)	(601,527)	(610,376)
					(49,073)
(625,316)	(650,144)	(513,266)	(595,431)	(352,653)	(448,489)
557,730	421,217	423,228	355,562	63,889	(146,081)
2,942,226	2,521,009	2,097,781	1,742,219	1,678,330	1,824,411
$ 3,499,956	$ 2,942,226	$ 2,521,009	$ 2,097,781	$ 1,742,219	$ 1,678,330
1.55%	1.55%	1.09%	1.09%	1.09%	1.24%

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

Industry	2011 Revenue Base	2011 Percent of Total	2010 Revenue Base	2010 Percent of Total	2009 Revenue Base	2009 Percent of Total	2008 Revenue Base	2008 Percent of Total
Agriculture, Forestry, Fishing and Hunting	$ 97,379	0.24%	$ 97,655	0.23%	$ 112,929	0.23%	$ 105,304	0.25%
Mining	163,822	0.40%	251,689	0.60%	311,266	0.62%	246,908	0.60%
Utilities	4,095,947	9.93%	4,233,123	10.03%	5,493,990	11.00%	4,708,255	11.40%
Construction	589,146	1.43%	564,684	1.34%	612,122	1.23%	529,727	1.28%
Manufacturing	3,404,998	8.25%	3,262,473	7.73%	3,864,172	7.73%	3,624,193	8.77%
Wholesale Trade	3,974,829	9.64%	3,910,161	9.26%	4,645,027	9.30%	4,218,275	10.21%
Retail Trade	19,055,734	46.20%	19,632,455	46.50%	21,901,249	43.85%	18,485,279	44.75%
Transportation and Warehousing	277,598	0.67%	283,412	0.67%	417,326	0.84%	362,152	0.88%
Information	2,590,266	6.28%	3,056,493	7.24%	5,253,774	10.52%	2,722,146	6.59%
Finance and Insurance	55,309	0.13%	62,647	0.15%	67,089	0.13%	57,703	0.14%
Real Estate, Rental and Leasing	877,160	2.13%	827,440	1.96%	957,993	1.92%	832,469	2.02%
Professional, Scientific and Technical Services	144,678	0.35%	119,903	0.28%	143,516	0.29%	112,101	0.27%
Management of Companies and Enterprises	483	0.00%	167	0.00%	56,835	0.11%	120	0.00%
Administrative, Support, Waste Management and Remediation Services	689,466	1.67%	671,947	1.59%	653,184	1.31%	585,095	1.42%
Educational Services	44,236	0.11%	49,553	0.12%	36,476	0.07%	41,684	0.10%
Health Care and Social Services	56,141	0.13%	92,069	0.22%	72,416	0.14%	64,206	0.16%
Arts, Entertainment and Recreation	167,512	0.41%	162,494	0.38%	177,186	0.35%	159,423	0.39%
Accommodation and Food Services	3,515,932	8.52%	3,528,970	8.36%	3,754,045	7.52%	3,198,652	7.74%
Other Services (except Public Administration)	1,374,149	3.33%	1,332,520	3.16%	1,342,494	2.69%	1,182,542	2.86%
Public Administration	75,043	0.18%	74,704	0.18%	74,436	0.15%	72,240	0.17%
Total (1)	$ 41,249,828	100%	$ 42,214,559	100%	$ 49,947,525 (2)	100%	$ 41,308,474	100%
Direct Sales Tax Rate	6.00% (General) 2.00% (Food) 3.25% (Mfg Util Tax)		6.00% (General) 2.00% (Food) 3.25% (Mfg Util Tax)		6.00% (General) 3.00% (Food) 4.00% (Mfg Util Tax)		6.00% (General) 3.00% (Food) 4.50% (Mfg Util Tax)	

[1] Amounts do not include tax collected on automobile transactions.
[2] State converted to new data base system in 2009 resulting in more accurate accumulation of data.

Source: Department of Finance and Administration Revenue Division--Sales and Use Tax Section

2007		2006		2005		2004		2003		2002	
Revenue Base	Percent of Total	Revenue Base	Percent of Total	Revenue Base	Percent of Total	Revenue Base	Percent of Total	Revenue Base	Percent of Total	Revenue Base	Percent of Total
$ 108,964	0.27%	$ 103,605	0.26%	$ 110,174	0.29%	$ 91,427	0.28%	$ 117,991	0.36%	$ 118,261	0.36%
224,806	0.55%	187,394	0.48%	154,114	0.41%	111,126	0.34%	111,704	0.34%	114,489	0.35%
4,532,525	11.06%	4,380,370	11.17%	3,657,722	9.72%	3,332,085	10.14%	3,176,490	9.63%	3,267,356	10.01%
493,295	1.20%	466,170	1.19%	405,129	1.08%	326,167	0.99%	347,510	1.05%	360,689	1.10%
3,670,740	8.96%	3,438,906	8.77%	3,362,676	8.94%	2,729,986	8.30%	2,801,495	8.49%	3,180,714	9.74%
4,205,431	10.26%	3,982,576	10.16%	3,802,827	10.11%	3,194,942	9.72%	3,314,094	10.04%	3,340,808	10.23%
18,655,946	45.51%	18,145,437	46.27%	17,778,800	47.25%	16,013,365	48.71%	15,982,194	48.42%	15,297,593	46.84%
384,758	0.94%	281,285	0.72%	252,335	0.67%	161,738	0.49%	392,981	1.19%	360,558	1.10%
2,653,893	6.47%	2,525,643	6.44%	2,454,873	6.53%	2,342,534	7.12%	2,135,098	6.47%	2,164,729	6.63%
47,903	0.12%	46,611	0.12%	47,115	0.13%	44,144	0.13%	48,966	0.15%	36,207	0.11%
803,267	1.96%	724,694	1.85%	701,230	1.86%	608,522	1.85%	591,972	1.79%	546,893	1.67%
108,423	0.26%	99,865	0.25%	102,152	0.27%	87,395	0.27%	86,886	0.26%	91,036	0.28%
293	0.00%	27	0.00%	38	0.00%	15	0.00%	5	0.00%	6	0.00%
550,851	1.34%	520,973	1.33%	481,704	1.28%	197,552	0.60%	168,243	0.51%	147,361	0.45%
41,719	0.10%	43,524	0.11%	50,060	0.13%	45,713	0.14%	50,875	0.16%	54,329	0.17%
62,036	0.15%	54,830	0.14%	62,941	0.17%	59,786	0.18%	67,447	0.20%	54,150	0.17%
161,053	0.39%	152,619	0.39%	151,894	0.40%	125,084	0.38%	128,727	0.39%	125,777	0.39%
3,117,969	7.61%	2,975,856	7.59%	2,969,613	7.89%	2,544,689	7.74%	2,588,666	7.84%	2,518,407	7.71%
1,102,308	2.69%	1,018,174	2.60%	1,024,751	2.72%	808,652	2.46%	842,348	2.55%	826,560	2.53%
65,026	0.16%	64,070	0.16%	56,261	0.15%	50,974	0.16%	53,507	0.16%	51,198	0.16%
$ 40,991,206	100%	$ 39,212,629	100%	$ 37,626,409	100%	$ 32,875,896	100%	$ 33,007,199	100%	$ 32,657,121	100%
6.00%		6.00%		6.00%		5.125% (07/03-02/04) 6.00% (03/04-06/04)		5.125%		5.125%	

Schedule 6
Revenue Payers (Unaudited)
Current Fiscal Year as Compared to 2002
(Expressed in thousands, except number of taxpayers)

	2011				2002	
Industry	Sales Tax Collected	Percent of Total	Number of Taxpayers	Percent of Total	Sales Tax Collected	Percent of Total
Agriculture, Forestry, Fishing and Hunting	$ 5,803	0.25%	670	1.08%	$ 6,061	0.36%
Mining	9,611	0.42%	146	0.24%	5,868	0.35%
Utilities	244,099	10.68%	722	1.17%	167,452	10.01%
Construction	35,326	1.55%	1,929	3.12%	18,485	1.10%
Manufacturing	191,827	8.39%	4,095	6.63%	163,012	9.74%
Wholesale Trade	235,576	10.31%	5,821	9.43%	171,216	10.23%
Retail Trade	972,983	42.58%	23,755	38.46%	784,002	46.84%
Transportation and Warehousing	16,648	0.73%	1,632	2.64%	18,479	1.10%
Information	155,269	6.79%	954	1.54%	110,942	6.63%
Finance and Insurance	3,319	0.15%	277	0.45%	1,856	0.11%
Real Estate, Rental and Leasing	52,583	2.30%	1,465	2.37%	28,028	1.67%
Professional, Scientific and Technical Services	8,680	0.38%	1,406	2.28%	4,666	0.28%
Management of Companies and Enterprises	29	0.00%	5	0.01%	0	0.00%
Administrative, Support, Waste Management and Remediation Services	41,359	1.81%	3,346	5.42%	7,552	0.45%
Educational Services	2,650	0.12%	265	0.43%	2,784	0.17%
Health Care and Social Services	3,355	0.15%	1,043	1.69%	2,775	0.17%
Arts, Entertainment and Recreation	10,029	0.44%	928	1.50%	6,446	0.39%
Accommodation and Food Services	209,660	9.17%	6,483	10.50%	129,068	7.71%
Other Services (except Public Administration)	82,374	3.60%	6,767	10.96%	42,361	2.53%
Public Administration	4,167	0.18%	51	0.08%	2,624	0.16%
Total	$ 2,285,347	100%	61,760	100%	$ 1,673,677	100%

Source: Department of Finance and Administration Revenue Division - Sales and Use Tax Section

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Governmental										
General	$ 755,868	$ 942,722	$ 855,599	$ 912,295	$ 972,193	$ 900,402	$ 944,858	$ 923,173	$ 920,986	$ 712,939
Special						205	370	460	585	765
Revenue bond	1,385		2,575	5,703	2,925	2,988				
Add (deduct):										
Deferred bond refunding loss	(16,849)	(20,593)	(11,852)	(13,140)	(14,263)	(5,542)	(4,807)	(1,011)	(1,064)	
Issuance premiums/(discounts)	21,287	28,002	12,614	15,786	18,689	15,814	16,141	15,339	16,709	8,424
Other debt instruments									25	2,499
Notes payable to component unit	100,674	100,788	109,893	117,390	121,644	123,256	96,683	57,148	56,331	60,000
Notes payable to pension trust fund	2,685	5,172	7,474	9,606	11,580	13,408	15,100	16,667	18,118	19,461
Revolving loan fund	155									
Notes payable to healthcare financing administration							171	721	1,131	2,154
Capital leases	0	692	1,874	4,586	3,520	4,420	6,927	9,536	11,862	14,567
Capital leases with component unit	131,468	137,949	123,800	131,792	111,450	97,824	107,522	70,582	76,041	77,153
Installment sale with component unit	11,870	12,340	12,795	13,210						
Total Governmental Activities Debt	1,008,543	1,207,072	1,114,772	1,197,228	1,227,738	1,152,775	1,182,965	1,092,615	1,100,724	897,962
Business-Type										
Special obligation:										
War Memorial Stadium Commission	3,000	1,700							940	1,835
Construction Assistance Revolving Loan Fund	41,995	57,910	65,120	72,965	78,775	83,955	88,910	93,530	103,275	108,115
College & University Revenue Bonds	1,594,226	1,402,967	1,314,295	1,246,075	1,197,070	1,155,673	895,910	661,551	637,229	497,060
Add (deduct): issuance premiums/(discounts)	15,635	9,214	8,364	9,307	8,912	8,803	100	(123)	(1,124)	(1,455)
Notes payable	56,988	45,092	47,285	32,016	22,920	17,930	17,128	14,519	22,281	22,028
Notes payable with component unit	2,046	2,550	3,042	3,518	5,857	6,666	8,728	9,675	6,349	6,754
Capital leases	46,178	40,408	45,002	42,002	29,737	25,092	21,470	17,450	8,114	9,921
Capital leases with component unit	420	620	810	995	1,174	1,354	1,665	1,960	2,240	2,574
Total Business-Type Activities Debt	1,760,488	1,560,461	1,483,918	1,406,878	1,344,445	1,299,473	1,033,911	798,562	779,304	646,832
Total Primary Government Debt	2,769,031	2,767,533	2,598,690	2,604,106	2,572,183	2,452,248	2,216,876	1,891,177	1,880,028	1,544,794
Debt Ratios: Primary Government										
Ratio of Primary Government Debt to Personal Income (1)	2.74%	2.86%	2.78%	2.79%	2.88%	2.96%	2.86%	2.57%	2.72%	2.35%
Per Capita (2)	$ 936	$ 946	$ 895	$ 905	$ 902	$ 868	$ 795	$ 686	$ 689	$ 570
Net General Obligation Bonded Debt										
Gross bonded debt (3)	$ 755,868	$ 942,722	$ 855,599	$ 912,295	$ 972,193	$ 900,402	$ 944,858	$ 923,173	$ 920,986	$ 712,939
Less: debt service funds	(136,092)	(243,153)	(183,325)	(255,139)	(248,143)	(111,587)	(100,166)	(37,561)	(27,639)	(35,462)
Net bonded debt	$ 619,776	$ 699,569	$ 672,274	$ 657,156	$ 724,050	$ 788,815	$ 844,692	$ 885,612	$ 893,347	$ 677,477
Per Capita (2)	$ 210	$ 239	$ 232	$ 228	$ 254	$ 279	$ 303	$ 321	$ 327	$ 250
Supplementary Information										
Component Unit Debt										
Arkansas Student Loan Authority:										
Revenue bonds payable	241,281	521,450	612,400	691,150	753,780	753,780	580,700	404,650	313,780	320,640
Less: deferred bond refunding loss							(241)	(1,117)	(10)	(15)
Notes payable	217,373	252,700							6,860	
Arkansas Development Finance Authority:										
Bonds payable	954,340	1,153,676	1,080,671	1,084,940	1,133,632	1,114,118	1,173,362	1,145,682	1,418,162	1,432,066
Notes payable	13,634	4,236		205,723	220,751	312,307	326,055	216,315		
Add (deduct): issuance premiums/(discounts)	1,318	1,756	2,232	2,951	2,686	(517)	(961)	(2,098)	(1,715)	(1,962)
U of A Foundation Annuity Obligations	15,967	16,669	15,443	18,362	19,606	18,524	16,783	15,376	14,748	
Total Component Unit Debt	1,443,913	1,950,487	1,710,746	2,003,126	2,130,455	2,198,212	2,095,698	1,778,808	1,751,825	1,750,729
Total Debt	$ 4,212,944	$ 4,718,020	$ 4,309,436	$ 4,607,232	$ 4,702,638	$ 4,650,460	$ 4,312,574	$ 3,669,985	$ 3,631,853	$ 3,295,523
Debt Ratios										
Ratio of Total Debt to Personal Income (1)	4.18%	4.88%	4.62%	4.93%	5.27%	5.61%	5.57%	4.98%	5.25%	5.02%
Per Capita (2)	$ 1,426	$ 1,614	$ 1,485	$ 1,600	$ 1,648	$ 1,647	$ 1,547	$ 1,332	$ 1,331	$ 1,216

(1) Personal income data can be found in schedule 9.
(2) Population can be found in schedule 9.
(3) Bond detail can be found in Note 8 to the financial statements.

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

Colleges and Universities (1)	Gross revenue (2)	Direct operating expense	Net revenue available for debt service	Principal	Interest	Total debt service	Coverage
Refunding Bonds							
2011	$ 161,448	$ 6,173	$ 155,275	$ 12,380	$ 6,747	$ 19,127	8.12
2010	139,163	5,210	133,953	7,629	5,663	13,292	10.08
2009	78,002	3,361	74,641	6,086	4,016	10,102	7.39
2008	76,479	12,134	64,345	5,300	3,659	8,959	7.18
2007	63,172	8,086	55,086	4,700	3,023	7,723	7.13
2006	60,064	7,344	52,720	3,925	2,295	6,220	8.48
Housing Bonds							
2011	$ 54,774	$ 23,103	$ 31,671	$ 4,380	$ 7,532	$ 11,912	2.66
2010	48,552	27,908	20,644	3,785	6,940	10,725	1.92
2009	60,375	34,186	26,189	3,105	6,410	9,515	2.75
2008	55,512	35,237	20,275	3,075	5,766	8,841	2.29
2007	27,940	16,486	11,454	2,190	4,627	6,817	1.68
2006	24,456	17,323	7,133	1,400	3,899	5,299	1.35
Facilities Bonds							
2011	$ 1,176,401	$ 713,340	$ 463,061	$ 29,904	$ 46,107	$ 76,011	6.09
2010	1,096,180	695,688	400,492	39,707	47,211	86,918	4.61
2009	1,055,983	651,507	404,476	30,189	45,362	75,551	5.35
2008	1,077,972	786,420	291,552	26,310	40,342	66,652	4.37
2007	804,021	615,582	188,439	29,260	33,068	62,328	3.02
2006	719,119	530,582	188,537	15,529	25,911	41,440	4.55
General Revenue and Other Bonds							
2011	$ 7,898	$ 1,338	$ 6,560	$ 1,975	$ 2,312	$ 4,287	1.53
2010	12,442	5,249	7,193	2,000	1,552	3,552	2.03
2009	11,991	6,631	5,360	1,710	1,986	3,696	1.45
2008	11,200	5,978	5,222	1,645	2,048	3,693	1.41
2007	8,042	3,427	4,615	1,585	1,708	3,293	1.40
2006	6,042	1,755	4,287	1,310	2,171	3,481	1.23

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:							
2011	$ 77,732	$ 4,610	$ 73,122	$ 26,219	$ 5,023	$ 31,242	2.34
2010	76,356	6,271	70,085	90,950	4,204	95,154	0.74
2009	94,811	6,144	88,667	78,750	14,967	93,717	0.95
2008	122,316	5,986	116,330	62,630	36,842	99,472	1.17
2007	164,085	5,405	158,680	0	29,956	29,956	5.30
2006	138,668	5,316	133,352	30,520	19,493	50,013	2.67
2005	85,008	4,832	80,176	11,300	10,828	22,128	3.62
2004	67,473	4,069	63,404	7,180	5,543	12,723	4.98
2003	67,629	3,677	63,952	6,860	6,594	13,454	4.75
2002	61,654	3,597	58,057	13,005	7,769	20,774	2.79

(1) Information not available prior to fiscal year 2006.
(2) Gross revenues include student tuition and fees, housing fees, rent, athletic fees, millage revenue and other auxiliary revenues.

Source: Colleges and Universities; Arkansas Student Loan Authority

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

Calendar year	Total population (in thousands)	Total personal income (in millions)	Per capita personal income	Unemployment rate
2011*	2,946	$ 100,573	$ 34,141	7.8%
2010	2,924	96,663	33,057	7.9%
2009	2,902	93,374	32,176	7.4%
2008	2,879	93,481	32,470	5.3%
2007	2,853	89,313	31,306	5.2%
2006	2,824	82,918	29,359	5.3%
2005	2,787	77,476	27,799	5.1%
2004	2,755	73,720	26,762	5.6%
2003	2,729	69,231	25,369	5.8%
2002	2,710	65,647	24,228	5.3%

* Projected numbers

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

Schedule 10
Principal Employers (Unaudited)
Current Year as Compared to 2002

2011	Employer	Total Employees	Percentage of Total Arkansas Employment
1	Arkansas State Government	56,751	4.8%
2	Wal-Mart Stores, Inc.	47,796	4.1%
3	Tyson Foods, Inc.	24,000	2.0%
4	U.S. Federal Government	20,900	1.8%
5	Baptist Health	7,813	0.7%
6	Sisters of Mercy Health System	6,300	0.5%
7	J.B. Hunt Transportation Services, Inc.	4,300	0.4%
8	Arkansas Children's Hospital	4,261	0.4%
9	Simmons Foods, Inc.	3,935	0.3%
10	FedEx	3,750	0.3%
		179,806	15.3%

2002	Employer	Total Employees	Percentage of Total Arkansas Employment
1	Arkansas State Government	49,579	4.3%
2	Wal-Mart Stores, Inc.	42,462	3.7%
3	Tyson Foods, Inc.	24,274	2.1%
4	U.S. Federal Government	20,774	1.8%
5	Baptist Health	7,369	0.6%
6	ConAgra, Inc.	6,400	0.6%
7	Whirlpool Corp.	4,500	0.4%
8	Energy Corp.	4,000	0.3%
9	Georgia Pacific Corp.	3,731	0.3%
10	Beverly Enterprises, Inc.	3,667	0.3%
		166,756	14.4%

Source: Arkansas Business Publishing Group; Arkansas Department of Economic Development; and Arkansas Department of Finance and Administration

Schedule 11
State Employees by Function (Unaudited)
Last Nine Fiscal Years [1]

Full-Time Employees	2011	2010	2009	2008	2007	2006	2005	2004	2003
General Government									
Department of Finance and Administration - Revenue	1,426	1,423	1,473	1,443	1,420	1,370	1,371	1,352	1,319
All Other	2,816	2,868	2,913	2,816	2,764	2,741	2,678	2,632	2,720
Education									
Department of Career Education	511	491	490	493	494	498	503	501	503
Department of Education	372	387	384	371	346	359	318	317	391
All Other	893	914	914	979	965	954	877	882	885
Heath and Human Services									
Department of Human Services	7,891	8,011	7,755	7,617	7,524	7,324	7,244	7,222	7,146
Department of Health	2,863	2,867	2,926	2,907	2,887	2,763	2,771	2,757	2,854
All Other	674	669	548	473	458	458	409	404	394
Transportation									
Department of Highway and Transportation	3,587	3,558	3,587	3,576	3,614	3,676	3,749	3,755	3,698
Law, Justice and Public Safety									
Department of Correction	4,056	3,950	3,890	3,750	3,792	3,745	3,354	3,310	3,362
Arkansas State Police	963	971	972	985	966	934	903	843	818
All Other	2,731	2,727	2,784	2,786	2,553	2,546	2,386	2,351	2,074
Recreation and Resources Development									
Department of Parks and Tourism	1,308	1,323	1,321	1,291	1,298	1,214	1,138	1,127	1,138
Arkansas Game and Fish Commission	627	621	679	647	649	634	621	635	610
All Other	868	887	890	1,010	988	990	933	922	929
Regulation of Business and Professionals									
Department of Insurance	194	190	192	189	185	192	182	184	175
All Other	1,064	1,061	1,057	941	922	909	612	592	597
Proprietary Funds									
Colleges and Universities [2]	22,491	22,727	21,846	19,529	20,269	19,088	N/A	N/A	N/A
Workers' Compensation Commission	113	119	123	127	135	137	141	141	138
Department of Workforce Services	1,178	1,221	1,102	976	907	852	702	750	881
Arkansas Scholarship Lottery [3]	83	84	N/A	N/A	N/A	N/A	N/A	N/A	N/A
War Memorial Stadium Commission [4]	42	40	25	32	25	21	29	N/A	N/A
State Total	56,751	57,109	55,871	52,938	53,161	51,405	30,921	30,677	30,632

(1) State employee data not available prior to 2003.
(2) Employee data for colleges and universities not available prior to 2006.
(3) Commenced operations in 2010.
(4) Employee data for War Memorial Stadium Commission not available prior to 2005.

Source: Department of Finance and Administration Office of Personnel Management; Department of Highway and Transportation; Colleges and Universities

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

	2011	2010	2009
General Government			
Department of Finance & Administration-Revenue			
Office of Driver Services			
Licenses and ID cards issued	778,521	852,998	820,155
Registered vehicles	3,818,476	3,700,308	3,619,926
Income Tax Administration			
Total electronic tax filers	866,304	791,646	777,486
EFT estimate payments by corporations	2,342	1,961	1,769
EFT withholding payments	211,129	231,209	161,404
Education			
Department of Education			
All school districts			
Average daily membership (1)	N/A	458,172	457,566
Number of certified personnel (1)	N/A	36,050	36,201
Average salary of K-12 classroom full-time employees (1)	N/A	$ 46,601	$ 45,862
Per pupil expenditures (1)	N/A	$ 9,112	$ 8,308
Foundation aid per student	$ 6,023	$ 5,905	$ 5,789
Assessed valuation (in millions)	$ 40,484	$ 39,567	$ 38,667
Higher Education			
Public institutions			
Net enrollment	155,924	149,327	140,402
Undergraduate degrees awarded	28,640	26,449	23,708
Graduate degrees awarded	5,358	4,811	4,141
Private institutions			
Fall net enrollment	16,500	15,507	14,952
Undergraduate degrees awarded	2,300	2,425	2,295
Graduate degrees awarded	501	522	532
Health and Human Services			
Department of Human Services			
Foster care recipients	7,959	7,491	7,446
Percent of population	0.27%	0.26%	0.26%
Food stamp recipients	678,358	643,420	577,329
Percent of population	23.03%	22.27%	20.09%
Medicaid recipients	770,792	755,607	747,851
Percent of population	26.16%	26.15%	26.03%
Department of Health			
Women, Infants and Children Nutrition Program (WIC)	169,732	169,789	187,880
Percent of population	5.76%	5.83%	6.50%
Doses of vaccine administered (2)	688,116	1,144,245	888,011
Inhome patients served	26,683	24,391	24,140

(1) Fiscal year 2011 figures not available as of print date
(2) Commenced Flu Vaccine Program in 2008; In 2010 had H1N1 Pandemic

Sources: Arkansas State Police; Arkansas Game and Fish Commission; Arkansas Departments of Revenue, Education, Higher Education, Health and Human Services, Highway and Transportation, Correction, Parks and Tourism and Insurance

2008	2007	2006	2005	2004	2003	2002
728,893	734,555	727,765	731,155	736,200	702,810	683,237
3,363,504	3,272,311	2,993,975	2,907,650	2,810,529	2,742,630	2,685,507
762,741	676,504	620,490	598,127	538,528	495,842	430,072
1,697	1,662	1,501	1,185	1,068	902	N/A
170,071	140,678	125,999	103,356	91,536	93,888	N/A
459,460	459,865	457,490	450,910	447,872	439,742	444,709
36,194	36,112	35,371	35,201	34,024	33,014	33,780
$ 45,393	$ 44,493	$ 43,088	$ 41,489	$ 39,266	$ 37,536	$ 36,026
$ 8,256	$ 7,992	$ 7,687	$ 7,307	$ 6,475	$ 6,168	$ 5,867
$ 5,719	$ 5,662	$ 5,528	$ 5,400	$ 4,721	$ 4,688	$ 4,542
$ 35,970	$ 33,438	$ 31,275	$ 29,274	$ 27,748	$ 26,346	$ 25,269
135,525	131,445	127,419	123,462	119,963	114,366	109,067
21,180	19,930	19,038	18,225	17,046	16,933	15,133
3,873	3,613	3,585	3,525	3,248	3,016	3,131
14,496	13,981	13,536	12,333	11,885	11,477	10,254
2,284	2,286	2,420	2,394	2,309	2,204	2,108
520	491	455	306	271	236	184
6,974	7,194	6,809	6,401	6,502	6,202	6,471
0.24%	0.25%	0.24%	0.23%	0.24%	0.23%	0.24%
556,735	553,618	558,521	544,752	490,641	457,888	433,716
19.54%	19.60%	19.94%	19.62%	17.82%	16.79%	16.02%
744,269	742,965	729,800	688,150	663,920	626,036	582,379
26.13%	26.30%	26.06%	24.79%	24.12%	22.95%	21.51%
163,766	160,687	158,393	156,654	153,570	149,063	145,447
5.71%	5.69%	5.66%	5.64%	5.58%	5.46%	5.37%
503,185	414,971	420,359	499,075	464,491	480,150	522,722
26,393	26,732	27,374	24,844	27,499	26,575	28,965

Continued on the following page

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

Continued from the previous page

	2011	2010	2009
Transportation			
Highway and Transportation Department			
Miles of state highway maintained (1)	N/A	16,416	16,443
Law, Justice and Public Safety			
Department of Correction			
Custody population count	14,129	13,908	13,237
Staff members	4,667	4,747	4,701
Inmate cost per day	$ 61.50	$ 60.03	$ 60.19
Operating capacity	13,496	13,133	12,723
Inmate care/custody operating expenses (in thousands)	$ 304,658	$ 288,609	$ 277,491
Arkansas State Police			
Commissioned officers	536	546	542
Number of homicides investigated	211	227	214
Total citations issued	246,417	266,764	269,080
Total motorist assists	28,838	26,660	22,708
Total number of traffic accidents	14,977	16,320	16,306
Total criminal investigations	4,152	3,038	3,367
Recreation and Resources Development			
Department of Parks and Tourism			
Acres of state parks maintained	54,343	54,161	54,166
Game and Fish Commission			
Fishing licenses sold	663,426	701,805	698,071
Hunting licenses sold	454,794	448,625	462,164
Lifetime licenses sold	25,379	26,360	27,734
Other licenses sold	34,243	32,989	28,879
Regulation of Business and Professionals			
Department of Insurance			
Number of active licensed insurance agents	85,865	83,231	82,123
Total consumer complaints received	2,352	3,008	2,881
Total consumer complaints closed	2,167	3,111	3,021
Total dollars recovered for consumers (in thousands)	$ 4,678	$ 10,608	$ 11,632

2008	2007	2006	2005	2004	2003	2002
16,428	16,438	16,440	16,444	16,419	16,383	16,379
13,293	12,828	12,690	12,568	12,675	11,672	11,223
4,701	4,375	4,375	4,270	4,270	3,666	3,666
$ 57.13	$ 52.64	$ 52.12	$ 48.24	$ 47.32	$ 44.11	$ 42.59
12,723	12,552	12,403	12,178	11,640	11,124	10,968
$ 272,844	$ 253,888	$ 243,208	$ 215,042	$ 209,543	$ 185,682	$ 182,188
550	544	527	529	533	492	592
199	219	196	171	167	224	210
271,125	243,234	244,649	258,627	211,023	192,379	211,965
21,380	21,069	21,167	23,946	23,173	22,633	21,176
16,759	16,561	16,556	18,726	18,143	18,029	17,166
3,251	2,688	2,119	2,883	3,375	3,215	3,090
54,623	53,741	53,402	52,747	52,553	52,517	52,605
680,770	748,184	719,411	747,756	726,592	734,236	729,291
417,560	408,253	375,834	410,606	413,723	431,615	458,412
23,241	21,997	19,467	20,657	22,284	10,143	9,659
21,774	24,268	22,880	25,829	27,767	26,975	27,342
77,310	66,987	60,933	49,087	33,970	25,866	20,555
2,976	3,080	2,850	3,157	3,320	3,661	3,874
3,068	2,927	2,901	3,132	3,416	3,345	3,808
$ 8,768	$ 5,161	$ 5,913	$ 5,955	$ 5,433	$ 2,573	$ 4,265

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
General Government										
Dept of Finance and Administration-Revenue										
Vehicles	180	182	181	177	180	188	168	162	146	145
Education										
Department of Education										
Vehicles	202	216	219	207	217	255	244	229	206	207
Higher Education										
Campuses (public institutions)	33	33	33	33	33	33	33	33	33	33
Health and Human Services										
Department of Human Services										
Buildings	444	442	446	449	459	457	456	417	439	441
Vehicles	560	516	516	496	486	482	488	491	492	546
Department of Health										
Buildings	8	8	8	8	8	9	8	8	8	8
Vehicles	135	131	154	134	148	142	142	142	143	143
Transportation										
Highway and Transportation Department										
Passenger vehicles	2,719	2,667	2,683	2,718	2,635	2,686	2,713	2,714	2,764	2,671
Law, Justice and Public Safety										
Department of Correction										
Correctional units	20	20	20	20	20	20	19	19	18	18
Vehicles	411	419	430	384	399	406	391	387	335	334
Arkansas State Police										
Police stations	12	12	12	12	12	12	12	12	12	12
Vehicles	809	877	855	885	854	860	745	685	742	847
Recreation and Resources Development										
Department of Parks and Tourism										
State parks and museums	52	52	52	52	52	52	52	52	52	52
Vehicles	353	356	355	342	331	362	323	321	310	289
Game and Fish Commission										
Hatcheries	5	5	5	5	5	5	5	5	5	5
Vehicles	895	1,038	979	960	1,025	1,029	1,054	1,033	1,090	1,048
Boats	589	580	576	572	568	570	560	560	508	497
Regulation of Business and Professionals										
Vehicles	118	120	119	105	98	94	93	92	88	83

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

Schedule 14
Miscellaneous Statistics (Unaudited)

State Capital	Little Rock
Statehood	June 15, 1836
Nickname	The Natural State
Motto	Regnat populus (The people rule)
Land Area	34,036,700 Acres
Counties	75
Largest Cities	Little Rock, Fort Smith, Fayetteville, Springdale and Jonesboro
Highest Elevation Point	Mount Magazine, 2,753 feet
Lowest Elevation Point	Ouachita River, 54 feet
State Flower	Apple Blossom
State Tree	Pine Tree
State Bird	Mockingbird
State Insect	Honeybee
State Gem	Diamond
State Song	"Arkansas"
State Grain	Rice
State Nut	Pecan
State Mammal	White-tailed deer


GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
MERCY
JUSTICE

GREAT SEAL OF THE STATE OF ARKANSAS

APPENDIX C

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the Arkansas State Highway Commission, acting on behalf of the State of Arkansas (the "Issuer") and U.S. Bank National Association (the "Trustee") in connection with the issuance of the Issuer's Federal Highway Grant Anticipation and Tax Revenue Bonds, Series 2012 (the "Bonds"). The Bonds are being issued pursuant to a General Resolution adopted September 12, 2012 and a Series Resolution adopted September 12, 2012 (collectively, the "Resolution"). The Issuer and the Trustee covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer and the Trustee for the benefit of the Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with, and constitutes the written undertaking for the benefit of the Beneficial Owners required by, subsection (i) of the Securities and Exchange Commission, Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the Chief Fiscal Officer of the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Dissemination Agent" shall mean the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Trustee a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access system as described in 1934 Act Release No. 59062 and maintained by the MSRB for purposes of the Rule.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Report.

(a) The Issuer shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the State's fiscal year, commencing with year ended June 30, 2013, provide to the MSRB, through its continuing disclosure service portal provided through EMMA at http://www.emma.msrb.org or any similar system acceptable to the Securities and Exchange Commission, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report shall be in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. Not later than fifteen (15) business days prior to such date, the Issuer shall provide the Annual Report to the Dissemination Agent and the Paying Agent. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package and may refer to other information as provided in Section 4 of this Disclosure Agreement; provided that the annual audit of the Issuer may be submitted separately from the balance of the Annual Report and shall be submitted within sixty (60) days after receipt by the Issuer.

(b) If the Trustee has not received the Annual Report on or before fifteen (15) days prior to the date required in subsection (a), the Trustee will notify the Disclosure Representative of such failure not less than five (5) days before such date.

(c) If the Trustee is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Trustee shall send a notice to the MSRB.

(d) The Dissemination Agent shall file a report with the Issuer and the Trustee certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Agreement and stating the date it was provided.

SECTION 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

1. Information of the type set forth in the Official Statement for the Bonds under **DESIGNATED REVENUES**.

2. The financial information (which shall be prepared in accordance with generally accepted accounting principles ("GAAP") for governmental units as prescribed by the Governmental Accounting Standard Boards ("GASB") which are applicable to information of the type being provided) with respect to the State, provided at least annually, consisting of the information contained in the State's Comprehensive Annual Financial Report attached as Appendix B to the Issuer's Official Statement dated September 12, 2012, which financial information may, but is not required to include, audited financial statements.

Any or all of the items above may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other

material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security.

7. Modification to rights of security holders, if material.

8. Bond calls (excluding mandatory sinking fund redemptions), if material.

9. Defeasances and tender offers.

10. Release, substitution, or sale of property securing repayment of the securities, if material.

11. Rating changes.

12. Bankruptcy, insolvency, receivership or similar event of the obligated person.

13. The consummation of a merger, consolidation or acquisition involving the obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) The Trustee shall, within one (1) business day of obtaining actual knowledge of the occurrence of any of the Listed Events contact the Disclosure Representative and inform such person of the event.

(c) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, the Issuer shall, in a timely manner not in excess of ten (10) days after the occurrence of such Listed Event, report the occurrence pursuant to subsection (d).

(d) The Issuer shall file a notice of such occurrence with the MSRB, through its continuing disclosure service portal provide through EMMA at http://www.emma.msrb.org, or any other similar system that is acceptable to the Securities and Exchange Commission. Each notice of the occurrence of a Listed Event shall be filed in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsection (a)(8) need not be given under this subsection any earlier than notice (if any) for the underlying event is given to owners of affected Bonds pursuant to the Resolution.

SECTION 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all the Bonds.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a successor Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent. The initial Dissemination Agent shall be the Trustee.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer and the Trustee may amend this Disclosure Agreement, and any provisions of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Beneficial Owners of the Bonds in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Beneficial Owners, or (ii) does not, in the opinion of the Trustee, materially impair the interests of the Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason of the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Issuer or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee, the Issuer or any Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. Article IX of the General Resolution is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Resolution. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Participating Underwriter and the Beneficial Owners and shall create no rights in any other person or entity.

Dated: October 1, 2012

ARKANSAS STATE HIGHWAY COMMISSION
(ON BEHALF OF THE STATE OF ARKANSAS)

By ____
Authorized Officer

U.S. BANK NATIONAL ASSOCIATION

By ____
Authorized Officer