

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2004



Commonwealth of Pennsylvania
Edward G. Rendell
Governor

Prepared By:

Office of the Budget
Michael J. Masch, Secretary

Comptroller Operations
Harvey C. Eckert, Deputy Secretary

The Comprehensive Annual Financial Report of the Commonwealth of Pennsylvania (CAFR) is provided on the World Wide Web in Adobe Acrobat (.PDF) format for the convenience of distribution. For availability of a copy, please contact:

Harvey C. Eckert, Deputy Secretary for Comptroller Operations, Room 207, Finance Building, Harrisburg, Pennsylvania 17120

The CAFR contents can be accessed through this link: [Table of Contents](#)

**Commonwealth of Pennsylvania
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2004**

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COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

February 28, 2005

MICHAEL J. MASCH
SECRETARY
OFFICE OF THE BUDGET

To the Honorable Governor, Lieutenant Governor, Members of the General Assembly, and Citizens of the Commonwealth of Pennsylvania:

We are pleased to present this Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 2004. The Office of the Budget, Comptroller Operations, prepared this report, which includes the Basic Financial Statements (BFS), pursuant to the power vested in the Governor under Section 701 of the Administrative Code and delegated to the Secretary of the Budget by Executive Order No. 1984-3, dated October 11, 1984.

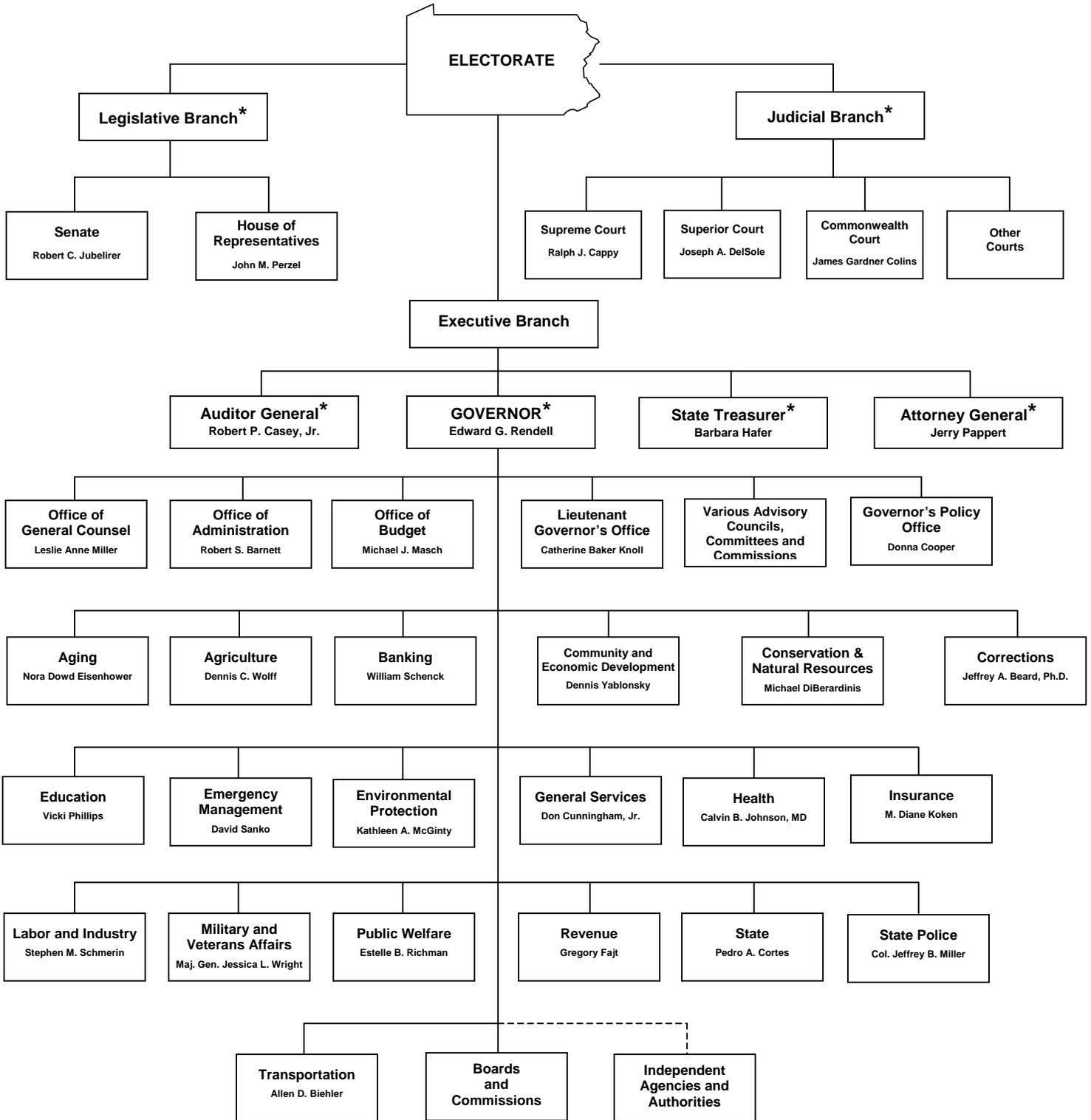
The BFS were prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). We believe the financial statements are fairly stated in all material respects; that they are presented in a manner designed to fairly report the Commonwealth's financial position, results of operations, and changes in net assets/fund balances; and that all disclosures necessary to enable the Governor, the members of the General Assembly, the public, and the financial community to fully understand the Commonwealth's operations and financial affairs have been included. Responsibility for the completeness and fairness of the presentation, including all disclosures, rests with the Commonwealth of Pennsylvania, Office of the Budget.

Management's Discussion and Analysis (MD&A) precedes the June 30, 2004 BFS, and provides an overview of the Commonwealth's financial position and activities, and helps readers to understand the government-wide statements. This section immediately follows the auditors' opinion. In addition to the MD&A and BFS, this CAFR includes: budgetary comparison schedules, combining fund financial statements; supporting schedules; certain narrative information describing individual funds; and statistical tables presenting financial, economic, and demographic data about the Commonwealth.

PROFILE OF THE GOVERNMENT

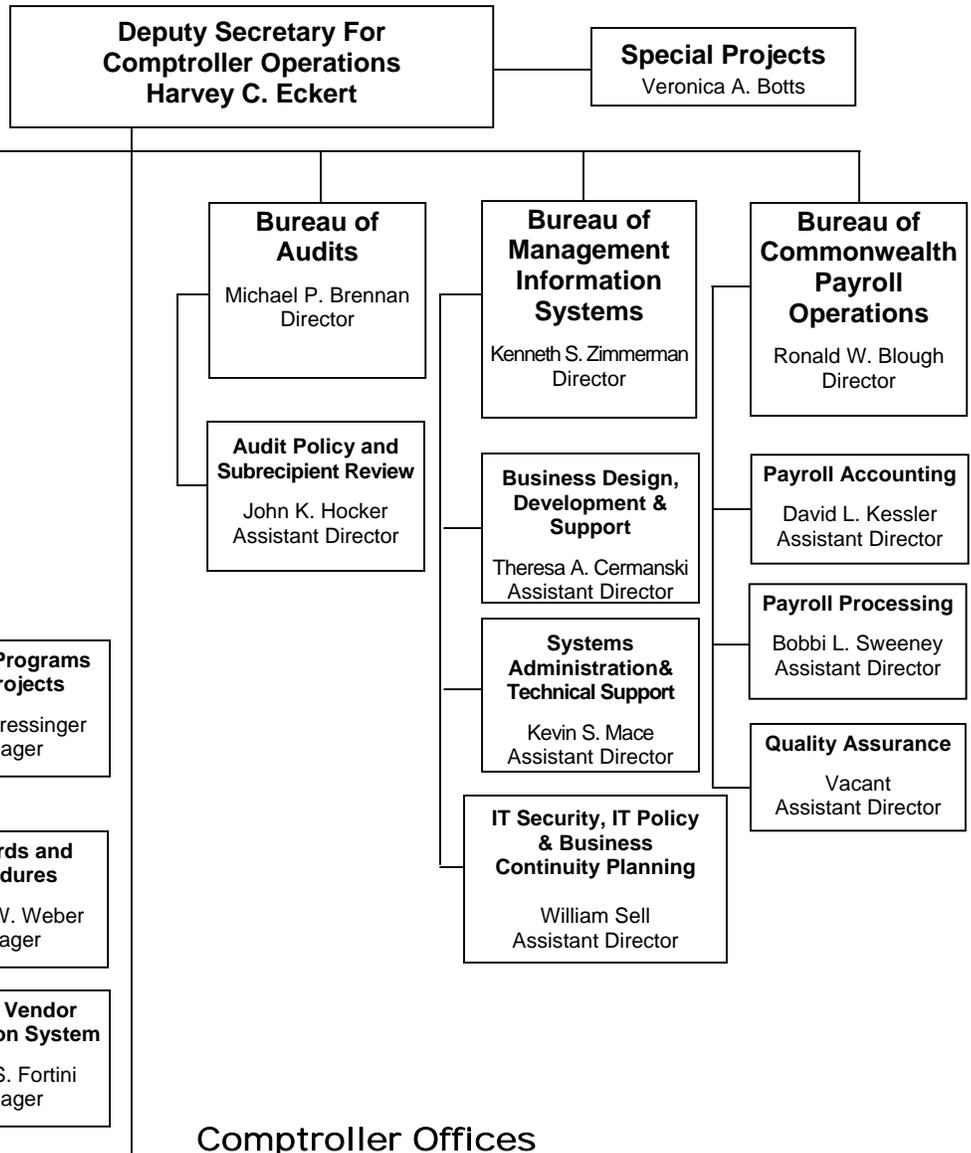
Pennsylvania holds one distinct characteristic from most other U.S. states, it is designated a "Commonwealth." This word, which is of English derivation, refers to the well-being of the populace. It lays a strong foundation for Pennsylvania's government system, which strives to better the lives of the almost 12.5 million people residing within the state's borders. As in other states, Pennsylvania's government consists of three branches which operate through a system of checks and balances. The legislative branch is composed of the Senate and the House of Representatives. The executive branch is comprised of the Governor, Auditor General, State Treasurer, and the Attorney General. The judicial branch consists of the Supreme Court, Superior Court, Commonwealth Court, and other Courts. The following organization charts identify specific Commonwealth officials, and staff within Comptroller Operations, at June 30, 2004:

COMMONWEALTH OF PENNSYLVANIA ORGANIZATION AND OFFICIALS CHART June 30, 2004

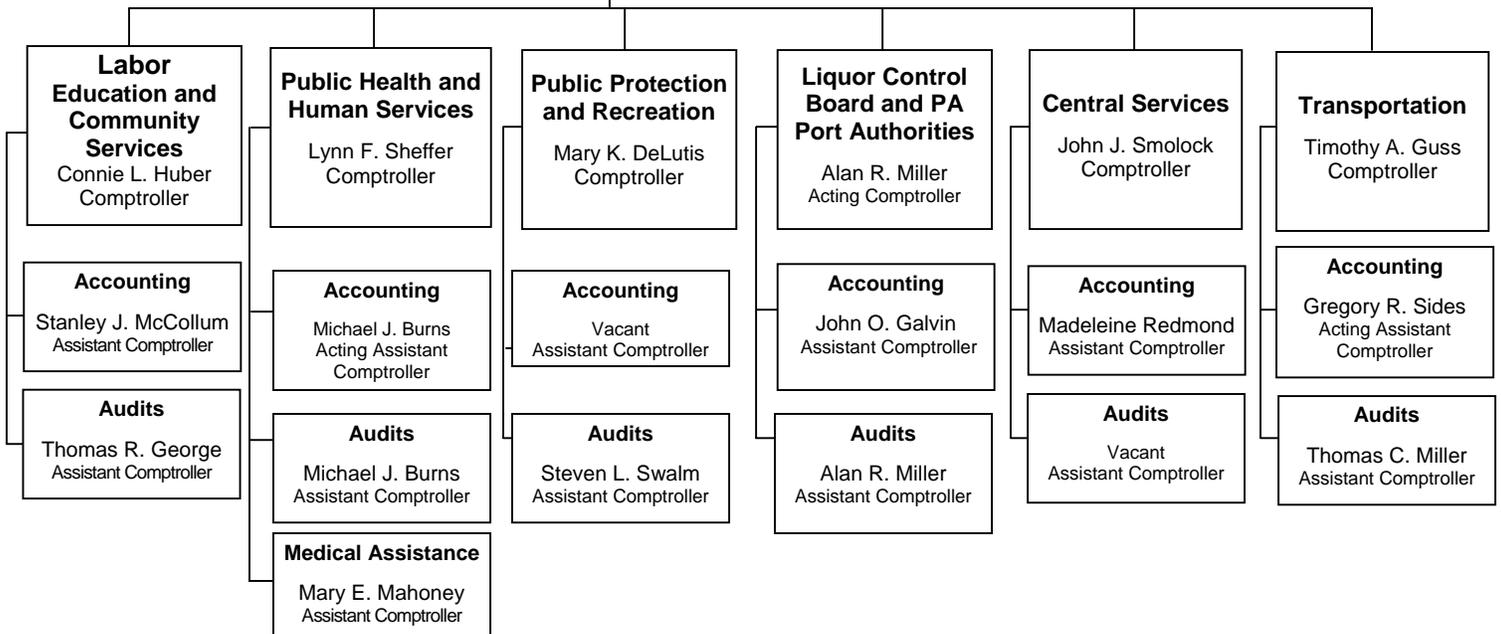


* Independently Elected

Office of the Budget
 Comptroller Operations
 June 30, 2004



Comptroller Offices



THE GENERAL FUND

The General Fund, the Commonwealth's largest operating fund, may be used to assess Pennsylvania's financial position and activities for the fiscal year ended June 30, 2004. It accounts for all revenues and other receipts that are not required by law to be accounted for or deposited in other special funds, and reflects a significant portion of Commonwealth expenditures. Tax revenues, principally personal and corporate income and sales and use taxes, constitute approximately 54.4 percent of the General Fund budgetary basis revenues. General Fund expenditures are reported in the following functional assignments, along with the related percentage of state-funded expenditures: direction and supportive services (3.93), protection of persons and property (12.14), health and human services (38.69), public education (37.47), recreation and cultural enrichment (1.11), economic development (2.41), transportation (1.50) and transfers to debt service funds (2.75) for all obligations except those incurred for highway or other special revenue fund purposes.

BUDGET ADOPTION AND LEGAL COMPLIANCE/BUDGETARY RESULTS

A discussion of the Commonwealth's annual budget process is included as Required Supplementary Information (RSI) following the notes to the financial statements. The adopted budget provides legal control over spending. Under Commonwealth law, expenditures cannot exceed amounts appropriated. Budgetary control is exercised by specific, line-item appropriation. The Budgetary Comparison Schedule, included as RSI, provides original budget, final budget and actual budgetary results for the fiscal year ended June 30, 2004.

During the fiscal year ended June 30, 2004, total General Fund expenditures and other uses exceeded revenues and other sources by \$119.5 and, at June 30, 2004, the Commonwealth reported an unreserved/undesignated fund balance (budgetary basis) of \$76.7 in the General Fund. This compares to a budgetary basis fund balance of \$196.2 (restated) at June 30, 2003. The budgetary basis results for the fiscal year ended June 30, 2004 include revenue collections totaling \$38,622.1 less appropriation authorizations totaling \$38,694.1, less other net financing uses totaling \$47.5. Included in the \$38,694.1 appropriation authorizations are \$573.9 of state supplemental appropriations and \$121.4 in Federal supplemental appropriations authorized during the fiscal year ended June 30, 2004 (amounts in millions).

FUND BALANCE INCREASE/(DECREASE) – FIVE MOST RECENT FISCAL YEARS

The following table shows the General Fund's year end unreserved/undesignated fund balance and increases or decreases on a budgetary basis at the end of the five most recent fiscal years (amounts in millions):

<u>At June 30</u>	<u>Unreserved/ Undesignated Fund Balance</u>	<u>Increase (Decrease)</u>
2000	\$ 610.5	\$ 163.0
2001 (restated)	336.4	(274.1)
2002 (restated)	142.5	(193.9)
2003 (restated)	196.2	53.7
2004	76.7	(119.5)

CASH MANAGEMENT

The Treasury Department is required by the Commonwealth's Fiscal Code to deposit Commonwealth monies, excluding certain component unit monies, in state depositories approved by the Board of Finance and Revenue. Amounts deposited are not required to be segregated by fund. In addition, the Treasury Department is empowered to invest Commonwealth monies that are in excess of daily needs of the various Commonwealth Funds. At June 30, 2004, the Treasury Investment Program included the following types of investments:

	<u>Percent</u>
United States Treasury and Government Agency Obligations	26.82
Repurchase Agreements	22.73
Domestic Equities	16.61
Corporate Bonds and Notes	13.54
Municipals	6.67
Mortgage Backed Securities	6.10
Money Market Funds	3.12
Commercial Paper (Moody's Prime One Rating or Equivalent)	3.02
Certificates of Deposit	0.94
Other	<u>0.45</u>
	<u>100.00</u>

The Treasury Investment Program totaled \$8.8 billion at June 30, 2004. Because participating funds purchase pool shares of the Treasury Investment Program, they report share balances as temporary investments.

RISK MANAGEMENT

The Commonwealth maintains ongoing training and information programs to reduce risks associated with employee injury and negligence, contract compliance, tort liabilities and property losses. As more fully described in Note M to the financial statements, the Commonwealth became self-insured for employee disability and medical claims on July 1, 1983. The Commonwealth is also self-insured for annuitant medical/hospital benefits and tort liabilities, including automobile, employee and transportation-related claims. Reserves have been established to fund self-insured claims. Third-party coverage is obtained for property losses in excess of \$1 million per occurrence, to a limit of \$134 million per occurrence. Coverage for property losses less than \$1 million or more than \$134 million is maintained through the Commonwealth's self-insurance program.

INDEPENDENT AUDIT

The Commonwealth's June 30, 2004 BFS have been jointly audited by the Department of the Auditor General and Ernst & Young LLP, an independent public accounting firm. The independent auditors' opinion is included in the beginning of the Financial Section of this CAFR. The auditors' opinion provides a reasonable basis for users to rely on the information included in the BFS.

ECONOMIC OUTLOOK

Greater than projected growth in the national and Pennsylvania economies during the second half of 2003 and continuing in early 2004 contributed to improvements in several measures of economic activity including income, government finances and jobs.

In the second half of 2004 and the first part of 2005 economic growth is expected to rebound with gains in consumer spending, housing sales, construction spending and stronger employment growth. Overall, moderate economic growth is forecast for the nation and Pennsylvania and is expected to be demonstrated through growth in jobs, income and tax revenues.

CERTIFICATE OF ACHIEVEMENT

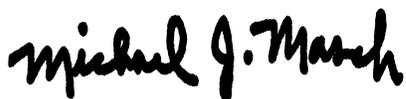
The CAFR will be submitted to the Government Finance Officers Association of the United States and Canada (GFOA) to determine its eligibility for the GFOA's Certificate of Achievement for Excellence in Financial Reporting. The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth of Pennsylvania for its Comprehensive Annual Financial Report as of and for the fiscal year ended June 30, 2003. This represents the eighteenth consecutive year the Commonwealth of Pennsylvania has received this award.

To merit a certificate of achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, which conforms to GFOA standards and satisfies both generally accepted accounting principles and applicable legal requirements. A certificate of achievement is valid for a period of one year only. We believe the Comprehensive Annual Financial Report of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 2004 conforms to the GFOA's award criteria.

ACKNOWLEDGMENTS

We wish to express our appreciation to the staff of the various Commonwealth agencies whose time and dedicated effort made this report possible and, at the same time, to reaffirm our commitment to you to maintain the highest standards of accountability in financial reporting to the citizens of the Commonwealth.

Sincerely,



Michael J. Masch
Secretary
Office of the Budget



Harvey C. Eckert
Commonwealth Comptroller
Office of the Budget

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Certificate of Achievement for Excellence in Financial Reporting

Presented to
Commonwealth of Pennsylvania

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

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.



Nancy L. Ziehl

President

Jeffrey R. Emsw

Executive Director

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Financial Section



Fireworks, State Capitol

Harrisburg



Department of the Auditor General
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120-0018

ERNST & YOUNG LLP

Two Commerce Square
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2001 Market Street
Philadelphia, Pennsylvania
19103-7096

Report of Independent Auditors

The Honorable Edward G. Rendell, Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania

We have jointly 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 Commonwealth of Pennsylvania, as of and for the year ended June 30, 2004, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not jointly audit the financial statements of certain component units, which represent 99 percent of total assets, 99 percent of total net assets, and 98 percent of total revenues of the aggregate discretely presented component units. We did not jointly audit 100 percent of the total assets, 100 percent of total net assets, and 100 percent of the total revenues of the Pension (and Other Employee Benefit) Trust Funds. This comprises 90 percent of total assets, 96 percent of total net assets and 86 percent of total revenues of the aggregate remaining fund information. The financial statements of these component units and the Pension (and Other Employee Benefit) Trust Funds were audited by other auditors, including Ernst & Young LLP acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those component units and the Pension (and Other Employee Benefit) Trust Funds, are based solely on the reports of the other auditors. Ernst & Young LLP has audited separately 21 percent of total assets, 28 percent of total net assets, and 15 percent of total operating revenues of the discretely presented component units.

The transactions of the Department of the Auditor General are included in the basic financial statements and are immaterial to the overall presentation of the basic financial statements. The expenses of the Department of the Auditor General equal less than 1 percent of the expenses reported for Governmental Activities on the Statement of Activities and less than 1 percent of the expenditures reported for the General Fund on the Statement of Revenues, Expenditures and Changes in Fund Balance. The Auditor

General is the Commonwealth's independently-elected auditing officer. Article VIII, § 7, of the Pennsylvania Constitution mandates the Auditor General to act jointly with the Governor and State Treasurer to vote on the incurrence of debt. Title 72 of the Pennsylvania Statutes, § 1102, mandates the Department of the Auditor General to approve the disposition of petitions for corporation tax resettlements filed with the Pennsylvania Department of Revenue's Board of Appeals, which may be appealed to the Board of Finance and Revenue. Title 71 of the Pennsylvania Statutes, § 115, mandates the Auditor General to be one of the six members of the Board of Finance and Revenue, which is an independent board whose decisions may be appealed to Commonwealth Court. The above-mandated responsibilities are performed by personnel separate from those involved in the performance of the audit of the Commonwealth's basic financial statements. We believe these mandated responsibilities of the Department of the Auditor General, acting separately, do not impair the Auditor General's independence in the audit of the Commonwealth's basic financial statements and are being disclosed as required by and in accordance with auditing standards generally accepted in the United States.

We conducted our audit in accordance with auditing standards generally accepted in 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. We were not engaged to perform an audit of the Commonwealth's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania as of June 30, 2004, 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.

As described in Note A to the financial statements, the Commonwealth has implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and GASB Technical Bulletin No. 2004-01, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*.

Management's discussion and analysis and budgetary comparison information on pages 18 through 33 and 118 through 122 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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 Commonwealth of Pennsylvania's basic financial statements. The introductory section, combining non-major fund financial statements, budgetary comparison schedules for budgeted non-major funds, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements and budgetary comparison schedules for budgeted non-major funds 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 and statistical sections 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.



February 18, 2005

Management's Discussion and Analysis



Gateway Clipper

Pittsburgh

The Management's Discussion and Analysis (MD&A) of the Commonwealth of Pennsylvania's Comprehensive Annual Financial Report (CAFR) presents a review and analysis of the Commonwealth's financial performance for the fiscal year ended June 30, 2004. The MD&A should be reviewed in conjunction with the Letter of Transmittal, which can be found on Page 4 of this report, and with the Commonwealth's financial statements, which follow.

Executive Summary

Government-wide Statements at-a-glance

Net Assets – Governmental activities net assets were \$19.7 billion at June 30, 2004, compared to \$18.2 billion at the end of the prior fiscal year.

Increase in Net Assets – During the fiscal year ended June 30, 2004, governmental activities increased by \$1.5 billion; in the prior year, the increase was \$.3 billion.

Long-Term Debt – During the fiscal year, general obligation bond indebtedness increased by less than \$200 million.

Fund Statements at-a-glance

Governmental Funds – Fund Balances - Total governmental funds' fund balances at June 30, 2004 were \$6.8 billion, compared to \$5.6 billion at the end of the prior fiscal year. This represents a year-over-year increase of \$1.2 billion.

General Fund – Fund Balance - \$3.0 billion at June 30, 2004, compared to \$2.4 billion at June 30, 2003.

Overview and discussion of basic financial statements

The Financial Section of the CAFR consists of several parts: the Independent Auditors' Report, Management's Discussion and Analysis, Basic Financial Statements (BFS), Required Supplementary Information, and Combining Financial Statements and Other Supplementary Information. The BFS includes two sets of statements that present different views of the Commonwealth – the government-wide financial statements and the fund financial statements. The Notes to the Financial Statements present additional details and clarification regarding the information presented in these statements.

Government-wide financial statements

Government-wide financial statements portray the Commonwealth's overall financial position (Statement of Net Assets) at June 30, 2004 and its aggregate revenues and expenses (Statement of Activities) for the fiscal year ended June 30, 2004. The Statement of Net Assets presents the assets, liabilities, and net assets for the Commonwealth as a whole. The Statement of Activities presents, by function or program, the expenses, offsetting revenues, and changes in net assets. Both statements classify amounts by Governmental Activities, Business-Type Activities, and Component Units. The component units are organizations that are legally separate from the Commonwealth's primary government. Information related to component units is not included in the MD&A. Each component unit is identified and described in Note A to the financial statements. Audited financial statements for component units are available through the Commonwealth Comptroller (formerly Deputy Secretary for Comptroller Operations).

The government-wide financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basis of accounting is similar to the basis used by most business entities and recognizes revenues and expenses when they occur, regardless of when related cash was received or paid.

Fund financial statements – governmental funds

Funds are groups of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth uses fund accounting to demonstrate compliance with finance related legal requirements. The Commonwealth's funds are categorized as governmental funds, proprietary funds or fiduciary funds. Further discussion of these fund categories can be found in Note A – Summary of Significant Accounting Policies. Fund financial statements differ from government-wide statements in a few fundamental ways:

- 1) While the government-wide statements focus on the government taken as a whole, the fund statements reveal more detailed, fund-specific information for major governmental and proprietary funds while nonmajor fund information is aggregated.
- 2) Unlike the aggregated columns for governmental and business-type activities in government-wide statements, individual funds are established by state law and are used to account for specific, mandated activities. Two examples of specific funds are the Motor License Fund, a special revenue fund where gasoline taxes and motor vehicle registration fees are collected and used to repair and build highways, and the Unemployment Compensation Fund, an enterprise fund, used to collect amounts from employers to pay for unemployment compensation to workers.
- 3) The governmental funds use the modified accrual basis of accounting and current financial resources measurement focus; whereas the proprietary funds and fiduciary funds use the accrual basis of accounting and economic resources focus.

Government-wide financial analysis

The following presents condensed financial statement information from the Statement of Net Assets (amounts in billions):

	Governmental Activities			Business-Type Activities			Total		
	2004	2003	Change	2004	2003	Change	2004	2003	Change
Assets:									
Cash and investments.....	\$ 10.5	\$ 8.5	\$ 2.0	\$ 4.8	\$ 4.7	\$ 0.1	\$ 15.3	\$ 13.2	\$ 2.1
Capital assets (net).....	20.8	19.8	1.0	-	-	-	20.8	19.8	1.0
All other assets.....	5.7	5.4	0.3	1.1	1.0	0.1	6.8	6.4	0.4
Total assets.....	37.0	33.7	3.3	5.9	5.7	0.2	42.9	39.4	3.5
Liabilities:									
Accounts payable.....	4.0	3.3	0.7	0.4	0.5	(0.1)	4.4	3.8	0.6
All other current liabilities.....	4.3	3.6	0.7	1.3	0.9	0.4	5.6	4.5	1.1
Total current liabilities.....	8.3	6.9	1.4	1.7	1.4	0.3	10.0	8.3	1.7
Bonds payable.....	6.7	6.6	0.1	-	-	-	6.7	6.6	0.1
All other long-term liabilities.....	2.3	2.0	0.3	2.1	1.8	0.3	4.4	3.8	0.6
Total long-term liabilities.....	9.0	8.6	0.4	2.1	1.8	0.3	11.1	10.4	0.7
Total liabilities.....	17.3	15.5	1.8	3.8	3.2	0.6	21.1	18.7	2.4
Net assets:									
Invested in capital assets, net of related debt.....	16.9	16.1	0.8	-	-	-	16.9	16.1	0.8
Restricted.....	3.0	2.5	0.5	2.1	2.5	(0.4)	5.1	5.0	0.1
Unrestricted.....	(0.2)	(0.4)	0.2	-	-	-	(0.2)	(0.4)	0.2
Total net assets.....	\$ 19.7	\$ 18.2	\$ 1.5	\$ 2.1	\$ 2.5	\$ (0.4)	\$ 21.8	\$ 20.7	\$ 1.1

Changes in assets and liabilities

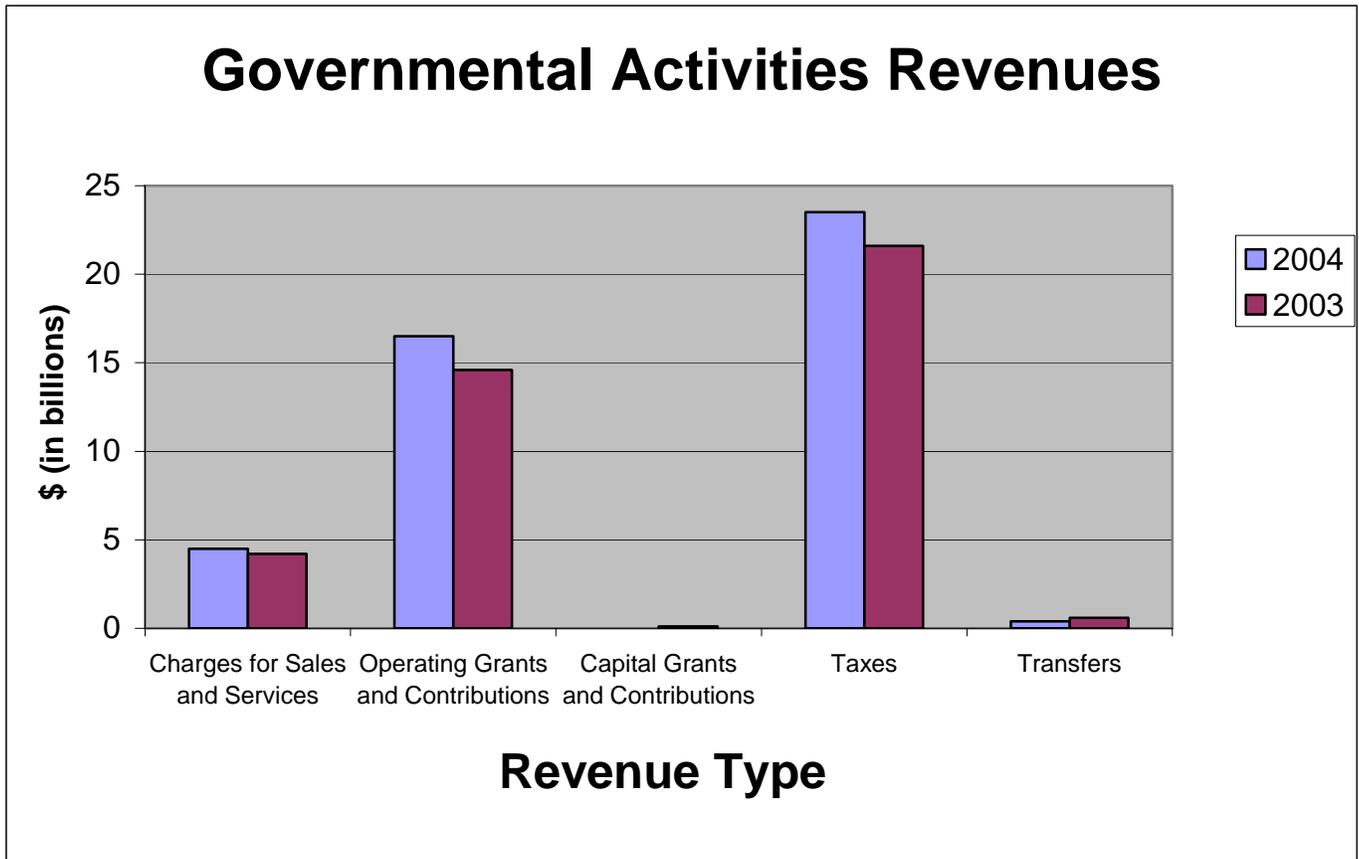
At June 30, 2004 governmental activities cash and investments increased by \$2.0 billion (24 percent) over the prior year because of: higher tax collections in the General Fund (where cash and investments increased by \$1.1 billion and \$1.4 billion, respectively), the relatively larger Treasury securities lending program and relatively higher investment fair values compared to the prior year. Investments for the Motor License Fund and the Tobacco Settlement Fund, which are treated as major Funds, each increased almost 10 percent during the fiscal year ended June 30, 2004, due in part to a larger securities lending program and relatively higher investment fair values. For governmental activities current liabilities, accounts payable and accrued liabilities increased (\$.7 billion) because of a newly-reported liability to nursing homes and Intermediate Care Facilities for the Mentally Retarded and higher estimated unpaid medical assistance claims and amounts other than accounts payable increased (\$.7 billion) largely because of higher securities lending program obligations (\$.5 billion), higher amounts due to political

subdivisions (\$.07 billion), higher self-insurance liabilities (\$.07 billion) and higher bonds payable (amounts due in one year) (\$.03 billion) at June 30, 2004. Total general obligation bonds payable (including current and non-current portions) increased less than \$.2 billion over the prior year. Year-over-year changes in business-type activities assets and liabilities were not significant, except for higher securities lending obligations (\$.3 billion) and a higher insurance loss liability (\$.2 billion) for the State Workers' Insurance Fund, which is treated as a major Fund.

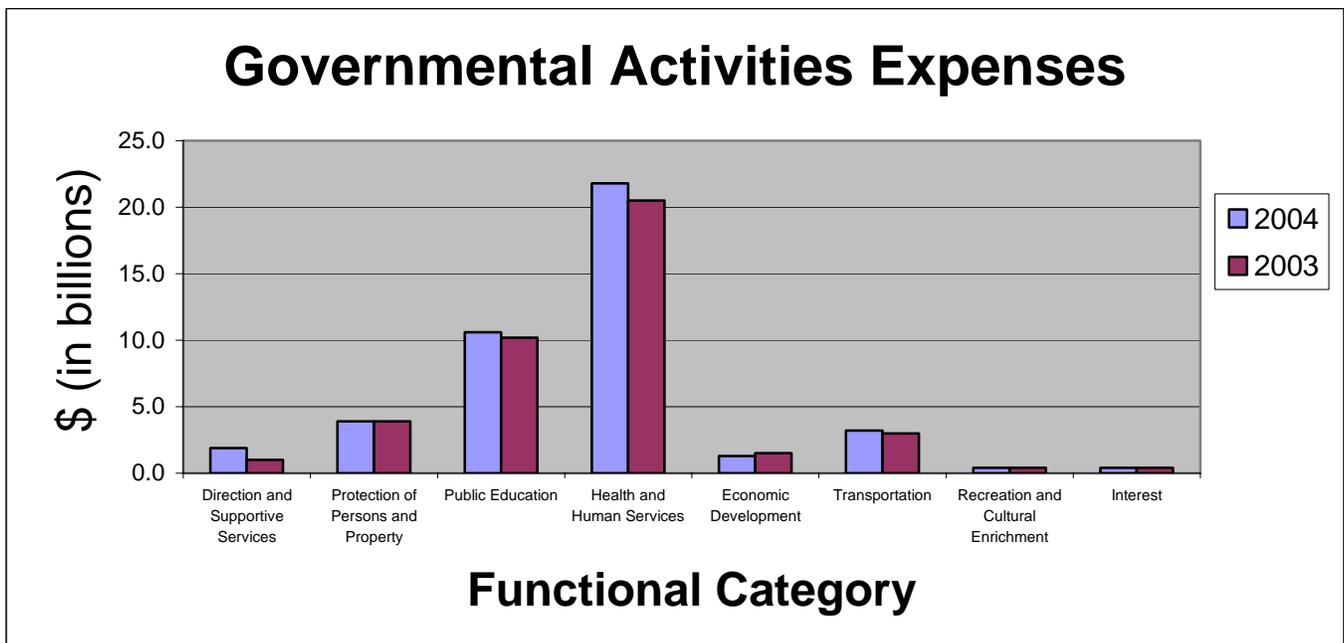
The following presents condensed financial statement information from the Statement of Activities (amounts in billions):

	Governmental Activities			Business-Type Activities			Total		
	2004	2003	Change	2004	2003	Change	2004	2003	Change
Revenues:									
Program revenues:									
Charges for sales and services.....	\$ 4.5	\$ 4.2	\$0.3	\$ 5.6	\$ 5.1	\$0.5	\$10.1	\$ 9.3	\$ 0.8
Operating grants and contributions.....	16.5	14.6	1.9	0.8	1.2	(0.4)	17.3	15.8	1.5
Capital grants and contributions.....	-	0.1	(0.1)	-	-	-	-	0.1	(0.1)
Total program revenues.....	21.0	18.9	2.1	6.4	6.3	0.1	27.4	25.2	2.2
General revenues:									
Taxes and investment income.....	23.5	21.6	1.9	-	-	-	23.5	21.6	1.9
Total general revenues.....	23.5	21.6	1.9	-	-	-	23.5	21.6	1.9
Total revenues.....	44.5	40.5	4.0	6.4	6.3	0.1	50.9	46.8	4.1
Expenses:									
Governmental activities:									
Direction and supportive services.....	2.0	1.0	1.0	-	-	-	2.0	1.0	1.0
Protection of persons and property.....	3.9	3.9	-	-	-	-	3.9	3.9	-
Public education.....	10.6	10.2	0.4	-	-	-	10.6	10.2	0.4
Health and human services.....	21.7	20.5	1.2	-	-	-	21.7	20.5	1.2
Economic development.....	1.3	1.4	(0.1)	-	-	-	1.3	1.4	(0.1)
Transportation.....	3.2	3.0	0.2	-	-	-	3.2	3.0	0.2
Recreation and cultural enrichment.....	0.4	0.4	-	-	-	-	0.4	0.4	-
Interest.....	0.3	0.4	(0.1)	-	-	-	0.3	0.4	(0.1)
Business-type activities:									
State lottery.....	-	-	-	2.1	1.8	0.3	2.1	1.8	0.3
Unemployment compensation.....	-	-	-	2.6	3.5	(0.9)	2.6	3.5	(0.9)
Liquor control.....	-	-	-	1.0	0.9	0.1	1.0	0.9	0.1
Worker's compensation.....	-	-	-	0.4	0.2	0.2	0.4	0.2	0.2
Tuition payment.....	-	-	-	0.3	0.3	-	0.3	0.3	-
Total expenses.....	43.4	40.8	2.6	6.4	6.7	(0.3)	49.8	47.5	2.3
Excess/(deficiency) before transfers.....	1.1	(0.3)	1.4	-	(0.4)	0.4	1.1	(0.7)	1.8
Transfers.....	0.4	0.6	(0.2)	(0.4)	(0.6)	0.2	-	-	-
Increase (decrease) in net assets.....	1.5	0.3	1.2	(0.4)	(1.0)	0.6	1.1	(0.7)	1.8
Net assets, beginning.....	18.2	17.7		2.5	3.5		20.7	21.2	
Net assets, ending, before restatement.....	19.7	18.0		2.1	2.5		21.8	20.5	
Restatement related to implementation of GASB Technical Bulletin 2004-1.....	-	0.2		-	-		-	0.2	
Net assets, ending (restated).....	\$ 19.7	\$ 18.2		\$ 2.1	\$ 2.5		\$ 21.8	\$ 20.7	

The following chart provides a graphic comparison of government activities revenues:



Below is a graph comparing governmental activities expenses by fiscal year:



Overall changes in net assets

During the fiscal year ended June 30, 2004, the overall financial position (net assets) of the Commonwealth, including both governmental and business-type activities, increased by \$1.1 billion or 5.3 percent of total beginning (as restated at July 1, 2003) net assets of \$20.7 billion. For governmental activities, the net increase in net assets was \$1.5 billion or 8.2 percent of beginning net assets of \$18.2 billion. Total investments, excluding the State Employees' Retirement Fund and other fiduciary funds, were over \$14.2 billion and total cash balances were over \$1.1 billion. These amounts represent considerable liquidity for the current and future fiscal years. The increase in governmental activities net assets compares favorably relative to the prior year change, where revenues, transfers and special items exceeded expenses by \$.3 billion. These increases represent year-over-year improvements in the Commonwealth's overall financial position during each of the fiscal years ended June 30, 2004 and 2003. On the other hand, the \$.4 billion decrease in total net assets for business-type activities follows a \$1.0 billion decrease during the prior fiscal year. Both decreases can be attributed to unemployment compensation benefit payments that exceeded employer/employee assessments during each of the fiscal years ended June 30, 2004 and 2003. During these fiscal years, unemployment compensation activities net assets decreased by \$.4 and \$.9 billion, respectively. Statutory contribution increases occurred during each of the fiscal years ended June 30, 2004 and 2003. Such increases are intended to eliminate net assets decreases in the unemployment compensation program. During the fiscal year ended June 30, 2004, net assets for all other business-type activities did not change significantly. During the prior fiscal year, those net assets decreased by approximately \$80 million.

During the current fiscal year, total business-type activities revenues were equal to expenses; total expenses exceeded total revenues by \$.4 billion in the prior fiscal year. Including net transfers to other funds of \$.4 billion (\$.6 billion in the prior year), business-type activities net assets decreased by over \$.4 billion (\$1.0 billion in the prior year). The primary reason for this decrease was that Unemployment Compensation Fund expenses exceeded revenues by \$.4 billion (\$.9 billion in the prior year). Current-year Fund revenues decreased by over \$.3 billion and expenses decreased by \$.9 billion compared to the fiscal year ended June 30, 2003.

Changes in revenues and expenses

For governmental activities, general revenues increased by \$1.9 billion, largely as a result of increases in General Fund tax revenues during the fiscal year ended June 30, 2004. Program revenues for operating grants and contributions increased significantly (\$1.9 billion, or 13 percent) because of increases in Federal participation in specific General Fund programs, primarily medical assistance and, to a degree, other programs. Program charges for business-type activities increased \$.5 billion primarily because of state lottery (\$.25 billion), unemployment compensation (\$.1 billion), workers compensation (\$.1 billion) and liquor and wine sales (\$.1 billion) increases. Operating grants and contributions for business-type activities decreased by \$.4 billion largely due to a \$.4 billion decrease in the Temporary Extended Unemployment Compensation program, which receives significant Federal funding.

For governmental activities, total expenses increased \$2.6 billion (over 6.3 percent) largely because of higher amounts appropriated for the General Fund and other governmental Funds. Almost half of the increase (\$1.2 billion) is attributable to medical and other assistance reported as part of health and human services expenses. Also, certain personnel costs reported as part of direction and supportive services increased substantially because of increased employee healthcare and other benefit costs during the fiscal year. Probable losses resulting from tax litigation were also a factor in higher direction and supportive services expenses. Expenses for business-type activities decreased by \$.3 billion overall (roughly 4.5 percent); expenses for unemployment compensation claims decreased by \$.9 billion based on lower claims during the fiscal year. Expenses for state lottery increased (\$.3 billion) along with higher ticket sales and expenses increased for workers compensation (\$.2 billion) because of higher claims and changes in actuarial assumptions associated with the overall insurance loss liability.

Budgetary Comparison

Budgetary Comparison Schedules are included as required supplementary information for the General Fund and the Motor License Fund immediately following the Notes to the Financial Statements. Budgetary comparison schedules for nonmajor Special Revenue Funds are included as supplementary information following combining statements for Special Revenue Funds. These schedules provide a measurement of compliance with legally adopted budgets.

General Fund – economic factors during the fiscal year ended June 30, 2004

A rebounding national economy that exceeded preliminary estimates for growth resulted in improved economic conditions within portions of the national and Pennsylvania economies. Gains in government revenues, corporate profits, job creation and personal income were experienced. However, economic growth slowed significantly during the second quarter of 2004 in which real growth in gross domestic product slowed significantly. Consumer spending dropped to its lowest levels since the recession of 2001 and high energy prices and weak employment gains slowed overall growth significantly. Overall, economic growth was insufficient to enable state revenue growth to accommodate increased demand for governmental goods and services. Additional revenue enhancements were enacted within fiscal year 2004 to address the rising costs of government goods and services.

General Fund – budgetary basis - comparison between original budget and final budget

The Budgetary Comparison Schedule for the General Fund for the fiscal year ended June 30, 2004 is presented immediately following the Notes to the Financial Statements. In the Final Budget, State Program revenues were adjusted to include revenues received by fiscal year-end (but not included in the Commonwealth's official revenue estimate), in an amount equal to 2003-04 supplemental appropriations passed on July 4, 2004 by Act 7A.

Final budgeted revenues for total state programs exceed the original budget by \$937 million. The \$937 million increase includes a \$451 million increase in tax revenues related primarily to improving national and state economic conditions and the passage of Acts 45, 46, and 47 of 2003, which raised various state taxes and non-tax revenues. The \$937 million increase also includes an increase of \$105 million for unclaimed property attributable to the revisions enacted by Act 45 which changed the escheat holding period for insurance company demutualization conversions, and a \$344 million increase in departmental services resulting primarily from transfers of \$355 million in augmenting revenues from the Motor License Fund for State Police protection of Commonwealth highways (in this case there is no true increase in funds available to the State Police).

The General Fund Schedule also discloses that the final budget includes \$1.02 billion more expenditures than the original budget. The \$1.02 billion increase includes \$917 million in state program expenditure increases and \$108 million of increased Federal participation in various programs. Of the \$917 million state program difference, \$565 million (62%) relates primarily to increased spending authority for medical assistance and cash grants programs due to increased costs and caseloads, and a \$340 million (37%) increase in Protection of Persons and Property expenditures results primarily from a \$355 million increase in spending authority for State Police protection of Commonwealth highways. The increase of \$108 million in Federal programs relates primarily to supplemental appropriations passed by Act 7A of 2004.

General Fund – budgetary basis - comparison between final budget and actual results

Actual budgetary State Program revenues exceeded the final budgeted State Program revenues by \$63 million. Budgetary lapses for a variety of specific appropriations and executive authorizations in the amount of \$40 million were also posted to reduce State Program spending authority. Actual Federal revenues and corresponding expenditures were \$276 million lower than budgeted for the following agencies: Public Welfare, \$125 million; Education, \$91 million; Health, \$24 million; Executive Offices, \$15 million; Labor and Industry, \$8 million; and all other affected agencies, \$13 million.

Measurement focus and basis of accounting – governmental funds

The General Fund, special revenue, debt service and capital projects funds are reported using the current financial resources measurement focus and modified accrual basis of accounting. Under this measurement focus, only current assets and current liabilities are normally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Unreserved fund balance represents a measure of available, spendable resources. Under the modified accrual basis of accounting, governmental funds recognize revenue in the year that it becomes susceptible to accrual (both measurable and available) to pay current fiscal year liabilities. Grant revenues, including Federal government grant revenues, are recognized when earned. Revenue recognition from most other sources occurs at receipt. Recognition of expenditures generally occurs in the fiscal year the goods or services are received and the related fund liability is incurred. Debt service expenditures for principal and interest on general long-term obligations are recognized when due. Prepaid items and inventory purchases are reported as current fiscal year expenditures, rather than allocating a portion of related cost to the fiscal year when the items are actually used.

Expenditures for claims, judgments, compensated absences and employer pension contributions are reported as the amount accrued during the fiscal year that normally would be liquidated with expendable available financial resources.

Discussion of individual funds, balances, and transactions

General Fund

Condensed General Fund balance sheets at June 30, 2004 and 2003 are as follows (amounts in millions):

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>Increase</u>	
			<u>Amount</u>	<u>Percent</u>
Assets:				
Cash and investments	\$ 5,674	\$ 4,131	\$ 1,543	37%
Receivables, net	2,899	2,772	127	5%
Due from other funds/governments/advances/other	1,891	1,622	269	17%
Total assets	\$ 10,464	\$ 8,525	\$ 1,939	
Liabilities:				
Accounts payable and tax refunds payable	\$ 3,749	\$ 2,996	\$ 753	25%
Securities lending obligations	1,156	757	399	53%
Due to other funds/governments/advances/other	994	918	76	8%
Deferred revenue	1,558	1,496	62	4%
Total liabilities	\$ 7,457	\$ 6,167	\$ 1,290	
Fund balance:				
Reserved	\$ 881	\$ 773	\$ 108	14%
Unreserved:				
Designated	492	270	222	82%
Undesignated	1,634	1,315	319	24%
Total fund balance	\$ 3,007	\$ 2,358	\$ 649	
Total liabilities and fund balance	\$ 10,464	\$ 8,525	\$ 1,939	

During the fiscal year ended June 30, 2004, cash and investments increased by \$1,543 million (37%) over the prior year. Higher tax receipts, combined with an expanded Treasury Department securities lending program, relatively higher investment fair values and higher accounts payable all contributed to the 37% increase. Amounts due from the Federal government increased 19% over the prior year, due to higher expenditures associated with Federal grants, which corresponds closely with the 17% increase related to amounts due from the Federal government and other Funds or organizations. Excluding a \$10.8 million decrease in tax refunds payable, accounts payable increased by over \$763 million during the fiscal year. Most of this increase, \$679 million, was attributable to several factors related to Department of Public Welfare (DPW) programs: at fiscal year end, accounts payable includes a \$455 million liability owed to nursing homes and Intermediate Care Facilities for the Mentally Retarded; a \$112 million dollar increase in the liability for pharmaceutical rebates; and a \$112 million increase in the reported liability for medical assistance claims. Another large year-over-year factor was a \$35 million increase in unremitted payroll withholdings at fiscal year end.

Fund balance reservations increased by \$108 million, most of which was attributable to a \$82.7 million decrease in encumbrances and a \$193.9 million increase in 'other' reservations, comprised of a \$219.1 million increase for restricted revenue and a \$25.2 million decrease for continuing programs. Fund balance designations increased by \$222 million primarily because of a new \$70 million designation for the Budget Stabilization Reserve Fund at June 30, 2004, a \$97 million increase for group medical and life insurance, a \$24 million increase for a judicial computer system, and a \$27 million increase for agency construction projects.

Condensed General Fund operating statements for the fiscal years ended June 30, 2004 and 2003 follow (amounts in millions):

	<u>June 30, 2004</u>	<u>June 30,2003</u>	<u>Increase (Decrease)</u>	
			<u>Amount</u>	<u>Percent</u>
Revenues:				
Taxes, net of refunds	\$ 21,191	\$ 19,554	\$ 1,637	8%
Intergovernmental	14,791	12,944	1,847	14%
Charges for sales and services	1,751	1,797	(46)	-3%
Licenses/fees/investment and other income	948	766	182	24%
Total revenues	<u>38,681</u>	<u>35,061</u>	<u>3,620</u>	
Expenditures:				
Direction and supportive services	1,412	855	557	65%
Protection of persons and property	2,958	2,941	17	1%
Health and human services	20,817	19,549	1,268	6%
Public education	10,521	10,175	346	3%
Recreation and cultural enrichment	225	324	(99)	-31%
Economic development	964	984	(20)	-2%
Transportation	352	407	(55)	-14%
Capital outlay	143	18	125	694%
Total expenditures	<u>37,392</u>	<u>35,253</u>	<u>2,139</u>	
Revenues over (under) expenditures	<u>1,289</u>	<u>(192)</u>	<u>1,481</u>	
Other financing sources (uses):				
Transfers in	134	426	(292)	-69%
Transfers out	(776)	(903)	127	-14%
Capital lease and installment purchase obligations	2	4	(2)	-50%
Net other financing sources (uses)	<u>(640)</u>	<u>(473)</u>	<u>(167)</u>	
Net change in fund balance	649	(665)	\$ 1,314	
Fund balance, beginning	<u>2,358</u>	<u>3,023</u>		
Fund balance, ending	<u>\$ 3,007</u>	<u>\$ 2,358</u>		

General Fund tax revenues increased by 8.37 percent due to economic growth and specific statutory increases in certain tax bases and tax rates enacted in December 2003. Intergovernmental revenues increased by 14.27 percent due to increases in Federally-funded programs, particularly medical and other assistance, where expenditures increased over the prior year. Total General Fund revenues increased by 10.32 percent during the fiscal year. The overall increase in fund balance, \$649 million, during the fiscal year was an improvement of \$1,314 million over the prior year fiscal year decrease in fund balance \$665 million. On an overall basis, during periods of declining or slow economic growth, it is common for the fund balance of the General Fund to decline and, conversely, to increase during periods of economic growth. During periods of economic growth, General Fund revenues increase while certain significant expenditures, such as medical assistance, also increase, but at a slower rate.

Total General Fund expenditures increased by 6.0 percent during the fiscal year ended June 30, 2004, on a GAAP-reported basis, largely because of increases in expenditures for medical and other assistance (reported as part of health and human services). Expenditures for direction and supportive services increased due to significantly higher employer costs for active and retired employee healthcare benefits. Year-over-year expenditures for the health and human services function increased by 6.49 percent; all other expenditures, on a combined basis, increased by 5.49 percent, largely as a result of higher amounts appropriated throughout most of the General Fund. Actual, final General Fund expenditures (budgetary basis) increased by 6.1 percent over the prior fiscal year, while revenues (budgetary basis) increased 5.9 percent.

Motor License Fund

Comparative financial statement information for the Motor License Fund is as follows (amounts in millions):

Description	2004		2003		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and Investments	\$ 1,281	70%	\$ 1,151	\$ 130	11%	
Other Assets	547	30%	364	183	50%	
Total Assets	1,828	100%	1,515	313	21%	
Accounts Payable	401	54%	346	55	16%	
Securities Lending Obligations	263	35%	205	58	28%	
Other Liabilities	84	11%	71	13	18%	
Total Liabilities	748	100%	622	126	20%	
Total Fund Balance	1,080	100%	893	187	21%	
Tax Revenues	1,742	42%	1,705	37	2%	
License and Fees	867	21%	842	25	3%	
Federal Revenues	1,323	32%	1,380	(57)	-4%	
Other Revenues	177	4%	125	52	42%	
Total Revenues	4,109	100%	4,052	57	1%	
Direction and Supportive Services	50	1%	48	2	4%	
Protection of Persons and Property	496	13%	514	(18)	-4%	
Transportation	1,642	43%	3,206	(1,564)	-49%	
Capital Outlay	1,668	43%	39	1,629	4177%	
Other Expenditures	5	0%	5	-	0%	
Total Expenditures	3,861	100%	3,812	49	1%	
Net Transfers Out	(61)	100%	(60)	(1)	2%	
Other Financing Sources (Uses)	-	0%	1	(1)	-100%	
Net Other Financing Sources (Uses)	(61)	100%	(59)	(2)	3%	
Net Change in Fund Balance	\$ 187	100%	\$ 181	\$ 6	3%	

Other assets increased by \$183 million, net, due to \$220 million in advances to other funds and by net decreases in receivables, primarily amounts due from the Federal government, of \$37 million. Other revenues also increased by \$52 million because of higher charges for sales and services (\$13 million) and higher investment income (\$34 million) and higher 'other' revenues (\$5 million). The increase in investment income is primarily attributable to relatively higher investment fair values at fiscal year end June 30, 2004. The increase in capital outlay during the fiscal year was caused by a change in reporting classification for highway/bridge construction costs; offset by a corresponding decrease in reported transportation expenditures. In combination, the year-over-year increase for both classifications was \$65 million, or 2%.

Tobacco Settlement Fund

Comparative financial statement information for the Tobacco Settlement Fund is as follows (amounts in millions):

Description	2004		2003		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and Investments	\$ 1,044	82%	\$ 959	\$ 85	9%	
Other Assets	231	18%	289	(58)	-20%	
Total Assets	1,275	100%	1,248	27	2%	
Accounts Payable	125	33%	139	(14)	-10%	
Securities Lending Asset/Liability	86	23%	84	2	2%	
Other Liabilities	171	45%	206	(35)	-17%	
Total Liabilities	382	100%	429	(47)	-11%	
Total Fund Balance	893	100%	819	74	9%	
Intergovernmental	120	21%	108	12	11%	
Investment Income	87	15%	37	50	135%	
Other Revenues	365	64%	427	(62)	-15%	
Total Revenues	572	100%	572	-	0%	
Protection of Persons and Property	102	22%	80	22	28%	
Health and Human Services	359	78%	474	(115)	-24%	
Economic Development	2	0%	100	(98)	-98%	
Total Expenditures	463	100%	654	(191)	-29%	
Net Transfers In (Out)	(35)	100%	(35)	-	0%	
Net Other Financing Sources (Uses)	(35)	100%	(35)	-	0%	
Net Change in Fund Balance	\$ 74	100%	\$ (117)	\$ 191	163%	

Investment income increased by \$50 million during the fiscal year ended June 30, 2004, due to relatively higher investment fair values at June 30, 2004. Other revenues, consisting of Master Settlement Agreement (MSA) receipts, decreased by \$62 million. MSA receipts are directly related to tobacco product sales and declined year-over-year. Total revenues were flat while total expenditures decreased by 29% during the fiscal year. The 24% decrease in Health and Human Services is due primarily to a non-recurring prior year Department of Public Welfare (DPW) appropriation. In accordance with Act 91 of 2002, Tobacco Settlement Funds were provided to the Long-Term Care appropriation in fiscal year 2002-2003. No Tobacco Settlement funding was authorized to support Long-Term Care services in fiscal year 2003-2004. The decrease in Economic Development is primarily due to a lower appropriation: \$90 million was expended in 2003, \$10 million in 2004. Other assets decreased by \$58 million due primarily to a decrease in the amount due from the Federal government (\$65 million), offset by an increase in other receivables (\$7 million). Federal revenue is now recognized for DPW's Medical Assistance for Workers with Disabilities and Home and Community Based Services programs in the Tobacco Settlement Fund when Federal expenses are incurred; thus eliminating a Federal receivable for these programs. In 2004 an MSA receivable and offsetting deferred revenue of \$160 million was recognized because GASB Technical Bulletin 2004-1 now requires the Commonwealth to estimate the amount of cigarette shipments made during the first six months of the participating manufacturer's calendar year (which are the last sixth months of the Commonwealth's fiscal year). The retroactive change in reported 2003 receivables and offsetting deferred revenues was \$170 million.

Measurement focus and basis of accounting – proprietary funds

The enterprise funds and internal service funds (proprietary funds) are reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus all assets and liabilities associated with the operations of these funds are included on the statement of net assets. Under the accrual basis of accounting, revenues are recognized in the fiscal year earned and expenses are recognized in the fiscal year incurred. Enterprise funds that report loan, insurance and tuition payment programs report all revenues as operating revenues; non-operating revenues are reported for other programs and include investment income and grant revenues. Under the Governmental Accounting Standards Board's (GASB) Statement 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Commonwealth has elected not to adopt the Financial Accounting Standards Board pronouncements issued after November 30, 1989. Four enterprise funds are reported as major funds and are discussed below (amounts in millions).

Unemployment Compensation Fund

Comparative financial statement information for the Unemployment Compensation Fund is as follows (amounts in millions):

Description	2004		2003		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and Investments	\$ 853	60%	\$ 1,379	\$ (526)	-38%	
Other Assets	558	40%	496	62	13%	
Total Assets	1,411	100%	1,875	(464)	-25%	
Accounts Payable	103	94%	206	(103)	-50%	
Other Liabilities	6	6%	5	1	20%	
Total Liabilities	109	100%	211	(102)	-48%	
Total Net Assets	1,302	100%	1,664	(362)	-22%	
Sales and Services	1,627	74%	1,532	95	6%	
Investment Income	52	2%	103	(51)	-50%	
Other Revenues	522	24%	907	(385)	-42%	
Total Revenues	2,201	100%	2,542	(341)	-13%	
Cost of Sales and Services	2,563	100%	3,470	(907)	-26%	
Total Expenses	2,563	100%	3,470	(907)	-26%	
Decrease in Net Assets	\$ (362)		\$ (928)	\$ 566	-61%	

During the fiscal year ended June 30, 2004, unemployment compensation benefit claims continued at high levels, although lower levels than the previous fiscal year. During the current and the prior fiscal years, statutory contribution increases were triggered for employers and employees and improved the Fund's ability to make benefit payments. Cash and investments were reduced during the fiscal year ended June 30, 2004 because claimant expenses continued to outpace revenues. The current year net assets decrease of \$362 million is a \$566 million improvement compared to the previous fiscal year decrease of \$928 million. The Temporary Extended Unemployment Compensation (TEUC) Program, established by Federal legislation during the fiscal year ended June 30, 2003, continued to provide an additional 13 weeks of benefit payments for qualified claimants during the current year. This program is supported by Federal funding, however, during the fiscal year ended June 30, 2004, the program was much smaller than the prior year, resulting in a decrease in other revenues. At June 30, 2004, except for coverage for displaced airline personnel, the TEUC Program had largely ended.

State Workers' Insurance Fund (December 31, 2003)

Comparative financial statement information for the State Workers' Insurance Fund is as follows (amounts in millions):

Description	2004		2003		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and Short-Term Investments	\$ 784	35%	\$ 589	\$ 195	33%	
Long-Term Investments	1,390	63%	1,316	74	6%	
Other Assets	50	2%	37	13	35%	
Total Assets	2,224	100%	1,942	282	15%	
Securities Lending Obligations	671	33%	510	161	32%	
Deferred Revenue	89	4%	72	17	24%	
Insurance Loss Liability	1,229	61%	1,040	189	18%	
Other Liabilities	29	1%	22	7	32%	
Total Liabilities	2,018	100%	1,644	374	23%	
Net Assets	206	100%	298	(92)	-31%	
Sales and Services	266	79%	181	85	47%	
Investment Income	77	23%	97	(20)	-21%	
Uncollectible provision	(7)	-2%	-	(7)	0%	
Total Revenues	336	100%	278	58	21%	
Cost of Sales and Services	423	99%	212	211	100%	
Interest Expense	5	1%	6	(1)	-17%	
Provision for Uncollectible Accounts	-	0%	8	(8)	-100%	
Total Expenses	428	100%	226	202	89%	
Increase (Decrease) in Net Assets	\$ (92)		\$ 52	\$ (144)	-277%	

During the fiscal year, temporary investments of the State Workers' Insurance Fund increased as premium revenues increased to \$266.4 million from \$180.7 million during the prior year. This growth was the result of an increase in policies: 41,311 in 2003 from 32,215 in 2002, an increase of 28.2%. As the State Worker's Insurance Fund had more funds available these funds were invested; securities lending obligations balances also increased. Insurance loss liability and related expenses also increased as a result of the growth in policies and as a result of changes in actuarial assumptions. The Fund processed an increase in injury reports received to 21,927, from 16,580 in 2002. Investment income decreased due to relatively lower investment fair values at year end.

State Lottery Fund

Comparative financial statement information for the State Lottery Fund is as follows (amounts in millions):

Description	2004		2003		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and Short-Term Investments	\$ 462	93%	\$ 406	\$ 56	14%	
Long-Term Investments	12	2%	14	(2)	-14%	
Other Assets	21	4%	24	(3)	-13%	
Total Assets	495	100%	444	51	11%	
Accounts Payable	233	69%	219	14	6%	
Securities Lending Obligations	100	30%	76	24	32%	
Other Liabilities	4	1%	7	(3)	-43%	
Total Liabilities	337	100%	302	35	12%	
Net Assets	158	100%	142	16	11%	
Sales and Services	2,351	97%	2,100	251	12%	
Other Revenues	74	3%	69	5	7%	
Total Revenues	2,425	100%	2,169	256	12%	
Cost of Sales and Services	1,982	97%	1,762	220	12%	
Other Expenses	70	3%	65	5	8%	
Total Operating Expenses	2,052	100%	1,827	225	12%	
Operating Income	373		342	31	9%	
Nonoperating Revenues	13		15	(2)	-13%	
Income Before Transfers	386		357	29	8%	
Transfers	(370)		(395)	25	6%	
Increase (Decrease) in Net Assets	\$ 16		\$ (38)	\$ 54	142%	

State Lottery Fund cash and investments increased during the fiscal year ended June 30, 2004, due to an increase in gross ticket sales and a higher securities lending portfolio at fiscal year end. Instant ticket sales increased \$193 million, Powerball sales increased \$18 million, and other sales increased by \$40 million, for a year-over-year sales increase of \$251 million or 12%. Operating expenses increased 12%, by \$225 million, due to increased field paid prizes from instant ticket sales, advertising, and special services. Operating income increased by \$31 million, or 9%, year-over-year. The current year statutory transfer from the Fund for the payment of benefits to the elderly amounted to \$370 million, a decrease of \$25 million over the prior fiscal year.

Tuition Payment Fund

Comparative financial statement information for the Tuition Payment Fund is as follows (amounts in millions):

Description	2004		2003		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and Short-Term Investments	\$ 322	31%	\$ 194	\$ 128	66%	
Long-Term Investments	698	68%	504	194	38%	
Other Assets	3	0%	2	1	50%	
Total Assets	1,023	100%	700	323	46%	
Securities Lending Obligations	164	15%	87	77	89%	
Tuition Benefits Payable	904	84%	658	246	37%	
Other Liabilities	3	0%	7	(4)	-57%	
Total Liabilities	1,071	100%	752	319	42%	
Net Assets	(48)	100%	(52)	4	8%	
Sales and Services	206	69%	234	(28)	-12%	
Investment Income	92	31%	28	64	229%	
Total Revenues	298	100%	262	36	14%	
Cost of Sales and Services	294	100%	288	6	2%	
Total Expenses	294	100%	288	6	2%	
Increase (Decrease) in Net Assets	\$ 4		\$ (26)	\$ 30	115%	

The Tuition Payment Fund cash and investments balances increased during the fiscal year due to the investment of current year tuition credit receipts, an expansion in the Treasury Department securities lending program, and relatively higher investment fair values at fiscal year end, which also increased year-over-year investment income. The total tuition benefits payable liability, which incorporates a variety of actuarial assumptions, increased by \$246 million, which corresponds with additional tuition credit purchases during the fiscal year.

Capital asset activity during the fiscal year ended June 30, 2004

Throughout the fiscal year, Commonwealth agencies acquire or construct capital assets. In governmental fund statements, expenditures for capital assets are typically reported as capital outlay. Funding for a significant portion of capital asset acquisition is provided by proceeds of general obligation bonds issued; such proceeds are generally accounted for in the capital projects funds in the funds financial statements as an other financing source. In the government-wide statements, bond proceeds are reported as additions to long-term bond liabilities and completed project expenditures and construction in progress at fiscal year end are reported as part of general capital assets. Construction in progress for Department of General Services (public works) and Department of Transportation (highway and bridge) projects at June 30, 2004 amounted to \$1.2 and \$1.7 billion, respectively. Authorized but unissued general obligation bonds at June 30, 2004 totaled \$45.5 billion.

General capital assets of the Commonwealth are those used in the performance of specific governmental functions during more than one fiscal year. Capital assets of the proprietary funds are reported in both fund statements and in government-wide statements. Fiduciary fund capital assets are reported in fund statements; fiduciary funds are not included in government-wide statements. General capital assets as of June 30, 2004 amounted to \$20.7 billion at actual or estimated historical cost, net of accumulated depreciation of \$9.9 billion. In the government-wide statements, depreciation expense for all capital assets is reported to recognize the cost of "using up" capital assets over their estimated useful lives. This treatment differs from reporting capital outlay as a current year expenditure in governmental funds. Highway and bridge infrastructure assets are typically funded by Motor License Fund taxes, license and registration fees and Federal revenues. The Motor License Fund reports transportation and capital outlay expenditures in fund statements; a portion of such expenditures is reported as additions to capital assets in government-wide statements. Depreciation of highway and bridge infrastructure assets is not related to the quality or relative value of these assets; rather, it is a specific accounting treatment to recognize the cost of "using up" the assets over long periods of time (25 years for highways and 50 years for bridges.) Depreciation is an allocation of an asset's cost over its estimated useful life and is reported in government-wide statements. Note E to the financial statements provides more information on capital asset activities during the fiscal year ended June 30, 2004.

Long-term debt activity during the fiscal year ended June 30, 2004

The constitution of the Commonwealth of Pennsylvania permits the incurrence of debt, without approval of the electorate, for capital projects specifically authorized in a capital budget. Capital project debt outstanding cannot exceed one and three quarters (1.75) times the average of the annual tax revenues deposited in all funds during the previous five fiscal years. The certified constitutional debt limit at August 31, 2004 was \$43.9 billion. Outstanding capital project debt at August 31, 2004 amounted to \$6.2 billion, for a remaining legal debt margin of \$37.7 billion. In addition to constitutionally authorized capital project debt, the Commonwealth may incur debt for electorate-approved programs, such as economic revitalization, land and water development, and water facilities restoration; and for special purposes approved by the General Assembly, such as disaster relief.

Total general obligation bond indebtedness outstanding at June 30, 2004 was \$7.225 billion. Total debt service fund transfers paid from General Fund and Motor License Fund appropriations to make principal and interest payments to bondholders during the fiscal year ended June 30, 2004 amounted to \$669 million and \$59 million, respectively. The table that follows shows total outstanding long-term indebtedness for general obligation bonds at the end of the eight most recent fiscal years (expressed in billions).

<u>At June 30</u>	<u>Outstanding Bond Indebtedness</u>
1997	4.842
1998	4.841
1999	5.254
2000	5.367
2001	5.545
2002	6.072
2003	7.031
2004	7.225

Note K to the financial statements provides more specific details on long-term debt balances and activity during the fiscal year ended June 30, 2004.

Debt administration – fiscal year ending June 30, 2005

During the fiscal year ending June 30, 2005, the Office of the Budget currently plans general obligation bond issuances, excluding refundings, amounting to \$1,012 million, an increase of \$387 million as compared to actual bond issuances of \$625 million, excluding refundings, during the fiscal year ended June 30, 2004. This plan reflects the need to make additional investments in the Commonwealth's capital infrastructure, local capital projects and mass transportation. Additionally, a significant portion of the projected increase in issuances for the 2005 fiscal year is attributable to two major environmental programs which would target capital improvements to water supply and sewage treatment facilities associated with economic development as well as general environmental capital improvement projects. Debt principal retirements of \$460.2 million are currently planned for the fiscal year ending June 30, 2005.

The Commonwealth continues to evaluate refunding opportunities for its outstanding bonds to reduce interest costs. To date during the fiscal year ending June 30, 2005, \$798.805 million of outstanding bonds have been refunded to produce over \$42.1 million of interest savings over the remaining life of those bonds. As market conditions provide additional opportunities, the Commonwealth may pursue additional refundings.

In addition to general obligation bonds, the Commonwealth may issue tax anticipation notes to meet operating cash needs during certain months of the fiscal year. Tax anticipation notes may be issued only for the General Fund and the Motor License Fund. They may not exceed 20 percent of the funds' estimated revenues for the year, and must mature during the fiscal year in which they were issued. Cash shortages may occur during the fiscal year because tax receipts, unlike cash disbursements, are concentrated in the last four months of the fiscal year. The Commonwealth has not issued tax anticipation notes during the past six fiscal years and has no plans to issue any during the 2005 fiscal year. There were no changes in credit ratings and there were no debt limitations during the fiscal year ended June 30, 2004 that may affect the Commonwealth's plans during the fiscal year ending June 30, 2005.

Legislative changes during fiscal year 2004-2005

During the fiscal year that began July 1, 2004, the legislature approved several new laws which are expected to change the Commonwealth's financial position in the future. Of these laws one of the most significant is Act 71 of 2004. This Act authorizes slot machine gaming at approved venues and establishes five new Funds including the State Gaming Fund, the Property Tax Relief Fund, the Race Horse Development Fund, the Gaming Economic Development and Tourism Fund, and the Compulsive and Problem Gambling Treatment Fund. Expected tax revenues from the licensed gaming facilities are to provide funding for property tax relief, economic development, volunteer fire company grants, and other activities.

Act 72 of 2004 enacts the Homeowner's Tax Relief Act which would transfer funds from the Property Tax Relief Fund to school districts to be used for local property and wage tax reductions.

Act 220 of 2004 extends the Treasury Department's prudent person investment authority to December 31, 2006, two years beyond the date established in prior law.

General Fund fiscal year 2004-2005 budget

On July 4, 2004 the Commonwealth's fiscal year 2005 budget was enacted by the General Assembly and signed into law by the Governor. The fiscal year 2005 budget includes a projected increase, prior to reserves for tax refunds, in Commonwealth revenues of 4.5 percent over fiscal year 2004 receipts. Additional revenues are projected based upon full year collection of numerous tax rate and tax base changes enacted in December 2003 as part of the fiscal year 2004 budget. These increased revenues are based upon a projection that the national economic recovery will continue to demonstrate modest yet sustainable growth through the fiscal year 2005. The enacted fiscal year 2005 budget provides for an increase of appropriations of 4.5 percent over fiscal year 2004 appropriations.

Management's discussion and analysis is intended to enhance the reader's understanding of the basic financial statements, which immediately follow. This supplementary information should be read in conjunction with the government-wide financial statements, the fund financial statements and the notes to financial statements.

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Basic Financial Statements



Nicholson Viaduct
Lackawanna County

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Government-Wide Financial Statements



*Johnstown Symphony at Pasquerilla Center
Cambria County*

STATEMENT OF NET ASSETS

June 30, 2004

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash—Note D.....	\$ 258,209	\$ 20,296	\$ 278,505	\$ 301,622
Cash with fiscal agents—Note D.....	-	853,444	853,444	-
Temporary investments—Note D.....	9,257,075	1,859,016	11,116,091	1,683,495
Receivables (net):				
Taxes—Note G.....	2,115,709	-	2,115,709	-
Unemployment assessments.....	-	501,415	501,415	-
Accounts.....	420,153	70,752	490,905	111,831
Accrued interest.....	5,569	14,586	20,155	110,781
Loans—Note G.....	6,700	44,488	51,188	933,452
Lease rentals—Note G.....	1,178	-	1,178	1,469
Other.....	9,460	88	9,548	26,250
Due from pension trust funds—Note H.....	5,812	9	5,821	-
Due from primary government—Note H.....	-	-	-	6,660
Due from component units—Note H.....	27,177	783	27,960	108
Due from Federal government.....	1,959,083	8,688	1,967,771	17,455
Due from political subdivisions.....	7,126	8,425	15,551	-
Due from other governments.....	-	16,600	16,600	2,240
Advances to other funds—Note H.....	-	500	500	-
Inventory.....	91,182	193,476	284,658	29,871
Prepaid and deferred expenses.....	-	950	950	117,894
Total current assets.....	<u>14,164,433</u>	<u>3,593,516</u>	<u>17,757,949</u>	<u>3,343,128</u>
Noncurrent assets:				
Long-term investments—Note D.....	992,320	2,099,569	3,091,889	2,672,585
Advances to other funds—Note H.....	32,108	-	32,108	-
Receivables (net):				
Taxes—Note G.....	808,359	-	808,359	-
Loans—Note G.....	39,387	191,739	231,126	8,576,487
Lease rentals—Note G.....	-	-	-	19,037
Non-depreciable capital assets—Note E:				
Land.....	1,414,156	323	1,414,479	161,560
Construction in progress.....	2,846,522	7,827	2,854,349	685,032
Depreciable capital assets—Note E:				
Land improvements.....	453,765	-	453,765	184,968
Buildings and building improvements.....	4,031,803	30,545	4,062,348	1,708,579
Machinery and equipment.....	694,045	62,970	757,015	578,165
Library books and other.....	-	-	-	161,962
Turnpike infrastructure.....	-	-	-	3,789,194
Highway infrastructure.....	14,940,848	-	14,940,848	-
Bridge infrastructure.....	6,324,884	-	6,324,884	-
Waterway infrastructure.....	1,705	-	1,705	-
Infrastructure-other.....	4,509	-	4,509	-
Less: accumulated depreciation.....	(9,964,803)	(55,738)	(10,020,541)	(3,409,734)
Net depreciable capital assets.....	<u>16,486,756</u>	<u>37,777</u>	<u>16,524,533</u>	<u>3,013,134</u>
Other assets.....	223,059	10,329	233,388	219,471
Total non-current assets.....	<u>22,842,667</u>	<u>2,347,564</u>	<u>25,190,231</u>	<u>15,347,306</u>
TOTAL ASSETS.....	\$ 37,007,100	\$ 5,941,080	\$ 42,948,180	\$ 18,690,434

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

STATEMENT OF NET ASSETS

June 30, 2004

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities.....	\$ 4,003,312	\$ 456,873	\$ 4,460,185	\$ 340,558
Tax refunds payable.....	565,440	-	565,440	-
Tuition benefits payable—Note F.....	-	79,822	79,822	-
Securities lending obligations.....	1,962,367	997,532	2,959,899	7,992
Internal balances—Note H.....	(82,811)	82,967	156	-
Due to pension trust funds—Note H.....	11,811	86	11,897	-
Due to primary government—Note H.....	-	-	-	10
Due to component units—Note H.....	7,846	-	7,846	-
Due to political subdivisions.....	860,290	2,089	862,379	-
Due to other governments.....	36,895	6,506	43,401	3
Interest payable.....	128,015	-	128,015	94,762
Deferred revenue.....	97,809	92,776	190,585	53,516
Notes payable—Note J.....	-	-	-	141,925
Bonds payable—Note K.....	491,263	-	491,263	25,019
Revenue bonds payable—Note K.....	-	-	-	245,291
Self insurance liabilities—Note M.....	93,144	3,468	96,612	-
Compensated absence liability—Note K.....	113,781	5,869	119,650	32,617
Other liabilities.....	45,634	15,280	60,914	80,655
Total current liabilities.....	<u>8,334,796</u>	<u>1,743,268</u>	<u>10,078,064</u>	<u>1,022,348</u>
Noncurrent liabilities:				
Tuition benefits payable—Note F.....	-	824,412	824,412	-
Deferred revenue.....	-	-	-	1,034
Advances from other funds—Note H.....	26,808	4,836	31,644	-
Demand revenue bonds payable—Note J.....	-	-	-	4,240,778
Insurance loss liability—Note F.....	-	1,229,395	1,229,395	-
Notes payable—Note J.....	-	-	-	590,294
General obligation bonds payable—Note K.....	6,733,902	-	6,733,902	-
Bonds payable—Note K.....	-	-	-	1,032,989
Revenue bonds payable—Note K.....	-	-	-	5,277,980
Capital lease/installment purchase obligations—Note K....	53,951	-	53,951	-
Other financing obligations—Note J.....	100,000	-	100,000	240,288
Compensated absence liability—Note K.....	579,104	25,247	604,351	73,162
Self insurance liabilities—Note M.....	690,320	13,870	704,190	-
Other liabilities—Note K.....	802,576	-	802,576	932,132
Total non-current liabilities.....	<u>8,986,661</u>	<u>2,097,760</u>	<u>11,084,421</u>	<u>12,388,657</u>
TOTAL LIABILITIES.....	<u>17,321,457</u>	<u>3,841,028</u>	<u>21,162,485</u>	<u>13,411,005</u>
NET ASSETS—Note C				
Invested in capital assets, net of related debt.....	16,944,913	45,927	16,990,840	822,331
Restricted for:				
Transportation.....	775,900	33,227	809,127	-
Capital projects.....	245,926	-	245,926	969,883
Debt service.....	61,029	-	61,029	384,879
Unemployment/worker's compensation.....	-	1,506,877	1,506,877	-
Elderly programs.....	90,713	158,343	249,056	-
Environmental and conservation programs.....	430,071	-	430,071	-
Other purposes.....	1,366,072	403,527	1,769,599	2,838,168
Unrestricted (deficit).....	(228,981)	(47,849)	(276,830)	264,168
TOTAL NET ASSETS.....	<u>\$ 19,685,643</u>	<u>\$ 2,100,052</u>	<u>\$ 21,785,695</u>	<u>\$ 5,279,429</u>

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2004

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Sales and Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary government:								
Governmental activities:								
Direction and supportive services.....	\$ 2,034,883	\$ 1,097,730	\$ 171,589	\$ -	\$ (765,564)	\$ -	\$ (765,564)	\$ -
Protection of persons and property.....	3,873,972	925,502	558,240	15,583	(2,374,647)	-	(2,374,647)	-
Public education.....	10,571,307	3,514	1,415,675	-	(9,152,118)	-	(9,152,118)	-
Health and human services.....	21,750,153	1,297,338	12,310,992	-	(8,141,823)	-	(8,141,823)	-
Economic development.....	1,340,015	1,011	664,708	-	(674,296)	-	(674,296)	-
Transportation.....	3,164,086	1,008,886	1,404,203	13,685	(737,312)	-	(737,312)	-
Recreation and cultural enrichment.....	394,273	138,750	31,310	1,205	(223,008)	-	(223,008)	-
Interest.....	341,455	-	-	-	(341,455)	-	(341,455)	-
Total governmental activities.....	43,470,144	4,472,731	16,556,717	30,473	(22,410,223)	-	(22,410,223)	-
Business-type activities:								
State lottery.....	2,051,646	2,349,644	88,056	-	-	386,054	386,054	-
State workers' insurance.....	435,429	266,551	77,170	-	-	(91,708)	(91,708)	-
Tuition payment.....	293,737	206,739	91,501	-	-	4,503	4,503	-
Unemployment compensation.....	2,563,318	1,628,215	573,270	-	-	(361,833)	(361,833)	-
Liquor control.....	1,024,365	1,121,853	2,702	-	-	100,190	100,190	-
Economic development and other.....	13,980	21,467	8,064	1,121	-	16,672	16,672	-
Total business-type activities.....	6,382,475	5,594,469	840,763	1,121	-	53,878	53,878	-
Total primary government.....	\$ 49,852,619	\$ 10,067,200	\$ 17,397,480	\$ 31,594	(22,410,223)	53,878	(22,356,345)	-
Component units:								
Total component units.....	\$ 3,579,437	\$ 2,060,912	\$ 1,442,246	\$ 167,958	-	-	-	91,679
General revenues:								
Taxes:								
Personal income.....					7,352,877	-	7,352,877	-
Sales and use.....					7,654,405	-	7,654,405	-
Corporation.....					4,004,112	-	4,004,112	-
Liquid fuels and motor carriers.....					1,723,816	-	1,723,816	47,062
Inheritance.....					726,605	-	726,605	-
Cigarette.....					933,973	-	933,973	-
Other.....					893,589	-	893,589	-
Total taxes.....					23,289,377	-	23,289,377	47,062
Investment income.....					199,151	-	199,151	-
Other.....					-	-	-	164
Total general revenues.....					23,488,528	-	23,488,528	47,226
Transfers—Note H.....					422,786	(422,786)	-	-
Net general revenues and transfers.....					23,911,314	(422,786)	23,488,528	47,226
Change in net assets.....					1,501,091	(368,908)	1,132,183	138,905
Net assets, July 1, 2003 (restated)—Note B.....					18,184,552	2,468,960	20,653,512	5,140,524
Net assets, June 30, 2004—Note C.....					\$ 19,685,643	\$ 2,100,052	\$ 21,785,695	\$ 5,279,429

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

Fund Financial Statements



Duquesne Incline Plane

Pittsburgh

BALANCE SHEET
Governmental Funds

June 30, 2004

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	General Fund	Motor License Fund	Tobacco Settlement Fund	Nonmajor Funds	Total
ASSETS					
Assets:					
Cash—Note D.....	\$ 200,709	\$ 39,081	\$ 1,228	\$ 8,791	\$ 249,809
Temporary investments—Note D.....	5,473,126	1,241,508	518,925	1,975,464	9,209,023
Long-term investments—Note D.....	-	-	523,929	468,391	992,320
Receivables, net:					
Taxes—Note G.....	2,747,292	151,996	-	24,780	2,924,068
Accounts.....	146,024	270	170,010	10,959	327,263
Accrued interest.....	77	-	1,166	4,326	5,569
Loans—Note G.....	6,283	-	-	39,804	46,087
Lease rentals—Note G.....	-	-	-	1,178	1,178
Other.....	-	7,804	-	3	7,807
Due from other funds—Note H.....	30,792	467	12,146	59,738	103,143
Due from pension trust funds—Note H.....	918	4,865	-	3	5,786
Due from component units—Note H.....	1,472	340	-	24,588	26,400
Due from Federal government.....	1,733,091	161,217	48,141	13,136	1,955,585
Due from political subdivisions.....	6,934	-	-	61	6,995
Advances to other funds—Note H.....	114,108	220,000	-	3,000	337,108
Other assets.....	3,000	-	-	-	3,000
TOTAL ASSETS.....	\$ 10,463,826	\$ 1,827,548	\$ 1,275,545	\$ 2,634,222	\$ 16,201,141
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities.....	\$ 3,184,371	\$ 399,989	\$ 125,345	\$ 266,145	\$ 3,975,850
Tax refunds payable.....	564,317	1,123	-	-	565,440
Securities lending obligations.....	1,155,548	262,732	86,478	447,464	1,952,222
Due to other funds—Note H.....	69,931	31,383	90	16,301	117,705
Due to component units—Note H.....	972	6,874	-	-	7,846
Due to pension trust funds.....	3,953	4,415	-	3,435	11,803
Due to political subdivisions.....	794,943	22,027	4,614	38,708	860,292
Due to other governments.....	21,181	14,409	-	1,276	36,866
Deferred revenue.....	1,558,250	2,804	166,000	35,828	1,762,882
Advances from other funds—Note H.....	100,000	2,175	-	10,333	112,508
Other liabilities.....	3,846	-	-	-	3,846
TOTAL LIABILITIES.....	7,457,312	747,931	382,527	819,490	9,407,260
Fund balances:					
Reserved for:					
Encumbrances.....	259,178	591,598	128	853,149	1,704,053
Advances—Note C.....	114,108	220,000	-	3,000	337,108
Loans receivable.....	6,283	-	-	39,804	46,087
Other—Note C.....	501,901	662	493,033	66,589	1,062,185
Unreserved:					
Designated for:					
Budget Stabilization Reserve Fund.....	70,303	-	-	-	70,303
Capital projects.....	-	-	-	96,787	96,787
Debt service:					
Retirement of general obligation bonds.....	-	-	-	61,029	61,029
Highways.....	-	209,647	-	-	209,647
Other—Note C.....	421,415	-	-	-	421,415
Undesignated (deficit)-reported in:					
General Fund.....	1,633,326	-	-	-	1,633,326
Special Revenue Funds.....	-	57,710	399,857	1,062,669	1,520,236
Capital Projects Funds.....	-	-	-	(368,295)	(368,295)
TOTAL FUND BALANCES.....	3,006,514	1,079,617	893,018	1,814,732	6,793,881
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 10,463,826	\$ 1,827,548	\$ 1,275,545	\$ 2,634,222	\$ 16,201,141

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

**RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS**

June 30, 2004

**COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)**

The governmental funds balance sheet reports total fund balance for all governmental funds. In the governmental activities column in the Statement of Net Assets, amounts are reported for all governmental funds and are adjusted to account for specific items that are treated differently on the Statement of Net Assets than on the governmental funds balance sheet. Under the modified accrual basis of accounting, numerous governmental assets are not reported because they may not be "available," (that is, they are not current financial resources) and, similarly, numerous governmental liabilities are not reported because they are not due and payable until after fiscal year end. The following reconciliation begins with total governmental funds fund balance and ends with total net assets for governmental activities. It includes all of the adjustments made to "convert" governmental fund information in the fund financial statements to governmental activities information in the Statement of Net Assets.

Total Fund Balances--Governmental Funds..... \$ 6,793,881

General capital assets used in governmental activities are not financial resources and are therefore not reported in the governmental funds balance sheet. (Refer to Note E.)

These assets consist of:

Land.....	\$ 1,414,150	
Land improvements.....	453,439	
Buildings and building improvements.....	4,027,740	
Machinery and equipment.....	602,578	
Infrastructure.....	21,271,946	
Construction in progress.....	2,846,522	
Accumulated depreciation.....	<u>(9,911,054)</u>	
Net general capital assets.....		20,705,321

Certain revenues are earned but not available at fiscal year-end and therefore are reported as deferred revenues in the governmental funds balance sheet..... 1,665,081

Certain receivables are not reported as governmental fund assets because they are not collected during the availability period under the modified accrual basis of accounting..... 97,308

Internal service funds are proprietary in nature and charge the costs of certain goods and services to governmental funds. Therefore, the assets and liabilities of the internal service funds are included in the Statement of Net Assets as governmental activities..... 70,070

The Statement of Net Assets includes inventories that are not reported in the governmental funds balance sheet because they are not current financial resources..... 80,555

Certain general long-term liabilities are not due and payable at fiscal year-end and therefore are not reported in the governmental funds balance sheet. (Refer to Note K.)

These liabilities are:

Bonds payable.....	\$ (7,225,165)	
Accrued bond interest payable.....	(128,015)	
Capital lease and installment purchase obligations.....	(53,951)	
Compensated absence liability.....	(692,885)	
Self-insurance liabilities.....	(782,203)	
Other liabilities.....	(802,576)	
Accounts payable.....	<u>(41,778)</u>	
		<u>(9,726,573)</u>

Total Net Assets--Governmental Activities..... \$ 19,685,643

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Governmental Funds

For the Fiscal Year Ended June 30, 2004

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	General Fund	Motor License Fund	Tobacco Settlement Fund	Nonmajor Funds	Total
REVENUES:					
Taxes, net of refunds.....	\$ 21,190,494	\$ 1,742,332	\$ -	\$ 304,291	\$ 23,237,117
Licenses and fees.....	275,898	866,552	-	333,498	1,475,948
Intergovernmental.....	14,790,701	1,323,005	119,541	145,849	16,379,096
Charges for sales and services.....	1,751,745	108,901	-	207,373	2,068,019
Investment income.....	160,774	60,719	87,264	93,375	402,132
Lease rental principal and interest.....	-	-	-	184	184
Other.....	511,130	7,290	364,875	74,015	957,310
TOTAL REVENUES	38,680,742	4,108,799	571,680	1,158,585	44,519,806
EXPENDITURES:					
Current:					
Direction and supportive services.....	1,412,250	49,693	2	76,784	1,538,729
Protection of persons and property.....	2,958,160	496,105	102,168	330,233	3,886,666
Health and human services.....	20,816,721	-	358,509	514,162	21,689,392
Public education.....	10,520,428	1,023	-	8,053	10,529,504
Recreation and cultural enrichment.....	225,367	4,199	-	152,613	382,179
Economic development.....	963,926	-	2,061	368,084	1,334,071
Transportation.....	351,911	1,641,755	-	316,768	2,310,434
Capital outlay.....	142,651	1,668,261	-	197,229	2,008,141
Debt service:					
Principal retirement.....	-	-	-	455,890	455,890
Interest and fiscal charges.....	-	-	-	311,686	311,686
TOTAL EXPENDITURES	37,391,414	3,861,036	462,740	2,731,502	44,446,692
REVENUES OVER (UNDER)					
EXPENDITURES	1,289,328	247,763	108,940	(1,572,917)	73,114
OTHER FINANCING SOURCES (USES):					
Bonds issued.....	-	-	-	625,247	625,247
Refunding bonds issued.....	-	-	-	459,223	459,223
Premium on bonds/refunding bonds issued.....	-	-	-	88,006	88,006
Transfers in—Note H.....	133,670	-	-	1,203,420	1,337,090
Transfers out—Note H.....	(775,732)	(61,279)	(34,531)	(42,762)	(914,304)
Payment to refunded bond escrow agent.....	-	-	-	(511,884)	(511,884)
Capital lease and installment purchase obligations.....	1,535	-	-	-	1,535
NET OTHER FINANCING					
SOURCES (USES)	(640,527)	(61,279)	(34,531)	1,821,250	1,084,913
NET CHANGE IN FUND BALANCES	648,801	186,484	74,409	248,333	1,158,027
FUND BALANCES, JULY 1, 2003-(restated)-Note B	2,357,713	893,133	818,609	1,566,399	5,635,854
FUND BALANCES, JUNE 30, 2004	\$ 3,006,514	\$ 1,079,617	\$ 893,018	\$ 1,814,732	\$ 6,793,881

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2004

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

The governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances reports events and activities that affect, on a current financial resources basis, fund balance changes during the fiscal year. The governmental activities column on the government-wide Statement of Activities conveys information on an economic basis. In effect, the government-wide statement demonstrates all expenses and revenues related to the operation of the government for the fiscal year ended June 30, 2004. Expenses such as depreciation and certain claims and judgments and revenues that may not be collected for several months after fiscal-year end are included in the government-wide statement but are not included in the governmental funds statement. This reconciliation reports all economic events during the fiscal year that appear on the government-wide Statement of Activities but are not included in the governmental funds statement.

Net change in total fund balances of governmental funds..... \$ 1,158,027

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds; however, in the government-wide statements capital outlays are reported as increases in capital assets (not expenses) and the cost of general capital assets is allocated over their estimated useful lives and reported as depreciation expense. All depreciation is reported as part of functional program expenses. (Refer to Note E) The current amounts were:

Capital asset acquisitions (net).....	\$ 1,788,743	
Depreciation expense.....	(833,763)	
Capital lease, installment purchase and related payments.....	<u>9,175</u>	
Net excess of capital asset additions/installment purchase payments over depreciation expense.....		964,155

Bond proceeds provide current financial resources to governmental funds; however, issuing bonds increases general long-term liabilities in the statement of net assets. During the current fiscal year, proceeds were received from:

General obligation bonds, including a premium of \$35,346.....	\$ (660,592)	
Refunding bonds, including a premium of \$52,661.....	<u>(511,884)</u>	
Total bond proceeds.....		(1,172,476)

Repayment of general long-term liabilities is reported as an expenditure in governmental funds, but the repayment reduces general long-term liabilities in the statement of net assets.

During the current fiscal year, these amounts consisted of:

Bond principal retirement.....	\$ 455,890	
Payments to refunded bond escrow agent.....	<u>511,884</u>	
Total long-term debt repayment.....		967,774

Internal service funds charge the costs of certain goods and services to individual funds. The net loss of the internal service funds is reported as part of governmental activities expenses..... (19,888)

Certain tax and other revenues due by fiscal year end will not be collected for several months or years after fiscal year end; they are not considered available revenues in the governmental funds, but they are reported as revenues in the statement of activities. 22,448

Certain additional expenses are reported in the statement of activities because they are due and payable and are funded with future economic resources rather than current available financial resources..... (418,949)

Net change in governmental net assets in the statement of activities..... \$ 1,501,091

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

STATEMENT OF NET ASSETS
Proprietary Funds

June 30, 2004

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Enterprise Funds						Total	Internal Service Funds
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2003)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds			
ASSETS								
Current assets:								
Cash.....	\$ -	\$ 3,267	\$ 236	\$ 765	\$ 16,028	\$ 20,296	\$ 8,401	
Cash with fiscal agents—Note D.....	853,444	-	-	-	-	853,444	-	
Temporary investments—Note D.....	224	781,120	461,605	321,339	294,728	1,859,016	48,053	
Receivables (net):								
Unemployment assessments.....	501,415	-	-	-	-	501,415	-	
Accounts.....	22,424	36,559	8,203	-	3,566	70,752	14	
Accrued interest.....	-	10,734	-	3,003	849	14,586	-	
Loans—Note G.....	-	-	-	-	44,488	44,488	-	
Other.....	-	-	13	-	75	88	717	
Due from other funds—Note H.....	2,867	-	-	-	3,555	6,422	12,831	
Due from pension trust funds.....	1	-	-	-	8	9	26	
Due from component units—Note H.....	755	-	-	-	28	783	777	
Due from Federal government.....	4,515	-	4,173	-	-	8,688	-	
Due from political subdivisions.....	8,425	-	-	-	-	8,425	131	
Due from other governments.....	16,600	-	-	-	-	16,600	-	
Advances to other funds.....	-	-	-	-	500	500	-	
Inventory.....	-	-	-	-	193,476	193,476	10,627	
Prepaid expenses.....	-	-	-	-	950	950	-	
Total current assets.....	1,410,670	831,680	474,230	325,107	558,251	3,599,938	81,577	
Noncurrent assets:								
Long-term investments.....	-	1,389,930	12,041	697,598	-	2,099,569	-	
Receivables (net):								
Loans—Note G.....	-	-	-	-	191,739	191,739	-	
Non-depreciable capital assets—Note E:								
Land.....	-	-	-	-	323	323	6	
Construction in progress.....	-	-	-	-	7,827	7,827	-	
Depreciable capital assets—Note E:								
Land improvements.....	-	-	-	-	-	-	326	
Buildings and building improvements.....	-	-	-	-	30,545	30,545	4,063	
Machinery and equipment.....	-	3,214	424	-	59,332	62,970	91,467	
Less: accumulated depreciation.....	-	(1,631)	(341)	-	(53,766)	(55,738)	(53,749)	
Net depreciable capital assets.....	-	1,583	83	-	36,111	37,777	42,107	
Other assets.....	-	1,029	9,300	-	-	10,329	59	
Total noncurrent assets.....	-	1,392,542	21,424	697,598	236,000	2,347,564	42,172	
TOTAL ASSETS.....	1,410,670	2,224,222	495,654	1,022,705	794,251	5,947,502	123,749	
LIABILITIES								
Current liabilities:								
Accounts payable and accrued liabilities.....	103,130	9,162	232,687	2,675	109,219	456,873	27,471	
Tuition benefits payable—Note F.....	-	-	-	79,822	-	79,822	-	
Securities lending obligations.....	47	670,898	100,100	163,582	62,905	997,532	10,144	
Due to other funds—Note H.....	164	-	222	14	3,989	4,389	458	
Due to pension trust funds.....	-	-	-	-	86	86	8	
Due to political subdivisions.....	-	-	2,089	-	-	2,089	-	
Due to other governments.....	5,310	-	557	-	639	6,506	29	
Deferred revenue.....	225	88,655	1,573	-	2,323	92,776	8	
Self insurance.....	-	234	-	-	3,234	3,468	252	
Compensated absences.....	-	342	-	6	5,521	5,869	-	
Other liabilities.....	-	15,280	-	-	-	15,280	-	
Total current liabilities.....	108,876	784,571	337,228	246,099	187,916	1,664,690	38,370	
Noncurrent liabilities:								
Advances from other funds—Note H.....	-	1,836	-	-	88,000	89,836	14,300	
Tuition benefits payable—Note F.....	-	-	-	824,412	-	824,412	-	
Insurance loss liability—Note F.....	-	1,228,548	-	-	847	1,229,395	-	
Compensated absences.....	-	1,666	-	43	23,538	25,247	-	
Self insurance.....	-	935	-	-	12,935	13,870	1,009	
Total noncurrent liabilities.....	-	1,232,985	-	824,455	125,320	2,182,760	15,309	
TOTAL LIABILITIES.....	108,876	2,017,556	337,228	1,070,554	313,236	3,847,450	53,679	
NET ASSETS								
Invested in capital assets, net of related debt.....	-	1,583	83	-	44,261	45,927	42,113	
Restricted for:								
Transportation.....	-	-	-	-	33,227	33,227	-	
Unemployment/workers' compensation.....	1,301,794	205,083	-	-	-	1,506,877	-	
Elderly programs.....	-	-	158,343	-	-	158,343	-	
Other purposes—Note C.....	-	-	-	-	403,527	403,527	42,976	
Unrestricted (deficit).....	-	-	-	(47,849)	-	(47,849)	(15,019)	
TOTAL NET ASSETS.....	\$ 1,301,794	\$ 206,666	\$ 158,426	\$ (47,849)	\$ 481,015	\$ 2,100,052	\$ 70,070	

- 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, 2004

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

Enterprise Funds

	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2003)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	Internal Service Funds
OPERATING REVENUES:							
Sales and services.....	\$ 1,627,052	\$ 266,405	\$ 2,350,892	\$ 206,739	\$ 1,134,311	\$ 5,585,399	\$ 119,472
Investment income.....	52,389	77,170	-	91,501	7,368	228,428	-
Interest on loans.....	-	-	-	-	7,447	7,447	-
Other.....	522,044	146	73,681	-	1,301	597,172	-
OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTABLE ACCOUNTS.....	2,201,485	343,721	2,424,573	298,240	1,150,427	6,418,446	119,472
Provision for uncollectible accounts.....	-	(7,410)	-	-	(2,194)	(9,604)	-
NET OPERATING REVENUES.....	2,201,485	336,311	2,424,573	298,240	1,148,233	6,408,842	119,472
OPERATING EXPENSES:							
Cost of sales and services.....	2,563,318	422,880	1,981,368	293,737	1,031,524	6,292,827	129,323
Interest expense.....	-	4,764	-	-	-	4,764	-
Depreciation.....	-	375	5	-	4,531	4,911	10,188
Other.....	-	-	70,273	-	-	70,273	-
TOTAL OPERATING EXPENSES.....	2,563,318	428,019	2,051,646	293,737	1,036,055	6,372,775	139,511
OPERATING INCOME (LOSS).....	(361,833)	(91,708)	372,927	4,503	112,178	36,067	(20,039)
NONOPERATING REVENUES (EXPENSES):							
Investment income.....	-	-	13,127	-	3,330	16,457	2,693
Other revenues.....	-	-	-	-	1,450	1,450	2
Other expenses.....	-	-	-	-	(96)	(96)	(2,544)
NONOPERATING REVENUES, NET.....	-	-	13,127	-	4,684	17,811	151
INCOME (LOSS) BEFORE TRANSFERS.....	(361,833)	(91,708)	386,054	4,503	116,862	53,878	(19,888)
TRANSFERS:							
Transfers in—Note H.....	-	-	-	-	200	200	-
Transfers out—Note H.....	-	-	(370,000)	-	(52,986)	(422,986)	-
NET TRANSFERS.....	-	-	(370,000)	-	(52,786)	(422,786)	-
INCREASE/(DECREASE) IN NET ASSETS.....	(361,833)	(91,708)	16,054	4,503	64,076	(368,908)	(19,888)
TOTAL NET ASSETS, JULY 1, 2003 (restated)—Note B.....	1,663,627	298,374	142,372	(52,352)	416,939	2,468,960	89,958
TOTAL NET ASSETS, JUNE 30, 2004.....	\$ 1,301,794	\$ 206,666	\$ 158,426	\$ (47,849)	\$ 481,015	\$ 2,100,052	\$ 70,070

- 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, 2004

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)	Enterprise Funds						
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2003)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from employers.....	\$ 1,566,564	\$ 270,699	\$ -	\$ -	\$ -	\$ 1,837,263	\$ -
Receipts from customers.....	-	-	2,353,296	205,563	1,128,061	3,686,920	129,603
Receipts from borrowers.....	-	-	-	-	12,143	12,143	-
Payments to programs for the elderly.....	-	-	(442,341)	-	-	(442,341)	-
Payments to prize winners.....	-	-	(1,429,747)	-	-	(1,429,747)	-
Payments to participants.....	-	-	-	(52,475)	-	(52,475)	-
Payments to claimants.....	(2,666,287)	(231,842)	-	-	(3,720)	(2,901,849)	-
Payments to borrowers.....	-	-	-	-	(4,405)	(4,405)	-
Payments to suppliers.....	-	-	(98,175)	-	(1,067,519)	(1,165,694)	(132,567)
Other receipts.....	522,044	146	3,408	-	631	526,229	-
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	(577,679)	39,003	386,441	153,088	65,191	66,044	(2,964)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES							
Net borrowings under advances from other funds.....	-	210	-	-	2,500	2,710	-
Transfers in.....	-	-	-	-	200	200	-
Transfers out.....	-	-	(370,000)	-	(52,986)	(422,986)	-
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES.....	-	210	(370,000)	-	(50,286)	(420,076)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Acquisition and construction of capital assets.....	-	(456)	-	-	(8,058)	(8,514)	(7,300)
Loss on disposition of capital assets.....	-	-	-	-	96	96	2,196
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....	-	(456)	-	-	(7,962)	(8,418)	(5,104)
CASH FLOWS FROM INVESTING ACTIVITIES:							
Purchase of investments.....	(5,866)	(1,933,275)	(1,325,385)	(6,319,705)	(748,057)	(10,332,288)	(242,522)
Sales and maturities of investments.....	5,806	1,679,271	1,266,351	6,072,042	713,604	9,737,074	255,692
Investment income.....	52,389	54,505	18,156	17,538	10,806	153,394	1,995
Change in securities lending obligations.....	17	160,736	24,438	76,887	16,922	279,000	(670)
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	52,346	(38,763)	(16,440)	(153,238)	(6,725)	(162,820)	14,495
NET INCREASE (DECREASE) IN CASH.....	(525,333)	(6)	1	(150)	218	(525,270)	6,427
CASH AT JULY 1, 2003.....	1,378,777	3,274	235	915	15,811	1,399,012	1,974
CASH AT JUNE 30, 2004.....	\$ 853,444	\$ 3,268	\$ 236	\$ 765	\$ 16,029	\$ 873,742	\$ 8,401
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES							
Operating income (loss).....	\$ (361,833)	\$ (91,708)	\$ 372,927	\$ 4,503	\$ 112,175	\$ 36,064	\$ (20,039)
Depreciation and amortization.....	-	375	5	-	4,531	4,911	10,188
Provision for uncollectible accounts.....	-	7,410	-	-	2,194	9,604	-
Non-operating revenues.....	-	-	-	-	1,354	1,354	(2,542)
Reclassification of investment income.....	(52,389)	(77,170)	-	(91,501)	(7,368)	(228,428)	-
Changes in assets and liabilities:							
Accounts receivable.....	132	(12,242)	15,444	(1,176)	(3,391)	(1,233)	(74)
Unemployment compensation assessments receivable.....	(113,074)	-	-	-	-	(113,074)	-
Inventory.....	-	-	-	-	(31,826)	(31,826)	608
Due from other funds.....	241	200	-	-	(1,087)	(646)	8,773
Due from component units.....	(384)	-	-	-	(24)	(408)	656
Due from other governments.....	53,168	-	(3,740)	-	5	49,433	-
Due from political subdivisions.....	(796)	-	-	-	-	(796)	127
Other current assets.....	-	(654)	(9,300)	-	822	(9,132)	39
Accounts payable and accrued liabilities.....	(102,988)	812	13,306	(4,817)	14,612	(79,075)	(2,020)
Tuition benefits payable.....	-	-	-	246,093	-	246,093	-
Due to other funds.....	162	(3,948)	(62)	(6)	(20,323)	(24,177)	82
Due to component units.....	-	-	-	-	26	26	(1)
Due to other governments.....	(143)	(53)	(93)	(2)	144	(147)	(21)
Deferred revenue.....	225	16,990	(1,657)	-	22	15,580	-
Insurance loss liability.....	-	189,016	-	-	114	189,130	-
Other liabilities.....	-	9,975	(389)	(6)	(6,789)	2,791	1,260
Total Adjustments.....	(215,846)	130,711	13,514	148,585	(46,984)	29,980	17,075
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	\$ (577,679)	\$ 39,003	\$ 386,441	\$ 153,088	\$ 65,191	\$ 66,044	\$ (2,964)
Increase (decrease) in fair value of investments during the fiscal year.....	\$ -	\$ 28,801	\$ (1,461)	\$ 66,708	\$ 181	\$ 94,229	\$ 243

There were no other material investing, capital or financing activities that did not result in cash receipts or cash payments during the fiscal year.

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

STATEMENT OF FIDUCIARY NET ASSETS
Fiduciary Funds

June 30, 2004

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund INVEST Program for Local Governments (December 31, 2003)	Private Purpose Trust Fund Tuition Account Investment Program	Agency Funds
ASSETS				
Cash—Note D.....	\$ 2,463	\$ -	\$ 92	\$ 48,515
Cash with fiscal agents—Note D.....	-	-	-	46,013
Temporary investments—Note D.....	8,643,376	832,239	412	1,694,258
Long-term investments—Note D.....	72,475,494	-	138,531	1,014,858
Receivables, net:				
Taxes—Note G.....	-	-	-	14,663
Accounts.....	-	-	77	395,081
Accrued interest.....	234,571	207	61	685
Loans—Note G.....	-	-	-	3,676
Pension contributions.....	350,950	-	-	-
Investment proceeds.....	649,454	-	18	-
Other.....	2,531	-	-	249,995
Due from other funds—Note H.....	4,076	-	-	-
Due from political subdivisions.....	1,029	-	-	-
Due from other governments.....	14,250	-	-	-
Advances to other funds—Note H.....	-	-	-	100,000
Depreciable capital assets:				
Capital assets.....	11,200	-	-	-
Less: accumulated depreciation.....	(9,686)	-	-	-
Net depreciable capital assets.....	1,514	-	-	-
Other assets.....	-	-	-	624,638
TOTAL ASSETS.....	82,379,708	832,446	139,191	4,192,382
LIABILITIES				
Accounts payable and accrued liabilities.....	283,632	657	138	39,105
Investment purchases payable.....	1,733,582	-	408	-
Securities lending obligations.....	6,073,219	-	-	157,801
Due to other funds—Note H.....	1,154	-	-	-
Due to political subdivisions.....	-	-	-	307,003
Due to other governments.....	-	-	-	11
Advances from other funds—Note H.....	-	-	-	220,000
Other liabilities.....	118	-	-	3,468,210
Self insurance liabilities.....	-	-	-	252
TOTAL LIABILITIES.....	8,091,705	657	546	4,192,382
NET ASSETS:				
Held in trust for:				
Pension and other employee benefits.....	72,875,598	-	-	-
Healthcare benefits.....	197,450	-	-	-
Employee salary deferrals.....	1,214,955	-	-	-
INVEST Program participants.....	-	831,789	-	-
Tuition Account Program participants.....	-	-	138,645	-
TOTAL NET ASSETS.....	\$ 74,288,003	\$ 831,789	\$ 138,645	\$ -

- 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, 2004

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund INVEST Program for Local Governments (December 31, 2003)	Private Purpose Trust Fund Tuition Account Investment Program
ADDITIONS:			
Pension contributions:			
Employer.....	\$ 475,391	\$ -	\$ -
Employee.....	1,382,433	-	-
Total contributions.....	<u>1,857,824</u>	<u>-</u>	<u>-</u>
Investment income:			
Net appreciation in fair value of investments.....	11,577,918	-	-
Interest income.....	912,022	10,796	9,935
Dividend income.....	670,618	-	-
Rental and other income.....	538,905	-	-
Total investment activity income.....	<u>13,699,463</u>	<u>10,796</u>	<u>9,935</u>
Less: investment expenses			
Investment activity expense.....	(379,687)	-	(657)
Net investment earnings.....	<u>13,319,776</u>	<u>10,796</u>	<u>9,278</u>
Securities lending activities:			
Income.....	62,238	-	-
Expenses.....	(40,233)	-	-
Total securities lending income.....	<u>22,005</u>	<u>-</u>	<u>-</u>
Total net investment income.....	<u>13,341,781</u>	<u>10,796</u>	<u>9,278</u>
Share transactions (at net asset value of \$1.00 per share):			
Shares purchased.....	-	1,910,664	97,492
Shares issued in lieu of cash distributions.....	-	9,802	76
Shares redeemed.....	-	(2,107,966)	(17,666)
Net increase (decrease) in net assets from share transactions.....	-	(187,500)	79,902
TOTAL ADDITIONS.....	<u>15,199,605</u>	<u>(176,704)</u>	<u>89,180</u>
DEDUCTIONS:			
Benefit payments.....	5,126,541	-	-
Refunds of contributions.....	19,882	-	-
Administrative expenses.....	73,064	527	-
Other expenses.....	21,711	-	-
Distributions to participants.....	-	10,459	97
TOTAL DEDUCTIONS.....	<u>5,241,198</u>	<u>10,986</u>	<u>97</u>
CHANGE IN PLAN NET ASSETS HELD IN TRUST FOR:			
Pension and other employee benefits.....	9,932,496	-	-
Healthcare benefits.....	25,911	-	-
INVEST program participants.....	-	(187,690)	-
Tuition Account Program participants.....	-	-	89,083
Net assets, July 1, 2003 (restated)-Note B.....	64,329,596	1,019,479	49,562
Net assets, June 30, 2004.....	<u>\$ 74,288,003</u>	<u>\$ 831,789</u>	<u>\$ 138,645</u>

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

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STATEMENT OF NET ASSETS
Discretely Presented Component Units

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	State Public School Building Authority	Philadelphia Shipyard Development Corporation (December 31, 2003)	Ben Franklin Technology Development Fund	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority	Patient Safety Trust Authority	Port of Pittsburgh Commission
ASSETS							
Current assets:							
Cash—Note D.....	\$ -	\$ 9,191	\$ -	\$ 2,637	\$ -	\$ -	\$ 2
Temporary investments—Note D.....	13,541	-	30,937	-	-	6,957	2,065
Receivables:							
Accounts.....	17	-	-	2	15	-	38
Accrued interest.....	187	8	-	-	-	-	4
Loans—Note G.....	3,496	-	25,756	-	-	-	89
Lease rentals—Note G.....	-	-	-	-	-	-	-
Other.....	-	-	-	74	-	-	-
Due from primary government—Note H.....	-	-	-	-	-	-	-
Due from component units—Note H.....	-	-	-	-	-	-	-
Due from Federal government.....	-	-	-	-	-	-	-
Due from other governments.....	-	2,116	-	124	-	-	-
Inventory.....	-	-	-	-	-	-	-
Prepaid and deferred expenses.....	-	40	-	16	-	-	20
Total current assets.....	17,241	11,355	56,693	2,853	15	6,957	2,218
Noncurrent assets:							
Long-term investments—Note D.....	9,958	-	-	-	-	-	-
Receivables (net):							
Loans—Note G.....	5,764	28,815	-	-	-	-	-
Lease rentals—Note G.....	-	-	-	-	-	-	-
Non-depreciable capital assets—Note E:							
Land.....	-	161	-	-	-	-	-
Construction in progress.....	-	-	-	-	-	-	-
Depreciable capital assets—Note E:							
Land improvements.....	-	-	-	-	-	-	-
Buildings and building improvements.....	-	-	-	-	-	-	-
Machinery and equipment.....	538	-	-	64	-	-	2,108
Infrastructure.....	-	-	-	-	-	-	-
Library books.....	-	-	-	-	-	-	-
Other capital assets.....	-	-	-	-	-	-	-
Less: accumulated depreciation.....	(403)	-	-	(40)	-	-	(416)
Net depreciable capital assets.....	135	-	-	24	-	-	1,692
Other assets.....	-	-	-	6	-	-	-
Total noncurrent assets.....	15,857	28,976	-	30	-	-	1,692
TOTAL ASSETS.....	33,098	40,331	56,693	2,883	15	6,957	3,910
LIABILITIES							
Current liabilities:							
Accounts payable and accrued liabilities.....	607	2,196	7,951	146	15	2,334	107
Securities lending obligations.....	-	-	6,505	-	-	1,487	-
Due to primary government—Note H.....	-	-	-	-	-	-	-
Due to other governments.....	-	-	-	-	-	-	-
Interest payable.....	-	-	-	-	-	-	-
Deferred revenue.....	-	-	-	-	-	-	-
Notes payable—Note J.....	-	-	-	-	-	-	-
Bonds payable—Note K.....	-	-	-	-	-	-	-
Revenue bonds payable—Note K.....	-	-	-	-	-	-	-
Compensated absences.....	132	-	-	-	-	-	21
Other liabilities.....	60	-	-	-	-	3	-
Total current liabilities.....	799	2,196	14,456	146	15	3,824	128
Non-current liabilities:							
Deferred revenue.....	-	-	-	-	-	-	-
Demand revenue bonds payable—Note J.....	-	-	-	-	-	-	-
Notes payable—Note J.....	-	-	-	-	-	-	-
Bonds payable—Note K.....	-	-	-	-	-	-	-
Revenue bond payable—Note K.....	-	-	-	-	-	-	-
Other financing obligations—Note J.....	-	-	-	-	-	-	2,000
Compensated absences.....	215	-	-	-	-	-	-
Other liabilities.....	1,008	28,815	-	-	-	11	-
Total non-current liabilities.....	1,223	28,815	-	-	-	11	2,000
TOTAL LIABILITIES.....	2,022	31,011	14,456	146	15	3,835	2,128
NET ASSETS—Note C:							
Invested in capital assets, net of related debt.....	135	161	-	24	-	-	(308)
Restricted for:							
Capital projects.....	-	-	-	-	-	-	-
Debt service.....	-	-	-	-	-	-	-
Other purposes.....	30,941	9,159	42,237	2,713	-	3,122	2,090
Unrestricted.....	-	-	-	-	-	-	-
TOTAL NET ASSETS.....	\$ 31,076	\$ 9,320	\$ 42,237	\$ 2,737	\$ -	\$ 3,122	\$ 1,782

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

Pennsylvania Turnpike Commission (May 31, 2004)	Pennsylvania Industrial Development Authority	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Philadelphia Regional Port Authority	Total
\$ 77,823	\$ 652	\$ 38,014	\$ 85,161	\$ 504	\$ 85,737	\$ 1,901	\$ 301,622
194,553	192,121	400,309	172,983	411,867	258,162	-	1,683,495
17,813	-	-	9,681	-	84,265	-	111,831
9,646	2,517	-	96,478	1,941	-	-	110,781
-	75,556	62,170	638,807	121,490	6,088	-	933,452
-	634	-	-	-	-	835	1,469
-	845	-	-	-	24,403	928	26,250
6,660	-	-	-	-	-	-	6,660
-	-	-	-	108	-	-	108
-	-	-	14,792	2,663	-	-	17,455
-	-	-	-	-	-	-	2,240
16,776	-	-	-	-	13,095	-	29,871
-	12,836	51,445	29,108	18,004	5,765	660	117,894
<u>323,271</u>	<u>285,161</u>	<u>551,938</u>	<u>1,047,010</u>	<u>556,577</u>	<u>477,515</u>	<u>4,324</u>	<u>3,343,128</u>
789,107	74,330	758,826	292,304	-	748,060	-	2,672,585
-	429,713	2,536,020	4,239,894	1,304,351	31,930	-	8,576,487
-	19,037	-	-	-	-	-	19,037
132,277	-	-	2,946	-	26,176	-	161,560
505,778	-	-	-	-	178,279	975	685,032
53,486	-	-	-	-	131,482	-	184,968
638,979	-	-	65,360	-	888,829	115,411	1,708,579
291,241	-	-	20,832	-	230,974	32,408	578,165
3,789,194	-	-	-	-	-	-	3,789,194
-	-	-	-	-	78,931	-	78,931
-	-	-	80,766	-	-	2,265	83,031
(2,736,350)	-	-	(92,439)	-	(507,670)	(72,416)	(3,409,734)
<u>2,036,550</u>	<u>-</u>	<u>-</u>	<u>74,519</u>	<u>-</u>	<u>822,546</u>	<u>77,668</u>	<u>3,013,134</u>
62,264	-	10,533	105,328	-	34,032	7,308	219,471
3,525,976	523,080	3,305,379	4,714,991	1,304,351	1,841,023	85,951	15,347,306
<u>3,849,247</u>	<u>808,241</u>	<u>3,857,317</u>	<u>5,762,001</u>	<u>1,860,928</u>	<u>2,318,538</u>	<u>90,275</u>	<u>18,690,434</u>
55,928	332	3,836	102,677	5,236	156,028	3,165	340,558
-	-	-	-	-	-	-	7,992
-	-	-	-	10	-	-	10
-	-	-	-	3	-	-	3
33,200	13,770	33,384	12,468	1,940	-	-	94,762
7,812	-	-	4,543	-	41,151	10	53,516
-	-	-	141,709	-	-	216	141,925
-	-	-	-	-	22,619	2,400	25,019
44,160	21,270	164,276	-	15,585	-	-	245,291
11,953	-	-	5,796	192	14,523	-	32,617
-	-	538	-	-	79,684	370	80,655
<u>153,053</u>	<u>35,372</u>	<u>202,034</u>	<u>267,193</u>	<u>22,966</u>	<u>314,005</u>	<u>6,161</u>	<u>1,022,348</u>
-	-	-	-	-	768	266	1,034
-	-	-	4,240,778	-	-	-	4,240,778
-	-	-	586,910	-	-	3,384	590,294
-	494,393	-	-	-	490,296	48,300	1,032,989
2,188,756	-	2,764,350	-	96,004	228,870	-	5,277,980
-	-	-	186,230	-	52,058	-	240,288
-	-	-	7,791	-	64,589	567	73,162
13,912	14,308	286,111	105,328	-	478,868	3,771	932,132
2,202,668	508,701	3,050,461	5,127,037	96,004	1,315,449	56,288	12,388,657
<u>2,355,721</u>	<u>544,073</u>	<u>3,252,495</u>	<u>5,394,230</u>	<u>118,970</u>	<u>1,629,454</u>	<u>62,449</u>	<u>13,411,005</u>
470,593	-	-	\$3,776	-	326,375	21,575	822,331
934,108	-	-	-	-	35,686	89	969,883
-	-	85,713	293,621	-	-	5,545	384,879
88,825	-	519,109	70,374	1,741,958	327,023	617	2,838,168
-	264,168	-	-	-	-	-	264,168
<u>\$ 1,493,526</u>	<u>\$ 264,168</u>	<u>\$ 604,822</u>	<u>\$ 367,771</u>	<u>\$ 1,741,958</u>	<u>\$ 689,084</u>	<u>\$ 27,826</u>	<u>\$ 5,279,429</u>

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

STATEMENT OF ACTIVITIES
Discretely Presented Component Units

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	State Public School Building Authority	Philadelphia Shipyards Development Corporation (December 31, 2003)	Ben Franklin Technology Development Fund	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority	Patient Safety Trust Authority
Expenses.....	\$ 2,870	\$ 31,693	\$ 50,177	\$ 10,526	\$ 1,133	\$ 4,266
Program revenues:						
Charges for goods and services.....	1,430	-	176	9,457	1,133	-
Operating grants and contributions.....	224	10,702	54,946	285	-	2,741
Capital grants and contributions.....	-	-	-	-	-	-
Total program revenues.....	1,654	10,702	55,122	9,742	1,133	2,741
Net (expense) revenue.....	(1,216)	(20,991)	4,945	(784)	-	(1,525)
General revenues:						
Taxes and other general revenues.....	-	-	-	-	-	-
Change in net assets.....	(1,216)	(20,991)	4,945	(784)	-	(1,525)
Net assets, July 1, 2003 (restated)—Note B.....	32,292	30,311	37,292	3,521	-	4,647
Net assets, June 30, 2004.....	\$ 31,076	\$ 9,320	\$ 42,237	\$ 2,737	\$ -	\$ 3,122

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

<u>Port of Pittsburgh Commission</u>	<u>Pennsylvania Turnpike Commission (May 31, 2004)</u>	<u>Pennsylvania Industrial Development Authority</u>	<u>Pennsylvania Housing Finance Agency</u>	<u>Pennsylvania Higher Education Assistance Agency</u>	<u>Pennsylvania Infrastructure Investment Authority</u>	<u>State System of Higher Education</u>	<u>Philadelphia Regional Port Authority</u>	<u>Total</u>
\$ 1,059	\$ 582,935	\$ 33,490	\$ 489,226	\$ 770,614	\$ 57,711	\$ 1,521,819	\$ 21,918	\$ 3,579,437
22	420,256	20,105	187,042	599,713	23,021	792,704	5,853	2,060,912
1,153	60,354	747	304,776	239,181	25,847	730,336	10,954	1,442,246
-	14,787	-	-	-	124,088	20,051	9,032	167,958
1,175	495,397	20,852	491,818	838,894	172,956	1,543,091	25,839	3,671,116
116	(87,538)	(12,638)	2,592	68,280	115,245	21,272	3,921	91,679
-	47,062	-	-	-	-	-	164	47,226
116	(40,476)	(12,638)	2,592	68,280	115,245	21,272	4,085	138,905
1,666	1,534,002	276,806	602,230	299,491	1,626,713	667,812	23,741	5,140,524
\$ 1,782	\$ 1,493,526	\$ 264,168	\$ 604,822	\$ 367,771	\$ 1,741,958	\$ 689,084	\$ 27,826	\$ 5,279,429

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

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of Presentation:**

The basic financial statements of the Commonwealth of Pennsylvania have been prepared in accordance with accounting principles generally accepted in the United States applicable to governments. The Governmental Accounting Standards Board (GASB) establishes accounting and financial reporting requirements for governments.

Government-Wide Financial Statements:

Government-wide financial statements report financial position and results of activities for the Commonwealth of Pennsylvania as a whole. Separate columns are presented for governmental and business-type activities within the primary government (defined below) and discretely presented component units. The Statement of Net Assets reports all economic resources (assets) and all liabilities for the primary government of the Commonwealth. The Statement of Activities reports the total cost of providing governmental services, by function, net of related program revenues, and, after including general revenues, reports whether the total net assets of the government increased or decreased during the fiscal year ended June 30, 2004. The government-wide financial statements do not include any fiduciary fund assets, liabilities or activities for the primary government or component units (defined below) that are fiduciary in nature. Governmental activities within government-wide financial statements include specific balances and transactions related to Internal Service Funds that are reported as proprietary funds in fund financial statements. Business-type activities include information for all Enterprise Funds.

Financial Reporting Entity:

Government-wide financial statements include separate columns and/or rows for the primary government and discretely presented component units. Fiduciary component unit balances are reported in the Statement of Fiduciary Net Assets and combining statements for all discretely presented component units are presented following fund financial statements as a Statement of Net Assets and a Statement of Activities.

Primary Government: For financial reporting purposes, the Commonwealth of Pennsylvania is a primary government (PG). The PG includes all publicly elected members of the executive, legislative, and judicial branches of the Commonwealth. The PG also includes all Commonwealth departments, agencies, boards, and organizations that are not legally separate.

Component Units: In addition to the PG, the financial reporting entity includes discretely presented component units. Component units include all legally separate organizations for which the PG is financially accountable, and other organizations for which the nature and significance of their relationship with the PG are such that exclusion would cause the financial statements to be misleading or incomplete. The criteria used to define financial accountability include appointment of a voting majority of an organization's governing body and (1) the ability of the PG to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the PG. Fiscal dependency is also considered. The following organizations are included in the financial reporting entity as component units, either by discrete presentation or as a Fiduciary Fund:

State Employees' Retirement System (SERS) (Fiduciary Fund) - The SERS is a public employee retirement system that covers Commonwealth employees. The PG appoints all voting board members and, on a very limited basis, imposes its will on the SERS. The PG uses the SERS to provide pension benefits to PG employees. The PG makes essentially all employer contributions to the SERS; PG employees make almost all of the employee contributions to the SERS (virtually all PG employees are required to join the SERS). The PG is responsible for all of the SERS pension obligations. The SERS provides services and benefits almost exclusively to the PG.

State Public School Building Authority (SPSBA) and Pennsylvania Higher Educational Facilities Authority (PHEFA) - The SPSBA and the PHEFA issue limited obligation revenue bonds, the proceeds of which are used to finance the construction of facilities for school districts and public/ private colleges and universities. These bonds are repaid solely from lease/loan payments from the schools. The PG appoints all nine voting members of the SPSBA and the PHEFA governing boards; nine high-ranking members of the PG serve as ex-officio members of each board. As a result, the PG is able to impose its will. The PG Department of Education approves the SPSBA projects (which indicates imposition of will and fiscal dependency). Neither the PG nor the Authorities are obligated for debt service payments (beyond lease/loan payments from schools).

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Ben Franklin Technology Development Authority (PTDA) - Similar to the predecessor Ben Franklin/IRC Partnership, the PTDA promotes economic development through interaction of technology development, modernization and training programs. Industrial resource centers and technology centers, established through the PTDA, also increase Pennsylvania business competitiveness. The PTDA works closely with the Department of Community and Economic Development (DCED) and includes a Revolving Loan Program. The PG appoints all 21 voting members of the governing board. The PG may appropriate funding for the PTDA from the **General Fund**.

Port of Pittsburgh Commission (PPC) - The PPC promotes economic development throughout waterways in southwestern Pennsylvania by constructing and/or financing transportation and recreation facilities. The PG appoints all 15 voting members of the governing board and can remove board members at will. The PG provides funding for the PPC but is not required to do so.

Insurance Fraud Prevention Authority (IFPA) - The IFPA assists in the prevention, discovery, investigation and prosecution of insurance fraud. The IFPA is funded through assessments paid by the insurance industry and through certain criminal and civil fines, penalties and awards. The PG appoints six of seven voting members of the IFPA governing board; the Attorney General serves ex-officio as one of these six members. A significant portion of IFPA expenditures funds the Section on Insurance Fraud in the Office of Attorney General; this indicates a financial benefit/burden. The IFPA is not fiscally dependent on the PG.

Philadelphia Shipyard Development Corporation (PSDC) - The PSDC was created as a nonprofit corporation to assist the PG and other governmental entities in financing a shipbuilding facility at the former Philadelphia Naval Shipyard. The PSDC obtains funding from the PG and a variety of other governmental sources to fund development, construction and job recruitment and training costs. The PG appoints three of five voting board members and provides a significant portion of funding for the PSDC. For the purposes of this report, the PSDC has a December 31, 2003 fiscal year end.

Philadelphia Regional Port Authority (PRPA) - The PRPA operates a port facility and manages port-related activities to promote commerce and economic development in southeastern Pennsylvania. The PRPA charges rental and other fees to port users and obtains other funding from the PG. The PRPA also issues revenue bonds to finance its activities. The PG appoints all eleven voting board members and can remove board members at will. The PG provides operating and capital subsidies and pays rent in amounts equal to PRPA debt service requirements. The PRPA is fiscally dependent on the PG, as the Governor must approve the issuance of its debt.

Pennsylvania Higher Education Assistance Agency (PHEAA) - The PHEAA makes grants and loans to students to help fund the cost of higher education. Lending institutions and post-secondary schools are involved in the loan program. The PG funds the PHEAA grant program; the PHEAA issues revenue bonds to fund the student loan program. Revenue bonds are repaid from student loan repayments. The PHEAA also services student loan portfolios for lending institutions. The PG appoints all voting board members but does not significantly impose its will on the PHEAA. A significant PG financial burden exists through subsidizing the grant program; also, although the PG is not obligated for the PHEAA revenue bonds, the PG could take certain actions to satisfy bondholders. The PHEAA is fiscally dependent, as the Governor must approve the issuance of its debt.

Pennsylvania Housing Finance Agency (PHFA) - The PHFA makes loans to eligible individuals and organizations to purchase or construct housing. The loans benefit low and moderate-income individuals and families. The PG appoints all voting board members; four of the fourteen members may be removed at will. The Governor is required to request an appropriation from the General Assembly for the PHFA whenever a deficiency exists in the capital reserve account or if additional funds are needed to avoid a default on the PHFA debt. This represents a PG moral obligation for the PHFA debt. The Governor must approve the issuance of the PHFA debt.

Patient Safety Trust Authority (PSTA) - The PSTA is charged with taking steps to reduce and eliminate medical errors by identifying problems and recommending solutions that promote patient safety in hospitals, ambulatory surgical facilities and birthing centers. The Board of Directors has 11 members: the Pennsylvania Physician General, who serves as the Board chair, six members appointed by the Governor for seats designated for specific professional occupations, and four members appointed by the General Assembly.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pennsylvania Industrial Development Authority (PIDA) - The PIDA collaborates with local industrial development corporations to make loans that help preserve or expand the work force, assist targeted economic areas or assist specific companies. Loans are made at lower-than-market interest rates; the interest rates are based on local unemployment and other economic conditions. The PIDA issues revenue bonds to finance the loan program. Loan repayments are used for debt service payments. The PIDA operates closely with the DCED. The PG appoints all voting board members and is able to impose its will on the PIDA. The PG has provided contributed capital; "excess" PIDA funds are transferred to the **General Fund**. The PG is not obligated for the PIDA debt, but the PG could take certain actions to satisfy bondholders.

Pennsylvania Infrastructure Investment Authority (PENNVEST) - PENNVEST makes grants and low-interest loans to local governments and authorities, businesses and nonprofit organizations for the construction, improvement, repair or rehabilitation of drinking and waste water systems. The PENNVEST obtains funds through Commonwealth general obligation bond proceeds (approved by referendum), revenue bonds, the Federal government and contributed amounts from Commonwealth funds. Loan repayments finance the PENNVEST debt service costs. PENNVEST operates closely with the Department of Environmental Protection. The PG appoints all voting board members; there are limitations on three of the thirteen appointments. By issuing general obligation debt and providing the proceeds to the PENNVEST as contributed capital, the PG creates a significant financial burden. The PG is not obligated for the PENNVEST debt, but the PG could take certain actions to satisfy bondholders. Upon dissolution, the assets of the PENNVEST revert to the Commonwealth.

Pennsylvania Turnpike Commission (PTC) - The PTC was created to construct, maintain and operate a turnpike system in the Commonwealth. Activities are financed through user tolls and the issuance of revenue bonds. Debt service payments are funded through user tolls. The PTC works closely with the Department of Transportation. The PG appoints all voting members. When all the PTC bondholders have been satisfied, the PTC assets revert to the Department of Transportation. The Governor must approve the issuance of all PTC debt. The PG is not obligated for PTC debt, but the PG could take certain actions to satisfy bondholders. The PTC is included for its fiscal year ended May 31, 2004.

State System of Higher Education (SSHE) - The SSHE was created to provide instruction for postsecondary students. The SSHE is composed of fourteen universities and an administrative headquarters. Resources are provided by student tuition, grants and PG subsidies. The PG appoints all voting board members. Five of the sixteen appointments must be trustees of universities; three must be students. The PG provides significant operating and capital subsidies to the SSHE. The PG is not obligated for the SSHE debt, but the PG could take certain actions to satisfy bondholders.

Pennsylvania Life and Health Insurance Guaranty Association (PLHIGA) (Fiduciary Fund) - The PLHIGA was created to protect insurance policy owners, insured persons, beneficiaries, annuitants, payees and assignees of direct non-group life, health, annuity and supplemental policies or contracts from potential insurer failure due to the impairment or insolvency of the insurer. The PLHIGA guarantees the payment of insurance benefits and continuation of coverage by assessing member insurers. The PLHIGA is also authorized to assist the Pennsylvania Insurance Commissioner in the prevention and detection of insurer impairments or insolvencies. The PG has appointment approval authority for all governing board members and the Insurance Commissioner has broad authority to impose will on the PLHIGA. There is a minor financial burden on the PG.

Pennsylvania Property and Casualty Insurance Guaranty Association (PPCIGA) (Fiduciary Fund) - The PPCIGA was created to provide for the payment of insured property and casualty policy claim losses and to avoid losses to claimants or policyholders as a result of insurer insolvency. The PPCIGA guarantees the payment of insurance benefits and continuation of coverage by assessing member insurers. The PG has appointment approval authority for all governing board members and the Insurance Commissioner has broad authority to impose will on the PPCIGA. There is a minor financial burden on the PG.

Public School Employees' Retirement System (PSERS) (Fiduciary Fund) - The PSERS was created to administer and provide pension benefits to public school employees in Pennsylvania. The PSERS covers almost all such employees. Covered elementary and secondary school employers make employer contributions with the PG reimbursing each employer at least half their required annual contribution. Employer contributions for covered employees of higher education institutions and covered employers and the PG share state-owned schools equally; all covered public school employees also contribute. The PG appoints eight of fifteen voting board members; the seven other members are appointed by active or retired public school employees or are appointed by public school boards. In addition to making significant contributions to the PSERS, the PG guarantees the payment of all annuities and other pension benefits. This represents a compelling PG financial burden.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pennsylvania Economic Development Financing Authority (PEDFA) - The PEDFA was created to lend money primarily to businesses to promote economic development in the Commonwealth. The PEDFA issues revenue bonds to fund specific projects only and repayments are derived solely from project revenues. The debt is considered non-recourse, as the Authority is not obligated to bondholders beyond amounts received by the Authority from the funded projects. Financial statement information for the PEDFA is not reported because its only activity involves conduit debt. The PG appoints all sixteen board members; five members are ex-officio. The PG is not obligated for the PEDFA debt, but the PG could take certain actions to satisfy bondholders. Upon dissolution, the assets of PEDFA revert to the Commonwealth.

Pennsylvania Energy Development Authority (PEDA) - The PEDA was created to promote the development of energy sources within the Commonwealth. The PEDA issued revenue bonds and lent the proceeds to fund three specific projects. Loan repayments are derived solely from project revenues. The debt is considered non-recourse, as the PEDA is not obligated to bondholders beyond amounts received from the funded projects. The PEDA has not issued any debt since 1990. Financial statement information for the PEDA is not reported because its only activity involves conduit debt. The PG appoints all nineteen board members; six members are ex-officio. The Governor must approve the issuance of Authority debt. The PG is not obligated for the PEDA debt, but the PG could take certain actions to satisfy bondholders.

The **Pennsylvania Life and Health Insurance Guaranty Association** and the **Pennsylvania Property and Casualty Insurance Guaranty Association**, fiduciary funds, are included for their fiscal years ended December 31, 2003.

Financial Statements for Component Units and Investment Trust Fund

Audited financial statements for component units are available by writing to the Commonwealth Comptroller (formerly Deputy Secretary for Comptroller Operations), Room 207 Finance Building, Harrisburg, PA 17120. The Commonwealth sponsors the INVEST Program for Local Governments, an external investment pool, which is reported as an Investment Trust Fund. Audited financial statements for that Program are also available through the Commonwealth Comptroller.

Related Organizations

The Commonwealth created the **Pennsylvania Municipal Retirement System (PMRS)**. The PG appoints all eleven governing board members but is not financially accountable, as there is no imposition of will, no financial benefit/burden, nor fiscal dependency associated with the PMRS. Local governments are the only participants in the PMRS. Participation is voluntary and there are variations among different municipal pension plans. Local participating governments are financially responsible only for their own plan obligations. The Commonwealth provides accounting services to the PMRS on a cost reimbursement basis.

The Commonwealth also created the **Automotive Theft Prevention Authority (ATPA)**. The PG appoints all seven governing board members but is not financially accountable due to a lack of imposition of will and no financial benefit/burden. The ATPA is not fiscally dependent on the PG. The operation of the ATPA is funded by an annual assessment paid by companies providing automobile insurance in the Commonwealth. The PG processes cash receipts and disbursements for the ATPA.

The **Philadelphia Parking Authority** (Authority) is financially reported as a discretely presented component unit in the City of Philadelphia's (City) financial reporting entity. During 2001, the General Assembly passed Senate Bill 780 that provided, in part, for the Commonwealth to appoint a voting majority of the Authority's governing board. The law provided for an increase from five to eleven board members; the Commonwealth appointed six new members by June 30, 2001. Through June of 2006, existing members' (appointed by the City) terms are to expire and neither the Commonwealth nor the City are to appoint replacements for the five current members. Beginning June 1, 2006 the board is to consist of six members. Subsequent to passage of the 2001 law, the Authority and the City pursued several legal actions contesting, among other things, the constitutionality of the new law.

The **Philadelphia School District** (School District) is financially reported as a discretely presented component unit in the City of Philadelphia's (City) financial reporting entity. During 2001, the General Assembly passed Senate Bill 640 that provided, in part, for several changes to the Public School Code. Among other things, the changes provide for the Commonwealth to appoint a voting majority of the School Reform Commission that now governs the School District. Despite these changes, the School District remains fiscally dependent on the City.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Joint Venture**

The Commonwealth, through its Office of Administration, created the Pennsylvania Employees Benefit Trust Fund (PEBTF) using a contractual agreement with various Commonwealth employee labor unions. The PEBTF establishes and provides Commonwealth employee health and welfare benefits. A governing board administers the PEBTF; one-half of the board is appointed by the Commonwealth and one-half is appointed by the various unions. Neither the Commonwealth nor the unions control the governing board or the PEBTF; administration is jointly and equally shared. The Commonwealth and certain of its employees pay for the cost of providing benefits. Contribution amounts are based on the terms contained in collective bargaining agreements. Employee unions are not financially responsible for making contributions. Neither the Commonwealth nor the employee unions have an equity interest or any ongoing financial interest in the PEBTF. Aside from its obligation to make periodic, established contributions, the Commonwealth is not responsible for any obligations of the PEBTF.

Excluded Organizations

School districts, local governments and counties are considered separate, stand-alone primary governments because they are governed by popularly elected officials. Secondary vocational-technical schools, intermediate units and community colleges were considered as potential component units, but have been excluded from the financial reporting entity. These schools may receive significant PG operating and/or capital subsidies, but the PG does not appoint a voting majority of governing board members, nor does the PG impose its will on these organizations. Although various Commonwealth laws affect or strongly influence these organizations, the PG does not control day-to-day operating decisions. These organizations are not fiscally dependent. The PG appoints a portion, but not a voting majority, of the governing boards at the following four universities (commonly referred to as state related): Pennsylvania State University, University of Pittsburgh, Lincoln University and Temple University. The PG provides significant subsidies; however, given the absence of PG appointment of a governing board voting majority and the lack of fiscal dependency, these universities are excluded from the financial reporting entity.

Primary Government – Fund Structure

Fund Accounting: In governmental accounting, a fund is defined as an independent fiscal and accounting entity, with a self-balancing set of accounts, recording cash and/or other resources together with all related liabilities and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with the fund's special regulations, restrictions or limitations. In the Commonwealth, funds are established by legislative enactment or, in certain rare cases, by administrative action.

The fund financial statements include: three major governmental funds and total nonmajor governmental funds; and four major enterprise funds and total nonmajor enterprise funds and all fiduciary funds. The Commonwealth uses the following fund categories to account for each fund included in the primary government:

Governmental Funds

General Fund—Accounts for all financial resources except those required to be accounted for in another fund.

The **General Fund** is the Commonwealth's main operating fund and is reported as a Major Fund. Other major Funds are displayed in bold print in the Notes to the Financial Statements.

Special Revenue Funds—Account for the proceeds of specific revenue sources (other than debt service or capital projects funds) that are legally restricted to expenditure for specified purposes. The **Motor License Fund** and the **Tobacco Settlement Fund** are reported as Major Funds.

The **Motor License Fund** receives revenues from liquid fuels taxes, licenses and fees on motor vehicle registrations and operating privileges, aviation fuel taxes, federal aid for highway and aviation purposes, contributions from local subdivisions for highway projects and other miscellaneous revenues. The Fund makes expenditures for highway and bridge improvement, design, maintenance, and purchases of rights-of-way, as well as aviation activities and Transportation licensing and safety activities. It also finances State Police highway patrol operations and pays subsidies to local subdivisions for construction and maintenance of roads.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The **Tobacco Settlement Fund** was established to deposit all payments received by the Commonwealth pursuant to the Master Settlement Agreement with tobacco product manufacturers. Deposits into this fund include: jurisdictional payments received by the Commonwealth from the master agreement, strategic contribution payments from the master agreement and earnings from investments. Expenditures from this fund are determined by the annual budget appropriated to each program distributed as follows: 8 percent to the Health Account; 13 percent for Home and Community Based Services; 12 percent for Tobacco Use Prevention and Cessation; 19 percent for Health Related Research; 10 percent for Uncompensated Care; 30 percent for Health Investment Insurance; and 8 percent for the expansion of the PACENET Program.

Debt Service Funds—Account for the accumulation of resources, principally transfers from other funds, for the payment of general long-term debt principal and interest. There are no major debt service funds.

Capital Projects Funds—Account for financial resources to be used for the acquisition or construction of major capital facilities, including those provided to political subdivisions and other public organizations (other than those financed by Proprietary or Fiduciary Funds). There are no major capital projects funds.

Proprietary Funds

Enterprise Funds—Account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges. The **State Lottery Fund**, **State Workers' Insurance Fund**, **Unemployment Compensation Fund** and **Tuition Payment Fund** are all reported as Major Funds.

The **State Lottery Fund** provides for the operation of the Pennsylvania State Lottery and for programs to support older Pennsylvanians. Revenues are derived from the sale of lottery tickets, interest earned on securities and deposits, unclaimed prize monies and Federal grants. Fund expenses pay for prizes to holders of winning lottery tickets and commissions to local lottery agents. Amounts remaining after payment of lottery prizes and commissions are used to fund programs benefiting older Pennsylvanians including PENNCARE, PACE, free mass transit and reduced fare shared-ride programs, and property tax and rent rebates.

The **State Workers' Insurance Fund** (SWIF) was created by legislation on June 2, 1915 and operates within the Department of Labor and Industry. It is a self-sustaining fund providing workers' compensation insurance to employers, including those who are refused policies by private insurance firms. SWIF is subject to underwriting rules, classifications and rates promulgated by rating bureaus authorized by the Commonwealth Insurance Commissioner. Premium rates are established by the bureaus based on the history of accidents by industry classification. Revenues are generated by premiums charged to policyholders plus investment income. Workers' compensation payments and administration costs are paid from the Fund. The **State Workers' Insurance Fund** is included for its fiscal year ended December 31, 2003.

The **Unemployment Compensation Fund** is comprised of four basic components: the 63 Employer Contribution Fund, 64 UC Benefit Payment Fund, 21 Special Administration Fund, and the UC Trust Fund in Washington, D.C. The purpose of these funds is to collect employer assessments for UC (63 Fund) and transfer the assessments to the Federal government for deposit in the UC Trust Fund. As needed, these funds are drawn back to pay unemployment compensation payments to claimants (64 Fund). The 21 Special Administration Fund is used to isolate penalty and interest charges from employers and claimants. It is used to supplement grant-funding shortfalls and pay audit disallowances with any remaining amounts over \$200 thousand being transferred to the UC Trust Fund in Washington, D.C. each June 30. The 64 UC Benefit Payment Fund also receives amounts from the Federal government to reimburse Pennsylvania for those Federal workers who collected UC benefits from Pennsylvania.

The **Tuition Payment Fund** offers a college savings program with a guaranteed rate of return based on increases in the cost of tuition. The program is administered by the Tuition Account Program Bureau within the Treasury Department with oversight by the Tuition Account Program Advisory Board. Revenue is derived primarily from application fees, participant contributions and investment income. Fund expenses consist mainly of payments to educational institutions and administrative costs.

The State Stores Fund is reported for its fiscal year ended June 29, 2004.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Internal Service Funds—Account for the financing of goods or services provided by one department or agency to other departments or agencies of the Commonwealth, or to other governmental units, on a cost-reimbursement basis. The Purchasing Fund is used to purchase materials, supplies, services, and equipment for use by departments, agencies, boards, and commissions of state government, and to pay costs associated with administering the fund. The fund receives reimbursements from the various Commonwealth departments, boards, and commissions for the materials, services, and supplies they obtain, from appropriations and periodic loans from the **General Fund**, from the sale of vehicles and unserviceable property and from interest earned on securities. The Manufacturing Fund is a fund that uses inmate labor to produce items for the Department of Corrections and other state agencies. The revenue source is the sale of items produced or services provided. Expenses are for raw materials, inmate labor, and general and administrative costs.

Fiduciary Funds

Trust and Agency Funds—Account for assets held by the Commonwealth in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include Pension (and other employee benefit) Trust Funds, an Investment Trust Fund, a Private Purpose Trust Fund and Agency Funds. The State Employees' Retirement System, a pension trust fund, is a component unit and accounts for the payment of retirement, disability and death benefits to members of the State Employees' Retirement System and their beneficiaries. The Deferred Compensation Fund is another employee benefit pension trust fund that collects and administers amounts contributed by Commonwealth employees who are deferring a portion of their income until future years, in accordance with Internal Revenue Code Section 457. The INVEST Program for Local Governments is an Investment Trust Fund that invests amounts owned by local governments and school districts. The Tuition Account Investment Program is a Private Purpose Trust Fund that invests amounts on behalf of participants who are saving for college tuition costs. The largest Agency Fund, the Statutory Liquidator Fund, converts the assets of insolvent insurance companies to cash for remittance to creditors, policyholders and stockholders. The Underground Storage Tank Indemnification Fund holds assets on behalf of owners and operators of underground storage tanks who incur a liability for taking corrective actions associated with underground storage tank releases. The Municipal Pension Aid Fund holds a portion of casualty insurance company tax assessments, which are remitted to municipalities to help defray municipal police and fire fighter pension costs.

The State Employees' Retirement System, a pension trust fund, the Deferred Compensation Fund, an other employee benefit trust fund, and the INVEST Program for Local Governments, an Investment Trust Fund, are included for their fiscal years ended December 31, 2003.

Measurement Focus and Basis of Accounting- Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. This means that the Statement of Net Assets reports all assets (including receivables regardless of when collected and capital assets, such as heavy trucks, highways and bridges) and liabilities regardless of when payment is due. The Statement of Activities includes all revenues and expenses, regardless of when cash is respectively received or paid. The Statement of Activities reports program revenues, which are revenues derived directly from a specific governmental function and are reported by the function, which generates the revenue. Charges for goods or services, most investment income, grant revenues and fines are reported as program revenues. Neither program revenues nor expenses are reported for donated works of art, historical treasures or similar assets received during the fiscal year because such donations are not material. Except for unemployment compensation tax revenues, which are reported as charges for sales and services program revenues, all tax revenues are classified as general revenues in the Statement of Activities. The Statement of Activities also reports governmental activities expenses that include governmental fund expenditures (which are not eliminated or reclassified) and current year depreciation on capital assets, which recognizes the cost of ordinary use of the assets over their estimated useful lives. The costs of most employee benefits earned during the fiscal year (such as vacation time earned) and increases in self-insurance liabilities are also reported as expenses in the statement, regardless of when the benefits are used or the liabilities are paid.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Measurement Focus and Basis of Accounting – Fund Financial Statements****Governmental Funds**

The **General Fund**, special revenue, debt service and capital projects funds (governmental funds) are reported using the current financial resources measurement focus and modified accrual basis of accounting. Under this measurement focus, only current assets and current liabilities are normally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Unreserved fund balance represents a measure of available, spendable resources. Under the modified accrual basis of accounting, revenues of governmental funds are recognized in the year that they become susceptible to accrual (both measurable and available) to pay current fiscal year liabilities. The Commonwealth accrues the following major revenue sources that are both measurable and available (available is treated as being received within 60 days of fiscal year end for these revenues): sales and use taxes, cigarette taxes, corporation taxes, personal income taxes, liquid fuels taxes, inheritance taxes, liquor taxes, investment income, institutional revenues and sales of goods and services.

Grant revenues, including Federal government grant revenues, are recognized when earned. Revenues from most other sources are recognized when received. Expenditures are generally recognized in the fiscal year the goods or services are received and the related fund liability is incurred. Debt service expenditures for principal and interest on general long-term obligations are recognized when due. Prepaid items and inventory purchases are reported as current fiscal year expenditures, rather than allocating a portion of related cost to the fiscal year when the items are actually used. Expenditures for claims, judgments, compensated absences and employer pension contributions are reported as the amount accrued during the fiscal year that normally would be liquidated with expendable available financial resources.

Proprietary Funds, Pension (and other employee benefit) Trust Funds and Investment Trust Fund

The enterprise, internal service (proprietary funds), pension (and other employee benefit) trust funds and the investment trust fund, are reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, all assets and liabilities associated with the operations of these funds are included on the statement of net assets. Under the accrual basis of accounting, revenues are recognized in the fiscal year earned and expenses are recognized in the fiscal year incurred.

Enterprise funds that report unemployment compensation, insurance, tuition payment and loan programs report all revenues as operating revenues; non-operating revenues are reported for other programs, such as lottery and liquor control, and primarily include investment income and grant revenues. Under the Governmental Accounting Standards Board's (GASB) Statement 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Commonwealth has elected not to adopt the Financial Accounting Standards Board pronouncements issued after November 30, 1989.

Agency Funds

Assets and liabilities of agency funds are reported using the accrual basis of accounting.

Significant Accounting Policies

Pooled Cash: In accordance with the Fiscal Code, cash balances of most Commonwealth funds are pooled by the Treasury Department. Cash balances are segregated by fund, but accounted for centrally for receipt and disbursement purposes. The law requires that collateral be pledged by banks and other financial institutions to guarantee the Commonwealth's cash on deposit.

Cash Equivalents: No investments that could be defined as cash equivalents have been treated as such on the Statement of Cash Flows; therefore, only net changes in cash are displayed.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Pools: The Fiscal Code provides the Treasury Department with investment control over most Commonwealth funds. The Treasury Department uses a variety of sophisticated internal investment pools to ensure preservation of principal, liquidity, diversification and income for Commonwealth funds. All participating funds report amounts invested in such pools as temporary and/or long-term investments; the pools themselves are not financially reported. The Treasury Department maintains an external investment pool, the INVEST Program for Local Governments, which separately issues audited financial statements, and is reported as an Investment Trust Fund. Financial statements for the INVEST Program include a statement of net assets and a statement of changes in net assets prepared using the economic resources measurement focus and the accrual basis of accounting.

Temporary Investments: The Treasury Department manages the Treasury Investment Program (TIP); practically all individual funds that are part of primary government are participants in the TIP. The Treasury Department accounts for each participating fund’s equity (considered “shares”) in the TIP on a daily basis. “Share” balances of participating funds fluctuate considerably during the fiscal year, based on the timing of cash receipts and disbursements in the participating fund, and are reported as temporary investments. The TIP is considered an internal investment pool. Periodic TIP earnings are allocated to specific participating funds based on either the weighted daily average share balance or the net asset value on redemption date combined with share balances on declaration date.

Several individual funds may directly own investments in specific securities. Such investments, which are expected to be realized in cash within twelve months or less, are reported as temporary investments. Temporary investments are reported at fair value (typically using published market prices) except for nonparticipating interest-bearing contracts, which are reported at cost.

Long-Term Investments: Investments expected to be realized in cash after more than twelve months from fiscal year end are reported as long-term investments. Long-term investments are reported at fair value, except for certain nonparticipating interest-bearing contracts, which are reported at cost. Fair values are based on published market prices, quotations from national securities exchanges and securities pricing services, or by the respective fund managers for securities that are not actively traded. Certain pension trust fund investments, including real estate, venture capital, private equity, private placements and alternative investments, are valued based on appraisals, independent advisors or the present value of projected future income.

Investment Income: Investment income includes interest, dividends, realized gains and losses and the change in the fair value of investments, if any, during the fiscal year. Certain investment income from specific funds’ investments is assigned to another fund and is reported by the receiving fund if the income is transferred for legal or contractual reasons; otherwise, the investment income is reported as a transfer by the receiving fund. Specific fund disclosures for assigned investment income are provided in Note H.

Grants: Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental revenues when entitlement occurs. Federal reimbursement-type grant revenues are recorded when the related expenditures or expenses are incurred.

Inventories: Inventories of operating materials and supplies are reported by certain governmental activities and operating and merchandise inventories are reported by Proprietary Funds and the State System of Higher Education, a discretely presented component unit. These inventories are valued at the lower of cost or market (first-in, first-out) by governmental activities and Proprietary Funds, and lower of cost or market by the State System of Higher Education, with cost determined principally using weighted average. In the governmental fund financial statements, inventories are accounted for using the purchases method.

Capital Assets and Depreciation: General capital assets (including infrastructure) and other capital assets are reported at cost or estimated historical cost in the Statement of Net Assets. Donated capital assets are reported at fair market value at the time of donation. The cost of all land is reported; for other types of capital assets the following minimum dollar reporting thresholds are used:

Land improvements, buildings and building improvements.....	\$25,000
Machinery and equipment.....	\$25,000
Highway and bridge infrastructure.....	\$100,000
All other infrastructure.....	\$25,000

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Commonwealth agencies maintain inventories of all their respective capital assets, including assets acquired for less than the above minimum amounts, which are not reported in the BFS. Certain waterway and other non-highway institutional infrastructure acquired prior to July 1, 2001 are not reported in the Statement of Net Assets. The Pennsylvania Historical and Museum Commission (PHMC) owns diverse collections of historical, architectural, prehistoric and artistic artifacts; archives and manuscripts; and scientific specimens. The Commonwealth does not capitalize these collections, as they meet the following criteria: PHMC's mission in acquiring these collections is for the purpose of preservation, education, research and exhibition; PHMC secures and preserves all collections in order to adequately preserve Commonwealth history; and all acquisitions and deaccessions must be approved by the PHMC Collections Committee and the PHMC Executive Director. All amounts received from the deaccessioning of artifacts/collections are placed in a restricted account that can only be used for the purchase of new artifacts/collections. The Commonwealth does not capitalize expenditures for software or expenditures to protect farmland under the Agricultural Area Security Law. Capital assets (excluding land and construction in progress) are depreciated over the estimated useful lives of major capital asset classes using the straight-line method. Depreciation expense is reported in the Statement of Activities as part of direct functional expenses; all depreciation is allocated to a specific function. Capital assets reported by proprietary funds are reported in those funds at cost or estimated historical cost. Depreciation is reported on the straight-line basis over the capital assets' estimated useful lives. The following useful lives are used for primary government governmental activities:

Buildings and building improvements.....	40 years
Improvements other than buildings.....	30 years
Machinery and equipment.....	10 years
Highway heavy equipment.....	15 years
Highway infrastructure.....	25 years
Bridge infrastructure.....	50 years
Dams, dikes and pier infrastructure.....	50 years
Other infrastructure.....	20 years

Primary government business-type activities report depreciation expense using useful lives that are very similar to the above and do not report any infrastructure. Certain land, buildings and improvements owned by the Commonwealth and used by the State System of Higher Education (SSHE), a discretely presented component unit, which were acquired or constructed before July 1, 1983 (the inception date for the SSHE), are financially reported as governmental activities general capital assets. All general capital assets acquired or constructed for the SSHE subsequent to June 30, 1983 without the use of university funds or incurrence of SSHE debt are also reported as governmental activities general capital assets. This reporting treatment is used to conform to the enabling legislation for the SSHE, which includes the vesting of title for the SSHE-used property. Capital assets reported by the SSHE are stated at cost. Depreciation of SSHE capital assets is recognized over the estimated useful life of the assets.

Self-Insurance: The Commonwealth is uninsured for property losses and self-insured for annuitant medical/hospital benefits, employee disability and tort claims. Note M provides disclosures for self-insurance liabilities.

Compensated Absences: Employees earn annual leave, depending on length of credited service, from between 2.7 percent to 10 percent of regular hours paid. Generally, a maximum of 45 days may be carried forward at the end of each calendar year. Employees are paid for accumulated annual leave upon termination or retirement.

Employees earn sick leave based on 5 percent of regular hours paid. Generally, a maximum of 300 days may be carried forward at the end of each calendar year. Retiring employees that meet service, age or disability requirements are paid in accordance with the following schedule:

<u>Days Available at Retirement</u>	<u>Percentage Payment</u>	<u>Maximum Days Paid</u>
0-100	30%	30
101-200	40%	80
201-300	50%	150
over 300 (in last year of employment)	100% of days over 300	13

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accumulated annual and sick leave liabilities payable with expendable available financial resources are reported by Governmental Funds; all compensated absences payable are reported by governmental activities and Proprietary Funds and Pension Trust Funds.

Liabilities: In the Statement of Net Assets, governmental activities liabilities are presented as either “current” or “noncurrent.” Liabilities are segregated into these categories by establishing an average maturity for the liability class and classifying the portion due within one year of the statement date as current and the portion due beyond one year of the statement date as noncurrent. For liabilities without specific maturity or due dates, estimates are made of maturities. Liabilities without specific due dates include those related to self-insurance and compensated absences.

Pension Costs: The Commonwealth’s policy is to fund pension costs incurred and to amortize prior service costs over varying periods not exceeding 20 years.

Intergovernmental Revenues: These amounts represent revenues received principally from the Federal government.

Restricted Net Assets: These amounts were primarily determined based on enabling legislation that provides for restrictions on how the resources of special (non-**General Fund**) funds may be used. At June 30, 2004, a portion of governmental activities net assets are restricted based on a Federal government purpose restriction. Practically all reported restricted net assets could become unrestricted based on possible future legislative changes.

Budget Stabilization Reserve Fund: Act 91 of 2002 provides for this new Fund effective July 1, 2002 to eventually establish a budgetary reserve amounting to 6 percent of the revenues of the **General Fund**. For the fiscal year beginning July 1, 2002 and in any fiscal year thereafter in which the Secretary of the Budget certifies that there is a surplus in the **General Fund**, 25 percent of the surplus is to be deposited by the end of the next succeeding quarter into this Fund. Act 7-A of 2004 superseded this requirement and provided for \$190 million to be transferred from the **General Fund** to the new Fund; this transfer is included in the **General Fund** budgetary comparison schedule for the fiscal year ended June 30, 2004.

Tobacco Master Settlement Agreement Proceeds: In 1997, the Pennsylvania Attorney General began litigation in Commonwealth Court against several defendant tobacco product manufacturers to recover certain amounts the Commonwealth allegedly expended to provide health care to numerous tobacco product users. In 1998, along with many other states, the Commonwealth joined in a settlement that provided, among other things, that the Commonwealth cease its litigation against manufacturers. As part of the settlement, certain manufacturers agreed to remit periodic payments to the Commonwealth and other states (amounting to over \$200 billion, according to some estimates) until 2025. Amounts remitted are calculated based on a variety of specific settlement provisions; actual tobacco product sales are one key factor used in determining periodic payment amounts. During the fiscal year ended June 30, 2004 the **Tobacco Settlement Fund** reported revenues of \$364.9 million from this source.

Due From Other Governments: This receivable represents amounts due primarily from the Federal government for various department programs.

Bond Proceeds, Bond Proceeds Premium/Discount and Bond Issuance Costs: In governmental fund financial statements, the face amount of bonds issued and related premium/discount are separately reported. Bond issuance costs are reported as expenditures. In government-wide financial statements, the face amount of bonds issued is reported as a liability and related premium/discount is amortized over the life of the outstanding debt and is reported as interest expense as part of functional governmental activities expenses. Bond issuance costs are reported as expenses.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interfund Transactions:

The Commonwealth has the following types of transactions between funds, between primary government governmental activities and business-type activities and between primary government and discretely presented component units:

Statutory Transfer—Legally required transfers that subsidize recipient fund programs and are reported when incurred as “Transfers in” by the recipient fund and as “Transfers out” by the disbursing fund. Legally required payments from the primary government to component unit organizations are reported when incurred as governmental activities program expenses and component unit subsidies by the recipient organization. Interfund balances (amounts due from/to other funds) are reported for unremitted transfers at fiscal year end. In the Statement of Activities, only transfers between governmental activities and business-type activities are reported as transfers.

Transfers of Expenditures (Reimbursements)—Reimbursement of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Interfund Services Provided and Used—Charges or collections for services provided by one fund to another that are recorded as revenues of the recipient fund and expenditures or expenses of the disbursing fund are reclassified and treated as reimbursements (above) in fund financial statements and the Statement of Activities. Interfund balances (amounts due from/to other funds), are reported for unremitted charges or collections at fiscal year end that arise in connection with routine, ordinary governmental fund and proprietary fund operations.

The composition of the Commonwealth’s interfund receivables/payables at June 30, 2004 and transfers in/out during the fiscal year ended June 30, 2004 are presented in Note H. Interfund balances between two governmental funds or two proprietary funds are not reported in the Statement of Net Assets.

New Accounting Pronouncements – Adopted: Effective July 1, 2003 the Commonwealth adopted the Governmental Accounting Standards Board’s (GASB’s) Statement No. 39, “Determining Whether Certain Organizations Are Component Units.” GASB No. 39 amends GASB No. 14 and the State System of Higher Education (SSHE) has included several previously-unreported SSHE component units in its financial statements as of July 1, 2003. Effective July 1, 2003 the Commonwealth adopted the GASB’s Technical Bulletin 2004-1, “Tobacco Settlement Recognition and Financial Reporting Issues.” The June 30, 2004 governmental fund balance sheet for the **Tobacco Settlement Fund** includes a receivable and deferred revenue for the estimated amount due to the Commonwealth based on the original participating tobacco product manufacturer projected payment schedule in the Master Settlement Agreement (MSA). The reported June 30, 2003 governmental activities net assets has been restated and increased by \$170 million at July 1, 2003 to include a receivable based on a portion of MSA proceeds received in April 2004.

New Accounting Pronouncements – To Be Adopted: In March 2003 the GASB issued Statement No. 40, “Deposit and Investment Risk Disclosures.” GASB No. 40 amends GASB No. 3 and requires additional disclosures related to concentrations of credit risk, interest rate risk and foreign currency risk. In November 2003 the GASB issued Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.” GASB No. 42 requires ongoing evaluation of specific events or changes affecting capital assets to determine whether they are impaired. In May 2004 the GASB issued Statement No. 44, “Economic Condition Reporting: The Statistical Section.” GASB No. 44 amends the National Committee on Governmental Accounting’s Statement No. 1 which provided requirements for the statistical section of the CAFR. GASB No. 44 establishes five categories of information and is intended to improve the understandability and usefulness of statistical section information. In June 2004 the GASB issued Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.” GASB No. 45 changes how other postemployment benefits (OPEB) costs are reported by employer governments, so that employer OPEB costs are charged during the periods when employees render services. In December 2004 the GASB issued Statement No. 46, “Net Assets Restricted by Enabling Legislation.” GASB No. 46 establishes and modifies requirements related to restrictions of net assets and provides that changes to enabling legislation could cause changes in how, or if, net assets are restricted and for which purpose. The Commonwealth must adopt the new standards as follows:

GASB No. 40	Effective July 1, 2004, for financial statements for the fiscal year ending June 30, 2005
GASB No. 42	Effective July 1, 2005, for financial statements for the fiscal year ending June 30, 2006
GASB No. 44	Effective July 1, 2005, for financial statements for the fiscal year ending June 30, 2006
GASB No. 45	Effective July 1, 2007, for financial statements for the fiscal year ending June 30, 2008
GASB No. 46	Effective July 1, 2005, for financial statements for the fiscal year ending June 30, 2006

**NOTE B – RESTATEMENT OF PREVIOUSLY REPORTED FUND BALANCES/NET ASSETS
AT JUNE 30, 2003****Primary Government****Governmental Funds/Governmental Activities and Enterprise Funds/Business-Type Activities**

The previously-reported fund balances/net assets for aggregate non-major Special Revenue, Debt Service and Enterprise fund types have been restated and increased, respectively, by \$13,689, \$145, and \$1,777 from \$1,216,623, \$32,685 and \$415,162 to \$1,230,312, \$32,830 and \$416,939 as of July 1, 2003 to include previously-unreported Commonwealth funds. Similarly, the previously-reported fund balance for the Capital Projects fund type has been restated and increased by \$1,628 from \$301,629 to \$303,257 as of July 1, 2003. Total governmental fund balance has been restated and increased by \$15,462 from \$5,620,392 to \$5,635,854 at July 1, 2003. Total business type activities net assets has been restated and increased by \$1,777 from \$2,467,183 to \$2,468,960 at July 1, 2003 (amounts in thousands).

The previously-reported governmental activities net assets has been restated and increased by \$15,462 based on the above; further, in accordance with the provisions of the Governmental Accounting Standards Board's Technical Bulletin 2004-1, governmental activities net assets has been restated and increased by \$170,000 to report a previously-unreported receivable associated with unremitted Tobacco Master Settlement Agreement proceeds at July 1, 2003 (amounts in thousands).

In total, previously-reported governmental activities net assets has been increased by \$185,462 from \$17,999,090 at June 30, 2003 to \$18,184,552 at July 1, 2003 (amounts in thousands).

Fiduciary Funds

In accordance with applicable standards, the previously-reported net assets reported by the INVEST Program for Local Governments, Investment Trust Fund, at December 31, 2002 has been restated and reduced by \$14,820 from \$1,034,299 to \$1,019,479 at January 1, 2003 to omit amounts invested by discretely presented component unit organizations in the INVEST Program (amounts in thousands).

Discretely Presented Component Units

In accordance with GASB No. 39, the previously-reported net assets for the Pennsylvania State System of Higher Education (SSHE) have been restated and increased by \$157,544 from \$510,268 to \$667,812, as of July 1, 2003 to include previously-unreported SSHE component unit organizations as of June 30, 2003. Total net assets for discretely presented component units have been restated and increased, from \$4,982,980 to \$5,140,524 at July 1, 2003 (amounts in thousands).

NOTE C – NET ASSETS/FUND EQUITY

Governmental Activities and Business-Type Activities Net Assets: Total Net Assets are the difference between Total Assets and Total Liabilities reported on the Statement of Net Assets. Total Net Assets are reported in three distinct components: Invested in capital assets, net of related debt; Restricted net assets; and Unrestricted net assets. Invested in capital assets, net of related debt represents total capital assets less accumulated depreciation and the outstanding liability for debt specifically related to the acquisition of the capital assets. At June 30, 2004, governmental and business-type activities, respectively, reported \$16,944,913 and \$45,927 in net assets invested in capital assets, net of related debt. Restricted net assets for special funds are those that are statutorily established and for which net assets may only be used for specific legislated purposes. Governmental fund balance “designations” are not treated as restricted net assets because they represent plans and can easily be changed. Restraints established by enabling legislation, on the other hand, are not easily changed. At June 30, 2004, governmental and business-type activities, respectively, reported \$2,969,711 and \$2,101,974 in restricted net assets. Governmental Activities net assets restricted for “other purposes” of \$1,366,072 include \$1,065,938 for smoking cessation and other health-related programs, \$100,579 for the Federal Help America Vote Act and \$199,555 for a variety of specific restricted purposes. Unrestricted net assets represent total net assets minus the totals of invested in capital assets, net of related debt and restricted net assets. At June 30, 2004, governmental activities reported an unrestricted net assets deficit of \$228,981. Business-type activities reported an unrestricted net assets deficit of \$47,849 at June 30, 2004 (amounts in thousands).

Governmental Fund Balance Reservations: Fund balance reservations reported in governmental fund balance sheets represent portions of governmental fund balances that are legally segregated for a specific future use or are not available for expenditure.

The amount reserved for advances in the **General Fund**, \$114.1 million, is applicable to advances as follows: \$14.3 million to the Purchasing Fund, an Internal Service Fund; \$2.3 million to the **State Workers’ Insurance Fund** and \$85.0 million to the State Stores Fund, both Enterprise Funds; \$2.2 million to the **Motor License Fund**; and \$10.3 million to the Pharmaceutical Assistance Fund, both Special Revenue Funds.

The **Motor License Fund**, a Special Revenue Fund, reports a reservation of \$220 million for an advance to the MCARE Fund, an Agency Fund.

The amount reserved for advances in the Hazardous Sites Cleanup Fund, a Special Revenue Fund, is applicable to a \$3 million advance to the Small Business First Fund, an Enterprise Fund.

Governmental funds reported total fund balance “other” reservations of \$1,062,185 at June 30, 2004. This amount consists of \$501,901 reserved in the **General Fund**, \$429,322 for restricted revenue and \$72,579 for continuing programs; \$662 reserved in the **Motor License Fund** for transportation-related programs; \$493,033 reserved in the **Tobacco Settlement Fund** for various health-related programs; and \$66,589 reserved in nonmajor Funds for the following programs: (amounts in thousands):

Land reclamation and other mining operations.....	\$ 32,261
Pharmaceutical assistance.....	4,359
Recreation.....	1,941
Conservation, recycling and economic development.....	5,128
Workers compensation.....	13,659
Hazardous materials response/activities	<u>5,747</u>
 Total nonmajor Special Revenue programs.....	 <u>63,095</u>
 General State Authority maintenance in the Capital Facilities Fund.....	 1,857
Land and water reclamation.....	<u>1,637</u>
 Total nonmajor Capital Projects programs.....	 <u>3,494</u>
 Total nonmajor funds other reservations.....	 <u>\$ 66,589</u>

NOTE C – NET ASSETS/FUND EQUITY (continued)

Governmental Fund Balance Designations: Designations of unreserved fund balances reported in governmental funds balance sheets reflect managerial plans for the future use of financial resources. At June 30, 2004 the Commonwealth has included the following amounts as “Designated—Other” for the **General Fund** (amounts in thousands):

General Fund:

Group medical and life insurance.....	\$ 191,010
Job creation tax credits.....	49,999
Judicial computer system.....	79,555
Agency construction projects.....	93,246
Other.....	<u>7,605</u>
Total General Fund	<u>\$ 421,415</u>

Governmental Fund Balance Deficits: Individual funds have reported fund balance deficits in governmental funds balance sheets. The Vocational Rehabilitation Fund and the State Racing Fund, both Special Revenue Funds, reported a fund balance deficit of \$3,061 and \$490 at June 30, 2004 (amounts in thousands).

The Capital Facilities Fund, a Capital Projects Fund, reported a deficit unreserved/undesignated fund balance of \$368,271 at June 30, 2004. In total, the Capital Facilities Fund reported a fund balance of \$343,132 at June 30, 2004. The Land and Water Development Fund, a Capital Projects Fund, reported a deficit unreserved/undesignated fund balance of \$24 at June 30, 2004. Total Capital Projects Funds reported reservations for encumbrances of \$748,105; other reservations of \$3,494; designations for Capital Projects of \$96,787; and a deficit unreserved/undesignated fund balance of \$368,295; for total combined fund balances of \$480,091 at June 30, 2004 (amounts in thousands).

Proprietary Fund Net Assets: Nonmajor funds reported total restricted net assets for “other purposes” of \$403,527 at June 30, 2004 for the following programs: economic development loans, \$197,853; emergency services loans, \$121,182; mine subsidence insurance, \$40,280; liquor control, \$25,256; vocational rehabilitation, \$10,325; and \$8,631 for other programs (amounts in thousands).

The **Tuition Payment Fund**, an Enterprise Fund, reported an unrestricted net assets deficit of \$47,849 at June 30, 2004. The Purchasing Fund, an Internal Service Fund, reported an unrestricted net assets deficit of \$15,019 at June 30, 2004 (amounts in thousands).

Component Unit Net Assets: Except for the Pennsylvania Industrial Development Authority, net assets of all component units are restricted, consistent with enabling legislation for component units. Net assets are restricted to purposes specifically identified by the legislation that created the component unit entity.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**Authority for Deposits and Investments**

The deposit and investment policies of the Treasury Department are governed by Sections: 301, 301.1 and 505 of the Pennsylvania Fiscal Code (Act of 1929, P.L. 343), and Section 321.1 of the Pennsylvania Administrative Code (Act of 1929, P.L. 177, No. 175).

Treasury deposits must be held in insured depositories approved by the Board of Finance and Revenue and must be fully collateralized. The Treasury Department is granted the power to invest in any deposits and investments subject, however, to the exercise of that degree of judgment and care under the circumstances then prevailing which persons of prudence, discretion and intelligence who are familiar with such matters exercise in the management of their own affairs not in regard to speculation but in regard to the permanent disposition of the funds considering the probable income to be derived therefrom as well as the probable safety of their capital. Such deposits and investments may include equity securities and mutual funds.

As of June 30, 2004, the Treasury Department manages the Treasury Investment Program (TIP). Practically all Commonwealth Funds of the primary government are invested on a temporary basis in the TIP. The objectives of the TIP are preservation of principal, liquidity, diversification, and income and all investments are made in accordance with the preceding statutory authority. The TIP investment pool structure invests in both domestic equity securities and domestic fixed income securities to achieve the investment objects of the funds of the Treasury Investment Program. Asset allocation targets between equity securities and fixed income securities are established in order to meet these overall objectives.

The Treasury Investment Program consists of two types of pools, currently known as The Common Investment Pool and the Treasury Liquid Asset Pool.

The Common Investment Pool consists of three portfolios as follows: The Short-Term Diversified Portfolio which is comprised of domestic fixed income investments in a Short-Term Funds segment and a 2 Year Duration Target segment; the Extended Term Diversified Portfolio which consists of domestic fixed income, including high yield, and domestic equity investments; and the Discretionary Assets Portfolio which includes certain economically targeted investments deemed appropriate by the State Treasurer.

The Treasury Liquid Asset Pool is made up of a Short-Term Funds segment and a 1.5 Year Duration segment, both consisting of domestic fixed income investments.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Deposits

The Treasury Department controls the receipt and disbursement of amounts owned by agencies included in the primary government. Certain discretely presented component units, meanwhile, control receipt and disbursement of their own funds, often through a trustee. The following summaries present the amount of primary government and discretely presented component unit (Commonwealth) deposits which are fully insured or collateralized with securities held by the Commonwealth or its agent in the Commonwealth’s name (Category 1), those deposits which are collateralized with securities held by the pledging financial institution’s trust department or agent in the Commonwealth’s name (Category 2) and those deposits which are not collateralized or are collateralized by the pledging financial institution or the pledging institution’s trust department or agent, but not in the Commonwealth’s name (Category 3) at June 30, 2004 (amounts in thousands).

Primary Government

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total Bank Balance</u>	<u>Carrying Amount</u>
Cash.....	\$ 338,875	-	\$ 7,405	\$ 346,280	\$ 322,411
Cash with fiscal agents.....	853,444	-	46,013	899,457	899,457
Certificates of deposit and related items.....	141,642	252	12,882	154,776	154,776

The bank balance for cash does not include \$215,570 in available cash resulting from ‘float’ for outstanding checks at June 30, 2004, which the Treasury Department invested in overnight repurchase agreements. Pension and Other Employee Benefit Trust Funds, the Private Purpose Trust Fund and Agency Funds, all Fiduciary Funds, respectively, reported \$2,463, \$92 and \$48,515 respectively, of cash at June 30, 2004. Agency Funds reported \$46,013 of cash with fiscal agents at June 30, 2004. These amounts are not included in the Statement of Net Assets. The above-listed \$154,776 in certificates of deposit and related items is reported as part of primary government temporary investments at June 30, 2004 (amounts in thousands).

Discretely Presented Component Units

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total Bank Balance</u>	<u>Carrying Amount</u>
Cash.....	\$ 106,901	\$ 1,898	\$ 146,473	\$ 255,272	\$ 240,212

Fiduciary component units reported \$7,164 of cash at their fiscal years ended December 31, 2003. These amounts are not included in the Statement of Net Assets. Additionally, component unit organizations of the State System of Higher Education reported \$68,574 of cash at June 30, 2004 (amounts in thousands).

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Investments

The Treasury Department, other agencies in the primary government, and discretely presented component units (Commonwealth) categorize investments according to the level of credit risk assumed by the Commonwealth. Category 1 includes investments that are insured, registered or held by the Commonwealth or the Commonwealth’s agent in the Commonwealth’s name. Category 2 includes uninsured and unregistered investments held by the counterparty’s trust department or agent in the Commonwealth’s name. Category 3 includes uninsured and unregistered investments held by the counterparty, or by its trust department or its agent, but not in the Commonwealth’s name. Certain investments have not been categorized because securities are not used as evidence of the investment. These uncategorized investments include ownership interests in mutual funds, mortgage loans, real estate and venture capital. The following summaries identify the level of custodial credit risk assumed and the related type of investment at June 30, 2004 (amounts in thousands).

Primary Government

All primary government investments susceptible to credit risk categorization are in Category 1, except for amounts in parentheses below, at June 30, 2004.

Commercial paper (\$83,674 is Category 3).....	\$ 355,641
Common and preferred stocks (\$152,671 is Category 3)	8,825,820
Corporate bonds and notes (\$419,843 is Category 3).....	3,667,365
International fixed income (\$11,872 is Category 3).....	671,326
International equities	44,590
Mortgage loans.....	133,615
Real estate	442,638
Repurchase agreements (\$314,927 is Category 3).....	3,012,024
State and municipal obligations (\$7,699 is Category 3).....	598,628
U.S. Treasury obligations (\$201,997 is Category 3)	473,324
U.S. Government agency obligations (\$240,341 is Category 3)	<u>2,779,256</u>
Total categorized investments.....	21,004,227
Investments not susceptible to credit risk categorization:	
Securities lent by the State Lottery Fund at June 30, 2004	2,911
Investments held by the Tuition Payment Fund at June 30, 2004:	
Mortgage loans.....	12,201
Securities lent.....	151,662
Treasury Department global pool.....	65,625
Investments owned by the Deferred Compensation Fund at December 31, 2003:	
Money market funds.....	31,287
Mutual funds	1,174,789
Investments owned by the State Employees’ Retirement System (SERS) at December 31, 2003:	
Treasury Department global pool.....	465,247
Mortgage loans.....	72,289
Mutual funds	3,123,620
Short-term investment funds	312,780
Venture capital	9,031,708
Securities lent by the SERS at December 31, 2003:	
Common and preferred stocks.....	572,199
Corporate bonds and notes	360,767
International fixed income.....	46,619
U.S. Government agency obligations	13,794
U.S. Treasury obligations	528,030
Investments owned by the Statutory Liquidator Fund at June 30, 2004:	
Annuities	1,776
Money market funds.....	141,322
Mortgage loans, partnership interests and subsidiaries.....	685
Treasury Department global pool.....	<u>78,731</u>
Subtotal forwarded to next page	\$ 37,192,269

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Subtotal forwarded from previous page	\$ 37,192,269
Investments of the Underground Storage Tank Indemnification Fund at June 30, 2004:	
Securities lent	26,505
Treasury Department global pool	3,242
Investments of the Worker’s Compensation Security Trust Fund at June 30, 2004:	
Securities lent	93,668
Treasury Department global pool	31,814
Investments owned by the State Workers’ Insurance Fund at December 31, 2003:	
Securities lent	713,566
Treasury Department global pool	46,527
Investments owned by the Tobacco Settlement Fund at June 30, 2004:	
Short-term investment funds	24,024
Venture capital-limited partnerships	8,853
Investments owned by the Treasury Common Investment Pool at June 30, 2004:	
Money market funds	272,377
Securities lent	2,231,567
Mutual funds owned by the Tuition Assistance Investment Fund at June 30, 2004 ...	<u>138,943</u>
Subtotal	\$ 40,783,355
Certificates of deposit and related items	154,776
Securities lending collateral reported by participating Funds	4,685,490
Amount financially reported by discretely presented component units in Pennsylvania Treasury Common Investment Pool at June 30, 2004	<u>(454,084)</u>
Total primary government temporary and long-term investments	<u>\$ 45,169,537</u>

The above-listed \$154,776 in certificates of deposit and related items is financially reported as part of temporary investments at June 30, 2004, but are treated as deposits for a determination of the level of credit risk associated with them. Fiduciary funds reported \$30,961,557 and non-fiduciary funds reported \$14,207,980 of the above \$45,169,537 of total primary government investments at June 30, 2004. Non-fiduciary funds reported temporary and long-term investments, respectively, of \$11,116,091 and \$3,091,889 at June 30, 2004 (amounts in thousands). Primary government fiduciary funds investments are not reported in government-wide financial statements.

The State Employees’ Retirement System owns 72 percent of the common and preferred stocks, over 51 percent of the corporate bonds and notes, over 92 percent of the international fixed income, over 46 percent of the U.S. Government agency obligations, 100 percent of the real estate, over 67 percent of the Treasury Department global pool, over 33 percent of the securities lending collateral, over 33 percent of the mortgage loans, and over 70 percent of the mutual fund investments disclosed in the above summary. The Treasury Common Investment Pool owns 74 percent of the commercial paper, over 27 percent of the corporate bonds and notes, over 65 percent of the repurchase agreements and over 27 percent of the U.S. Government agency obligations. The **Tobacco Settlement Fund** owns 100 percent of the international equities. The Deferred Compensation Fund owns over 26 percent of the mutual fund investments.

At December 31, 2003 and during the year then ended the **State Workers’ Insurance Fund** owned more equity securities than allowed by applicable statutory authority. Based on the reported book value of all assets at December 31, 2003, the excess amounted to \$35.5 million of equity investments at cost. The cost value of long term equity investments amounted to \$140.1 million at December 31, 2003. The cost value of short term equity investments in Treasury’s short-term investment pool amounted to \$8.4 million at December 31, 2003. Statutory remedy for this condition, which remained at February 18, 2005, is being pursued.

Financial Instruments With Off-Balance Sheet Risk

State Employees’ Retirement System (SERS)

The SERS enters into derivative and structured financial instruments primarily to enhance the performance and reduce the volatility of its investment portfolio. It enters into foreign exchange contracts to hedge foreign currency exposure, futures contracts to gain or hedge exposure to certain equity markets and manage interest rate risk, and swaps to hedge against the effects of inflation.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Foreign exchange contracts are agreements to exchange the currency of one country for the currency of another country at an agreed upon price and settlement date. The SERS uses these contracts primarily to hedge the currency exposure of its investments. To reduce the risk of counterparty nonperformance, the SERS generally enters into these contracts with institutions regarded as meeting high standards of creditworthiness. The unrealized gain/loss on contracts is included in the SERS's net assets and represents the fair value of the contract on December 31. At December 31, 2003, the SERS had contracts to purchase foreign currencies for a total notional amount of \$4,450,498 and contracts to sell foreign currencies for a total notional amount of \$4,296,531 for a total notional amount of \$8,747,029. The net unrealized loss on foreign currency contracts was approximately \$40,845 at December 31, 2003 (amounts in thousands).

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains/losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Because of daily settlement, the futures contracts have no fair value.

The System has entered into certain futures contracts maturing through March 2004. The notional value of these contracts at December 31, 2003 is as follows:

	<u>Buy Contracts</u>	<u>Sell Contracts</u>
Eurodollar futures	\$ -	\$ 9,631
Euro bond futures	59,491	24,399
Japan bond futures	42,462	-
Treasury futures	119,114	119,683
S&P futures	272,652	-

The exchange on which futures contracts are traded assumes the counterparty risk and generally requires margin payments to minimize such risk. The System pledges investment securities to provide the initial margin requirements on the futures contracts it buys. In addition to that collateral, the System also pledges securities on sales of securities that it does not presently own (short sales). The System enters into those short sales to neutralize the market risk of certain equity positions. The securities the System pledged as collateral on futures purchases and short sales at December 31, 2003 represent restricted assets.

Swap agreements provide for periodic payments between parties based on the net difference in the cash flows of underlying assets, indexes, or rates. During 2003, the System entered into swap arrangements to purchase commodity futures. Under the arrangement, the System receives the net return of the Goldman Sachs Commodity Index from the swap counterparty in return for the 90-day Treasury Bill rate, which it pays to the counterparty. The commodity swaps are used as an inflation hedge and settle on a monthly basis. In addition, during 2003, the System also entered into swap arrangements to gain equity exposure on its absolute return fund-of-fund investments. Under those arrangements, the System receives the net return of the S&P 500 Total Return Index in exchange for a short-term rate plus a spread. The System uses multiple contracts with counterparties to diversify its credit risk. The contracts have varying maturity dates ranging from March 19, 2004 through March 23, 2005.

The table below presents the System's swap exposure at December 31:

	<u>Notional value</u>	<u>Receivable/(Payable)</u>
Goldman Sachs Commodity Index	\$ 479,324	\$ 29,841
Interest rate	-	-
S&P 500 Total Return Index	4,315,510	264,408

The System generally requires collateral on these swaps based on the counterparty's credit rating in order to reduce the risk of counterparty nonperformance. The System mitigates its legal risk on investment holdings, including the previously discussed instruments, by carefully selecting portfolio managers and extensively reviewing their documentation. It manages its exposure to market risk within risk limits set by management. The System also indirectly holds foreign exchange contracts, futures contracts, and certain swap contracts through its investments in collective trust funds. Those collective trust funds directly and indirectly (through a securities lending collateral pool) invest in those instruments to hedge foreign exchange exposure, to synthetically create equity returns, and to manage interest rate risk by altering the average life of the portfolio.

Investment Commitments: At December 31, 2003, the System had contractual commitments totaling approximately \$2.5 billion to fund future alternative investments and \$181 million to fund future real estate investments.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Discretely Presented Component Units

(amounts in thousands)

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>
Asset backed securities.....	\$ -	\$ 114,993	\$ -	\$ 114,993
Commercial paper.....	-	170,951	-	170,951
Common and preferred stocks.....	17,246,856	1,316	-	17,248,172
Corporate bonds and notes.....	3,109,639	158,661	118,110	3,386,410
Guaranteed investment contracts.....	100,031	-	-	100,031
International equities.....	7,076,125	-	-	7,076,125
International fixed income.....	1,362,950	-	-	1,362,950
Mortgage-backed securities.....	4,605,426	77,937	-	4,683,363
Repurchase agreements.....	96,997	80,639	32,511	210,147
State and municipal obligations.....	-	32,685	-	32,685
U.S. Treasury obligations.....	58,890	620,386	4,624	683,900
U.S. Government agency obligations.....	790,624	275,680	173,743	1,240,047
Various short-term investments.....	<u>663,643</u>	<u>-</u>	<u>4,029</u>	<u>667,672</u>
Total categorized investments.....	<u>\$ 35,111,181</u>	<u>\$ 1,533,248</u>	<u>\$ 333,017</u>	<u>\$ 36,977,446</u>

Investments not susceptible to credit risk categorization:

Investments owned by the Ben Franklin Technology Development Authority in Pennsylvania Treasury Common Investment Pool at June 30, 2004.....	24,432
Securities lending collateral.....	6,505
Investments owned by the Pennsylvania Housing Finance Agency at June 30, 2004:	
Investment agreements.....	307,966
Mutual funds.....	73,644
Money market funds.....	391,856
Investments owned by the Pennsylvania Higher Education Assistance Agency at June 30, 2004:	
Guaranteed investment contracts.....	112,171
Investment agreements.....	176,663
Money market funds.....	133,693
Pennsylvania Treasury Common Investment Pool.....	42,760
Investments owned by the Pennsylvania Infrastructure Investment Authority in Pennsylvania Treasury Common Investment Pool at June 30, 2004.....	379,356
Guaranteed investment contracts owned by the Pennsylvania Turnpike Commission at May 31, 2004.....	247,930
Investments owned by the Public School Employees' Retirement System at June 30, 2004:	
Invested with Pennsylvania Treasury Department.....	2,664,990
Mutual funds.....	639,474
Private debt.....	1,314,044
Private equity.....	3,004,550
Real estate.....	2,209,767
Securities lending collateral.....	4,505,428
Securities lending investments.....	4,374,160
Venture capital.....	366,259
Investments owned by the State Public School Building Authority in Treasury INVEST Program at June 30, 2004.....	13,541
Investments owned by the Port of Pittsburgh Commission in Pennsylvania Treasury Common Investment Pool at June 30, 2004.....	2,065
Mutual funds and other investments owned by the State System of Higher Education and by its..... component units at June 30, 2004.....	218,036
Investments owned by the Patient Safety Trust Authority at June 30, 2004:	
Pennsylvania Treasury Common Investment Pool.....	5,470
Securities lending collateral.....	<u>1,487</u>
Total temporary and long-term investments.....	<u>\$58,193,693</u>

The total amount reported by discretely presented component units in the Pennsylvania Treasury Common Investment Pool is \$454,084 at June 30, 2004; Common Investment Pool disclosures are included as part of Primary Government investment

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

disclosures. Of the \$58,193,693 in total temporary and long-term investments, non-fiduciary component units reported \$1,683,495 in temporary investments and \$2,672,585 in long-term investments; fiduciary component units reported \$8,117,515 in temporary investments and \$45,720,098 in long-term investments at June 30, 2004 (amounts in thousands). Fiduciary component unit investments are not included in government-wide financial statements.

The Public School Employees’ Retirement System (PSERS), a Pension Trust fund, owns nearly 100 percent of the common and preferred stocks, 89 percent of the corporate bonds and notes, 100 percent of the international equities, 100 percent of the international fixed income, over 98 percent of the mortgage-backed securities and 100 percent of the real estate investments included in the above summary. The Pennsylvania Turnpike Commission owns 54 percent of the guaranteed investment contracts, 76 percent of the state and municipal obligations and 89 percent of the U.S. Treasury obligations. The State System of Higher Education owns 100 percent of the commercial paper and 100 percent of the asset-backed securities. There were no violations of statutory authority or contractual provisions for investments during the fiscal year ended June 30, 2004.

Financial Instruments With Off-Balance Sheet Risk

Public School Employees’ Retirements System (System)

The System enters into a variety of financial contracts, which include options and futures. The System also enters into foreign exchange positions, such as forward and spot contracts to hedge foreign exposure; collateralized mortgage obligations (CMOs); other forward contracts, and U.S. Treasury STRIPS. The System is not a dealer, but an end-user of these instruments. The contracts are used primarily to enhance performance and reduce the volatility of the portfolio. Short-term investments and cash equal to or greater than performance obligations under these contracts are maintained at all times. The System is exposed to credit risk in the event of nonperformance by counterparties to financial instruments. As the System generally enters into transactions only with high quality institutions, no losses associated with counterparty nonperformance on derivative financial instruments have been incurred. Legal risk is mitigated through selection of executing brokers and review of all documentation. The System is exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with risk limits set by senior management, through buying or selling instruments or entering into offsetting positions.

The notional or contractual amounts of derivatives indicate the extent of the System’s involvement in the various types and uses of derivative financial instruments and do not measure the System’s exposure to credit or market risks and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

The following table summarizes the aggregate notional or contractual amounts for the System’s derivative financial instruments at June 30, 2004 (in thousands):

Futures contracts – long.....	\$ 6,307,135
Futures contracts – short.....	2,316,670
Foreign exchange forward and spot contracts, gross ...	2,671,009
Options – calls purchased	58,171
Options – puts purchased.....	-
Options – calls sold.....	58,691
Options – puts sold	25,791

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specific financial instrument at a predetermined date and price. Gains and losses on future contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay and generally requires margin payments to minimize such risk. In addition, the System enters into short sales, sales of securities it does not presently own, to neutralize the market risk of certain equity positions. Initial margin requirements on futures contracts and collateral for short sales are provided by investment securities pledged as collateral or by cash held in segregated accounts by the System’s custodial bank or short sale broker. Although the System has the right to access individual pledged securities, it must maintain the amount pledged by substituting other securities for those accessed. The value of securities pledged and the amount of cash held at June 30, 2004 represent a restriction on the amount of assets available as of year-end to use for other purposes.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or at a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option. The System generally uses exchange listed currency, index, stock, and futures options. The System has authorized an investment manager to write covered call stock index option spreads up to a notional amount of \$500,000,000.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. The contracts reported above primarily include forwards. The \$2,671,009,000 of foreign currency contracts outstanding at June 30, 2004 consists of “buy” contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of \$1,757,164,000 and “sell” contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of \$913,845,000. The \$2,792,438,000 of foreign currency contracts outstanding at June 30, 2003 consists of “buy” contracts of \$1,766,479,000 and “sell” contracts of \$1,025,959,000. The unrealized (loss) / gain on contracts of (\$144,000) at June 30, 2004 is included in the System’s net assets and represents the fair value of the contracts.

The System also invests in mortgage-backed securities (MBS) such as CMOs and MBS forwards to maximize yields. These securities are sensitive to prepayments by mortgagees, which may result from a drop in interest rates. The MBS forwards are subject to credit risk in the event of nonperformance by counterparties. The fair value of CMOs at June 30, 2004 is \$1,903,901,000.

The System invests in U.S. Treasury STRIPS, which essentially act as zero coupon bonds and are subject to market volatility from an increase or decrease in interest rates. Through certain collective trust funds, the System also indirectly holds various derivative financial instruments. The collective trust funds invest in futures and options thereon; forward foreign currency contracts; options; interest rates, currency, equity, index, and total return swaps; interest-only STRIPS, and CMOs, to enhance the performance and reduce the volatility of their portfolios. Swap agreements are used to modify investment returns or interest rates on investments in the collective trust funds. Swap transactions involve the exchange of investment returns or interest rate payments without the exchange of the underlying principal amounts. These swaps expose the collective trust funds entering into these types of arrangements to credit risk in the event of nonperformance by counterparties.

Philadelphia Regional Port Authority (Authority)

In December 2002, the Authority entered into an interest rate swaption transaction (Swaption) with Citigroup Financial Products, Inc. (counterparty) in connection with the planned refunding of the Series 1993 Lease Revenue Bonds. Under the terms of the Swaption, the counterparty paid an up-front premium of \$5,820,000 to the Authority and in return the Authority granted the counterparty the right, but not the obligation, to execute an interest rate swap (Swap) with the Authority. Effective July 10, 2003, the counterparty exercised its right under the Swaption. Under the Swap, commencing on September 1, 2003 and ending on September 1, 2020, the Authority began paying a fixed rate of interest of 5.19% on the notional amount of the Series 2003 refunding Lease Revenue Bonds then outstanding to the counterparty, in exchange for the counterparty’s payment of a floating rate of interest, which will be equal to the floating rate of interest on the Series 2003 Lease Revenue Bonds unless certain events occur which would permit the counterparty to pay an alternate floating rate of interest, as defined. The notional amount as to which the floating and fixed rates of interest are computed is initially \$53,900,000 and will be amortized at the same time and in the same amounts as the principal amortization of the Series 2003 Bonds.

In connection with the Swaption transaction, the Authority and the Commonwealth entered into the Second Amendment to Agreement of Lease and the First Amendment to Agreement of Sublease.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Pennsylvania Industrial Development Authority (Authority)

The Authority entered into a derivative financial contract on September 4, 2002 with J. P. Morgan Chase & Co. (J. P. Morgan). The contract provided the Authority with an upfront receipt of \$9,525,000 in exchange for giving J. P. Morgan the option (Swaption) to require the Authority to enter into a pay fixed receive variable interest rate swap as of January 6, 2004. This transaction monetizes the call option embedded within the 1994 Economic Development Revenue Bonds as of the execution date. Effective January 6, 2004, J.P. Morgan exercised their option which requires the Authority to pay a fixed rate of 5.12% and receive a rate equivalent to 68% of the London Interbank Offering Rate (LIBOR).

Due to decreases in interest rates by the United States Federal Reserve System, the Swaption has increased in fair value causing an increased liability to the Authority. This liability is reflected in the statement of net assets at its fair value as of June 30, 2004, which is \$14,308,021. The fair market value above included both the market value of the option and the present value of the future net settlements required under the swap.

Pennsylvania Turnpike Commission (Commission)

In July 2003, the Commission entered into two interest swap agreements on a portion of its debt to synthetically convert variable interest rates to fixed interest rates and thus hedge its variable rate exposure as well as preserve lower interest rates. These swaps were placed on the 2003 Series C Oil Company Franchise Tax Revenue Bonds with two different swap providers (counterparties). Based on these swap agreements, the Commission owes interest calculated at a fixed rate to the counterparties to the swaps. In return, the counterparties owe the Commission interest based on a variable rate that approximates the rate on the bonds. Only the net difference in interest payments is actually exchanged with the counterparties. The total notional amount of these swaps was approximately \$160 million at May 31, 2004. The \$160 million in bond principal is not exchanged; it is only the basis on which the interest payments are calculated. Additionally, the Commission continues to pay interest to the bondholders at the variable rate on the bonds.

Following is a summary of the swaps in place as of May 31, 2004. These swap agreements contain certain risks as described below:

Swap	Notional Value	Final Maturity	Floating Rate Index (Receivable)	Fixed Rate (Pavable)	Fair Value from (to) Counterparty
Series U 2001	\$127,365,000	12/01/2019	67% of 1 mo. LIBOR (1)	4.214%	\$ (8,471,500)
	42,455,000	12/01/2019			
Series A 2002	72,066,250	12/01/2030	67% of 1 mo. LIBOR (1)	4.403%	(7,728,200)
	144,070,000	12/01/2030			
	72,066,250	12/01/2030			
Series B 2002	32,921,250	12/01/2012	BMA (2)	4.538%	(1,640,200)
	65,842,500	12/01/2012			
	32,921,250	12/01/2012			
Series C 2003	48,000,000	12/01/2032	63% of 1 mo. LIBOR (1) plus 20 basis points	3.838%	(1,936,000)
	<u>112,000,000</u>	12/01/2032			
Total	<u>\$749,707,500</u>				<u>\$ (51,528,000)</u>

(1) 1 month LIBOR was 1.11375% at May 31, 2004

(2) BMA was 1.06% at May 31, 2004

- **Credit Risk** – As of May 31, 2004, the Commission was not exposed to credit risk because all of the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the Commission would be exposed to credit risk in the amount of the derivatives' fair values. To mitigate the potential for credit risk, the swap agreements include collateral provisions in the event of downgrades to the swap counterparties' credit ratings. Collateral would be posted with a third-party custodian and would be in the form of cash, U.S. Treasury Obligations, or U.S. Government Agency Securities. The Commission had five counterparties at May 31, 2004. The credit ratings of the swap providers as of May 31, 2004 were AAA to AA- and Aaa to Aa3 to Standard and Poor's and Moody's, respectively.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

- **Interest Rate Risk** – The Commission will be exposed to variable interest rates if one or more of the swap providers defaults or if a swap is terminated.
- **Basis Risk** – The underlying variable rates for the Commission's Series U and Series A bonds are based on BMA while the Series U and Series A swaps are based on a percentage of LIBOR. Therefore, the Commission is exposed to basis risk to the extent BMA exceeds 67% of one month LIBOR. The underlying variable rates for the Commission's 2003 Series C bonds are based on auction rates. The auction rates approximate BMA. The Series C swaps, with a combined notional value of \$160 million, are based on a percentage of LIBOR plus 20 basis points. Therefore, the Commission is exposed to basis risk to the extent auction rates exceed 63% of one month LIBOR plus 20 basis points.
- **Termination Risk** – The swap document may be terminated due to a number of circumstances and the Commission retains the option to terminate the swaps at any time. If the Commission were required to make a termination payment because of a termination event (by either party), then the Commission would have the option to enter into a new swap to match the remaining amortization of the underlying bonds and apply the payment it received toward the termination payment. It is the Commission's intent to maintain the swap transactions for the life of the financing.

Securities Lending Program

The Treasury Department provides a securities lending program authorized by the Fiscal Code, which provides the Treasury Department with numerous custodial responsibilities; the securities program is an integral part of the custodial function. A contract between the Treasury Department and its custodian, acting as lending agent, provides that the custodian lends securities owned by the participants to independent brokers, dealers and banks, acting as borrowers.

Lending agreements between the custodian and the borrowers require that the custodian receive collateral from the borrowers in exchange for the securities lent. For securities lent which are not denominated in United States dollars or whose primary trading market is located outside the United States, the fair value of the collateral received must be at least 105 percent of the fair value of the securities lent. For all other securities lent, the fair value of the collateral received must be at least 102 percent. Securities lent consist of both domestic and foreign equity securities and United States Treasury and foreign debt obligations. Almost all collateral received consists of cash; a very small portion of collateral received consists of letters of credit, United States Treasury, corporate and/or foreign debt obligations. Collateral is marked to market daily. Additional collateral from borrowers is required if the fair value of the collateral received declines below lending agreement requirements. The lending agent cannot pledge or sell collateral securities received unless the borrower defaults. Accordingly, neither collateral securities received from borrowers nor the related obligations to borrowers are reported.

To the extent collateral received consists of cash, the lending agent may use or invest the cash in accordance with reinvestment guidelines approved by the Treasury Department. Either the participant or the borrower may terminate lending agreements on demand. Lending agreements are typically of very short duration - usually overnight. Therefore, the duration of lending agreements does not generally match the maturities of the investments made with cash collateral. The resulting rate risk is mitigated by the lending agent's ability to reallocate lending agreements among program participants.

The program requires that the lending agent indemnify the Treasury Department for all claims, liabilities and costs resulting from the lending agent's negligence or intentional misconduct. During the fiscal year ended June 30, 2004 (December 31, 2003 for the **State Workers' Insurance Fund (SWIF)**, the SERS and the Deferred Compensation Fund), there were no failures by any borrower to return securities lent or pay distributions thereon. Also, there were no losses resulting from a lending agent or borrower default and there were no Treasury Department restrictions on the amount of the loans that could be made.

At June 30, 2004 (December 31, 2003 for the **SWIF**, the SERS and the Deferred Compensation Fund), there was no Treasury Department or participant credit risk to the borrowers because the fair value of collateral received was greater than the fair value of the securities lent, consistent with the lending agreements outstanding. The carrying amount and fair value of the securities lent, along with type of investments lent, are (amounts in thousands):

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

	<u>Securities Lent Amount</u>	<u>U.S. Treasury Obligations</u>	<u>U.S. Government Agency Obligations</u>	<u>Corporate Bonds and Notes</u>	<u>Common and Preferred Stocks</u>
State Lottery Fund.....	\$ 2,911	\$ 2,911	\$ -	\$ -	\$ -
State Workers' Insurance Fund.....	713,566	583,847	112,324	10,906	6,489
Tuition Payment Fund.....	151,662	75,638	27,762	7,104	41,158
Workers' Compensation Security Trust Fund.....	93,668	46,543	13,436	17,331	16,358
State Employees' Retirement System.....	1,521,409	528,030	13,794	407,386	572,199
Public School Employees' Retirement System	4,374,160	-	1,716,711	628,242	2,029,207
Underground Storage Tank Indemnification Fund	26,505	13,855	3,566	2,425	6,659

At June 30, 2004 the Treasury Common Investment Pool (TIP) lent \$2,231,567 in securities; the related cash collateral received was \$2,298,975. On a pro-rata basis, TIP participants collectively reported cash collateral of \$2,150,220 as part of temporary investments and related securities lending obligation of \$2,150,220 associated with TIP securities lending balances at June 30, 2004. The composition of the lent securities of \$2,231,567 was: U.S. Treasury obligations, \$982,831; U.S. government agencies, \$946,032; corporate bonds and notes, \$48,730; and common and preferred stocks, \$253,974 (in thousands).

NOTE E – CAPITAL ASSETS

A summary of capital assets by category at June 30, 2004 is as follows (amounts in thousands):

	Primary Government			Business-Type	Discretely Presented
	Governmental		Activities		
	General	Internal	Total	Enterprise	
	Capital Assets	Service	Governmental	Funds	
		Funds	Activities	Funds	
Land	\$ 309,350	\$ 6	\$ 309,356	\$ 323	\$ 161,560
Highway right-of-way	1,104,800	-	1,104,800	-	-
Buildings	4,027,740	4,063	4,031,803	30,545	1,708,579
Improvements other than buildings	453,439	326	453,765	-	184,968
Machinery and equipment	602,578	91,467	694,045	62,970	578,165
Library books and other	-	-	-	-	161,962
Turnpike infrastructure	-	-	-	-	3,789,194
Highway infrastructure	14,940,848	-	14,940,848	-	-
Bridge infrastructure	6,324,884	-	6,324,884	-	-
Waterway infrastructure	1,705	-	1,705	-	-
Other infrastructure	4,509	-	4,509	-	-
Construction in progress	1,184,622	-	1,184,622	7,827	685,032
Highway and bridge construction in progress	<u>1,661,900</u>	<u>-</u>	<u>1,661,900</u>	<u>-</u>	<u>-</u>
Total	\$ <u>30,616,375</u>	\$ <u>95,862</u>	\$ <u>30,712,237</u>	\$ <u>101,665</u>	\$ <u>7,269,460</u>

Changes in general capital assets for the fiscal year ended June 30, 2004 are as follows (amounts in thousands):

	Balance			Balance
	June 30,	Additions	Retirements	June 30,
	2003			2004
Non-Depreciable General Capital Assets:				
Land	\$ 297,855	\$ 12,664	\$ 1,169	\$ 309,350
Highway right-of-way	1,027,800	77,000	-	1,104,800
Construction in progress	1,159,378	176,487	151,243	1,184,622
Transportation construction in progress ..	<u>1,875,700</u>	<u>1,461,700</u>	<u>1,675,500</u>	<u>1,661,900</u>
Subtotal	<u>4,360,733</u>	<u>1,727,851</u>	<u>1,827,912</u>	<u>4,260,672</u>
Depreciable General Capital Assets:				
Buildings	3,949,138	138,573	59,971	4,027,740
Improvements other than buildings	412,780	44,143	3,484	453,439
Machinery and equipment	583,086	58,619	39,127	602,578
Highway infrastructure	13,814,760	1,126,088	-	14,940,848
Bridge infrastructure	5,758,394	566,490	-	6,324,884
Waterway infrastructure	1,700	5	-	1,705
Other infrastructure	<u>8,614</u>	<u>-</u>	<u>4,105</u>	<u>4,509</u>
Subtotal	<u>24,528,472</u>	<u>1,933,918</u>	<u>106,687</u>	<u>26,355,703</u>
Total general capital assets	\$ <u>28,889,205</u>	\$ <u>3,661,769</u>	\$ <u>1,934,599</u>	\$ <u>30,616,375</u>

NOTE E – CAPITAL ASSETS (continued)

Changes in general capital assets accumulated depreciation for the fiscal year ended June 30, 2004 are as follows (amounts in thousands):

	<u>Balance June 30, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2004</u>
Buildings	\$ 1,715,971	\$ 85,893	\$ 36,496	\$ 1,765,368
Improvements other than buildings	171,725	12,374	629	183,470
Machinery and equipment	308,425	39,924	32,845	315,504
Highway infrastructure	5,784,706	574,523	-	6,359,229
Bridge infrastructure	1,164,862	120,742	-	1,285,604
Waterway infrastructure	30	-	30	-
Other infrastructure	<u>1,572</u>	<u>307</u>	<u>-</u>	<u>1,879</u>
Total accumulated depreciation	<u>\$ 9,147,291</u>	<u>\$ 833,763</u>	<u>\$ 70,000</u>	<u>\$ 9,911,054</u>

Depreciation expense, by function, related to general capital assets for the fiscal year ended June 30, 2004 is as follows (amounts in thousands):

Direction and supportive services	\$ 18,388
Protection of persons and property	53,637
Public education	19,874
Health and human services	11,949
Transportation	723,190
Recreation and cultural enrichment	<u>6,725</u>
Total depreciation expense	<u>\$ 833,763</u>

Changes in Internal Service funds capital assets for the fiscal year ended June 30, 2004 are as follows (amounts in thousands):

	<u>Balance June 30, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2004</u>
Non-Depreciable Capital Assets:				
Land	\$ 6	-	-	\$ 6
Subtotal	<u>6</u>	<u>-</u>	<u>-</u>	<u>6</u>
Depreciable Capital Assets:				
Buildings	3,997	66	-	4,063
Improvements other than buildings	291	35	-	326
Machinery and equipment	<u>95,034</u>	<u>5,960</u>	<u>9,527</u>	<u>91,467</u>
Subtotal	<u>99,322</u>	<u>6,061</u>	<u>9,527</u>	<u>95,856</u>
Total Internal Service fund capital assets ..	<u>\$ 99,328</u>	<u>\$ 6,061</u>	<u>\$ 9,527</u>	<u>\$ 95,862</u>

NOTE E – CAPITAL ASSETS (continued)

Changes in Internal Service fund capital assets accumulated depreciation for the fiscal year ended June 30, 2004 are as follows (amounts in thousands):

	<u>Balance June 30, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2004</u>
Buildings	\$ 1,896	\$ 114	\$ -	\$ 2,010
Improvements other than buildings	435	15	218	232
Machinery and equipment	<u>48,215</u>	<u>10,406</u>	<u>7,114</u>	<u>51,507</u>
Total accumulated depreciation	<u>\$ 50,546</u>	<u>\$ 10,535</u>	<u>\$ 7,332</u>	<u>\$ 53,749</u>

Changes in Enterprise fund capital assets for the fiscal year ended June 30, 2004 are as follows (amounts in thousands):

	<u>Balance June 30, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2004</u>
Non-Depreciable Capital Assets:				
Land	\$ 323	\$ -	\$ -	\$ 323
Construction in progress	<u>6,708</u>	<u>1,119</u>	<u>-</u>	<u>7,827</u>
Subtotal	<u>7,031</u>	<u>1,119</u>	<u>-</u>	<u>8,150</u>
Depreciable Capital Assets:				
Buildings	25,727	4,818	-	30,545
Machinery and equipment	<u>71,243</u>	<u>2,574</u>	<u>10,847</u>	<u>62,970</u>
Subtotal	<u>96,970</u>	<u>7,392</u>	<u>10,847</u>	<u>93,515</u>
Total Enterprise fund capital assets	<u>\$ 104,001</u>	<u>\$ 8,511</u>	<u>\$ 10,847</u>	<u>\$ 101,665</u>

Changes in Enterprise fund capital assets accumulated depreciation for the fiscal year ended June 30, 2004 are as follows (amounts in thousands):

	<u>Balance June 30, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2004</u>
Buildings	\$ 11,047	\$ 2,562	\$ 2,017	\$ 11,592
Machinery and equipment	<u>50,533</u>	<u>5,615</u>	<u>12,002</u>	<u>44,146</u>
Total accumulated depreciation	<u>\$ 61,580</u>	<u>\$ 8,177</u>	<u>\$ 14,019</u>	<u>\$ 55,738</u>

NOTE E – CAPITAL ASSETS (continued)

Construction in progress included in general capital assets at June 30, 2004 includes project information as follows (amounts in thousands):

	Project Authorization	Amounts Expended but not Capitalized at June 30, 2004	Authorization Available
Capitol Complex	\$ 686,357	\$ 328,521	\$ 357,836
Department of Corrections Institutions	625,891	477,193	148,698
Educational Institutions	306,452	93,104	213,348
State Parks and Forests	125,172	76,654	48,518
State-wide Radio Project	109,596	99,130	10,466
Veterans Homes and Military Armories	57,142	20,931	36,211
Department of Public Welfare Institutions	52,458	10,181	42,277
Transportation Facilities	48,357	19,908	28,449
Historical and Museum Commission Facilities	46,357	19,336	27,021
State Police Facilities	43,327	26,919	16,408
Agriculture Facilities	8,735	8,099	636
Other	<u>8,225</u>	<u>4,646</u>	<u>3,579</u>
 Total	 <u>\$ 2,118,069</u>	 <u>\$ 1,184,622</u>	 <u>\$ 933,447</u>

The Commonwealth’s initial valuation of general capital assets was made as of June 30, 1986 using appraisal and historical cost reconstruction techniques. Subsequent to June 30, 1986, general capital asset acquisitions are reported at cost or, for donations or confiscations, at fair market value. At June 30, 2004 the amount of general capital assets related to the initial 1986 valuation amounts to \$1,691 million and does not include highway, bridge or waterway infrastructure.

**NOTE F – TUITION BENEFITS PAYABLE AND INSURANCE LOSS LIABILITY –
PROPRIETARY FUNDS AND BUSINESS-TYPE ACTIVITIES**

Tuition Benefits Payable

The reported liability for tuition benefits payable of \$904,234 of the **Tuition Payment Fund**, an Enterprise Fund, at June 30, 2004, is based on several actuarial assumptions, including those related to future sales of tuition credits, tuition cost increases, investment experience and program expenses for the Tuition Account Program. The June 30, 2004 actuarial analysis includes the effects of a minor change in assumptions for expenses from the June 30, 2003 analysis. Per-unit tuition credit expense continues to decline as the Program expands. The per-unit credit expense assumption was increased from 38 to 51 cents. The effect of this change decreased the aggregate actuarial reserve (actuarial value of assets less liabilities) by \$1.8 million.

Insurance Loss Liability

The reported insurance loss liability of the **State Workers’ Insurance Fund (SWIF)**, an Enterprise Fund, is primarily based on historical claims experience. One of the assumptions used to determine the reported liability amount includes using a discount rate of 2.5 and 4.0 percent at December 31, 2003 and 2002, respectively. One of the effects of the lower 2003 discount rate was a significant increase in the reported liability. There is uncertainty as to whether the reported liability will be supported by future claim experience, including payments; this uncertainty must be considered when evaluating the reported insurance loss liability.

For the calendar years ended December 31, 2003 and 2002, the following summary provides information on prior year reported insurance loss liability, incurred claims and payments, and current year reported insurance loss liability.

Year Ended December 31	Prior Year Liability	Incurring Claims		Payments		Current Year Liability
		Current	Prior	Current	Prior	
2003.....	\$1,039,532	\$ 246,883	\$ 123,183	\$ 41,335	\$ 139,715	\$1,228,548
2002.....	\$1,032,506	\$ 205,952	\$ (41,264)	\$ 31,034	\$ 126,628	\$1,039,532

Additionally, nonmajor Enterprise funds reported \$847 of insurance loss liability at June 30, 2004 (amounts in thousands).

NOTE G - TAXES, LOANS AND LEASE RENTALS RECEIVABLE

Taxes Receivable: Taxes receivable at June 30, 2004 consisted of the following (amounts in thousands):

Statement of Net Assets

Governmental Activities	
Sales and use.....	\$ 996,616
Personal income.....	521,394
Corporation.....	740,424
Liquid fuels.....	151,996
Inheritance.....	427,063
Cigarette.....	57,046
Other.....	<u>29,529</u>
Total.....	<u>\$ 2,924,068</u>

Governmental activities taxes receivable includes \$808,359 expected to be collected after June 30, 2005 (amounts in thousands).

Fund Balance Sheets

	<u>General</u>	<u>Motor License</u>	<u>Nonmajor Governmental Funds</u>	<u>Fiduciary Funds</u>
Sales and use.....	\$ 996,616	\$ -	\$ -	\$ 14,658
Personal income.....	521,394	-	-	-
Corporation.....	740,424	-	-	-
Liquid fuels.....	-	151,996	-	5
Inheritance.....	427,063	-	-	-
Cigarette.....	57,046	-	-	-
Other.....	<u>4,749</u>	<u>-</u>	<u>24,780</u>	<u>-</u>
Total.....	<u>\$ 2,747,292</u>	<u>\$ 151,996</u>	<u>\$ 24,780</u>	<u>\$ 14,663</u>

General Fund taxes receivable includes \$808,359 expected to be collected after June 30, 2005 (amounts in thousands).

Loans Receivable: Loans receivable at June 30, 2004 consisted of the following (amounts in thousands):

Primary Government

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	
	<u>Special Revenue Funds</u>	<u>Enterprise Funds</u>	<u>Discretely Presented Component Units</u>
Mortgage loans.....	\$ -	\$ -	\$ 2,751,104
Student loans.....	-	-	4,929,352
Economic development loans.....	51,955	158,512	588,015
Drinking water, storm water and sewer system loans	10,499	-	1,454,002
Volunteer fire company loans.....	-	113,589	-
Other notes and loans.....	<u>18,516</u>	<u>-</u>	<u>9,260</u>
	80,970	272,101	9,731,733
Less: allowance for uncollectible amounts	<u>41,166</u>	<u>35,874</u>	<u>221,794</u>
Loans receivable, net.....	<u>\$ 39,804</u>	<u>\$ 236,227</u>	<u>\$ 9,509,939</u>

Special Revenue funds report \$34,672 in loans due after June 30, 2005 and the Enterprise funds report \$191,739 in loans due after June 30, 2005. Discretely presented component units reported \$8,576,487 in loans receivable due after June 30, 2005 (amounts in thousands).

NOTE G - TAXES, LOANS AND LEASE RENTALS RECEIVABLE (continued)

The **General Fund** reported \$6,283 in loans receivable for program objectives, of which \$6,173 represents governmental activities lending and of which \$4,715 is due after June 30, 2005. Agency Funds reported \$3,676 in loans receivable to replace underground storage tanks, all of which are due after June 30, 2005 (amounts in thousands).

Lease Rentals Receivable: The Capital Facilities Fund, a Capital Projects fund, reports expenditure amounts related to construction projects for educational institutions funded through the issuance of general obligation bonds, the principal and interest of which are paid through the collection of lease rental payments and deposited in the Capital Debt Fund, a Debt Service fund. At the conclusion of the lease terms, the project facilities are conveyed to the educational institutions. Accordingly, these lease arrangements are classified as direct financing leases. Lease rental receivables and associated deferred revenue equal to the principal lease payments to be received are recorded in the Capital Debt Fund. At June 30, 2004 the total remaining minimum lease payments to be received were \$1.3 million, consisting of principal present value of \$1.2 million and interest of \$.1 million.

The Pennsylvania Industrial Development Authority, a discretely presented component unit, reported a lease rental receivable with total remaining minimum payments to be received of \$27.0 million, consisting of principal present value of \$19.7 million and interest of \$7.3 million at June 30, 2004.

Minimum lease payments receivable for the five fiscal years succeeding June 30, 2004 are as follows (amounts in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units
2005.....	\$ 193	\$ 634
2006.....	194	2,923
2007.....	193	5,212
2008.....	194	5,212
2009.....	193	5,212

Except for \$193 owed to the primary government and \$634 owed to discretely presented component units, all amounts receivable under lease rentals are due after June 30, 2005 (amounts in thousands).

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS

Internal Balances

In the Statement of Net Assets, reported internal balances assets/liabilities for governmental activities/business-type activities include \$85 million borrowed between the **General Fund** and the State Stores Fund, an Enterprise Fund, at June 30, 2004 and differ because the **State Workers’ Insurance Fund**, an Enterprise Fund, reports for its fiscal year ended December 31, 2003.

Interfund Balances

The composition of governmental and proprietary funds interfund balances reported at June 30, 2004 is as follows, with Major Fund titles in bold. Aggregate nonmajor governmental funds receivables from other funds and from component units, respectively, amount to \$59,741 and \$24,588; aggregate nonmajor enterprise funds receivables amount to \$3,563 and \$28; aggregate internal service funds receivables amount to \$12,857 and \$777 (amounts in thousands):

FUND TYPE/FUND PRIMARY GOVERNMENT	DUE FROM		DUE TO	
	OTHER FUNDS	COMPONENT UNITS	OTHER FUNDS	COMPONENT UNITS
General Fund	\$ 31,710	\$ 1,472	\$ 73,884	\$ 972
<u>Special Revenue:</u>				
Motor License Fund	5,332	340	35,798	6,874
Tobacco Settlement Fund	12,146	-	90	-
Hazardous Sites Clean-up Fund.....	-	-	2,897	-
State Racing Fund.....	-	-	7,110	-
Vocational Rehabilitation Fund.....	-	-	3,164	-
Pharmaceutical Assistance Fund.....	6,128	-	-	-
Agricultural Conservation Easement Fund.....	10,243	-	-	-
Public Transportation Assistance Fund.....	6,308	-	373	-
Other Funds.....	1,338	-	4,417	-
	<u>41,495</u>	<u>340</u>	<u>53,849</u>	<u>6,874</u>
<u>Debt Service:</u>				
Land and Water Development Sinking.....	3	-	-	-
	<u>3</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Capital Projects:</u>				
Capital Facilities Fund.....	28,632	24,588	116	-
Keystone Recreation, Park and Conservation Fund.....	7,089	-	1,659	-
	<u>35,721</u>	<u>24,588</u>	<u>1,775</u>	<u>-</u>
<u>Enterprise:</u>				
Unemployment Compensation Fund	2,868	755	164	-
State Lottery Fund	-	-	222	-
Tuition Payment Fund	-	-	14	-
State Stores Fund.....	354	-	3,066	-
Rehabilitation Center Fund.....	3,047	-	26	-
Other Funds.....	162	28	983	-
	<u>6,431</u>	<u>783</u>	<u>4,475</u>	<u>-</u>
<u>Internal Service:</u>				
Purchasing Fund.....	7,118	771	412	-
Manufacturing Fund.....	5,739	6	54	-
	<u>12,857</u>	<u>777</u>	<u>466</u>	<u>-</u>
<u>Fiduciary - Pension Trust:</u>				
State Employees’ Retirement System.....	1,226	-	-	-
	<u>1,226</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total primary government.....	\$ 129,443	\$ 27,960	\$ 134,449	\$ 7,846

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)

COMPONENT UNITS	DUE FROM		DUE TO	
	PRIMARY GOVERNMENT	COMPONENT UNITS	PRIMARY GOVERNMENT	COMPONENT UNITS
Pennsylvania Turnpike Commission.....	\$ 6,660	\$ -	\$ -	\$ -
Pennsylvania Infrastructure Investment Authority	-	108	10	-
	<u>6,660</u>	<u>108</u>	<u>10</u>	<u>-</u>
<u>Fiduciary - Pension Trust:</u>				
Public School Employees Retirement System .	<u>2,850</u>	-	<u>1,154</u>	-
Total component units.....	<u>\$ 9,510</u>	<u>\$ 108</u>	<u>\$ 1,164</u>	<u>\$ -</u>

The amount of total reported interfund receivables of \$167,021 does not agree with total reported interfund payables of \$143,459 at June 30, 2004 due to different fiscal year ends and reporting differences for certain Funds included in the Fund Financial Statements at June 30, 2004. The amount reported for the Pennsylvania Turnpike Commission, a discretely presented component unit, is reported at its fiscal year ended May 31, 2004 and the amounts reported as interfund balances for the State Employees' Retirement System and the Deferred Compensation Fund, Pension Trust Funds, the INVEST Program for Local Governments, an Investment Trust Fund and the **State Workers' Insurance Fund** and State Stores Fund, Enterprise Funds, are reported at their fiscal years ended December 31, 2003 and June 29, 2004. The following presents a reconciliation of interfund balances reported at June 30, 2004 and those amounts which would have been reported if all Funds reported at the same fiscal year end (amounts in thousands):

Due from other funds at June 30, 2004	\$ 123,622
Due from fiduciary funds at June 30, 2004	5,821
Due from primary government at June 30, 2004	9,510
Due from component units at June 30, 2004	<u>28,068</u>
Reported Interfund Receivables	167,021
State Employees' Retirement System decrease in receivables from January 1, 2004 through June 30, 2004 (includes adjustment).....	(490)
Pennsylvania Turnpike Commission increase in receivables from June 1, 2004 through June 30, 2004	214
Interfund receivables reported as accounts receivable by component units	63
Interfund receivables recorded as tax receivables	829
Interfund receivables reported as accounts receivable by Fiduciary Funds	7,439
Payroll accrual at June 30, 2004 – receivables attributable to State Employees' Retirement System and State Workers' Insurance Fund	3,635
Adjustments	<u>(11)</u>
Reconciled Interfund Receivables	<u>\$ 178,700</u>
Due to other funds at June 30, 2004	\$ 122,552
Due to fiduciary funds at June 30, 2004	11,897
Due to primary government at June 30, 2004	1,164
Due to component units at June 30, 2004	<u>7,846</u>
Reported Interfund Payables	143,459

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)

State Employees' Retirement System increase in payables from January 1, 2004 through June 30, 2004.....	2,685
Deferred Compensation Fund increase in payables from January 1, 2004 through June 30, 2004.....	7
Pennsylvania Turnpike Commission increase in payables from June 1, 2004 through June 30, 2004.....	372
State Workers' Insurance Fund increase in payables from January 1, 2004 through June 30, 2004.....	580
Interfund payables reported as accounts payable by component units.....	26,518
Interfund payables reported as accounts payable by Fiduciary Funds	<u>5,079</u>
Reconciled Interfund Payables	<u>\$ 178,700</u>

Advances – Fund Financial Statements

At June 30, 2004 the **General Fund** reported Advances to Other Funds of \$114,108. Specifically, this amount has been advanced as follows: \$2,300 to the **State Workers' Insurance Fund** and \$85,000 to the State Stores Fund, Enterprise Funds; \$2,175 to the **Motor License Fund** and \$10,333 to the Pharmaceutical Assistance Fund, Special Revenue Funds; and, \$14,300 to the Purchasing Fund, an Internal Service Fund. These amounts have been reported by the respective owing Funds as Advances from Other Funds, except for the **State Workers' Insurance Fund**, which reported an advance of \$1,836 at its fiscal year ended December 31, 2003. At June 30, 2004 the Hazardous Sites Cleanup Fund, a Special Revenue Fund, reported an Advance to Other Funds of \$3,000. This amount was advanced to the Small Business First Fund, an Enterprise Fund. The Underground Storage Tank Fund, an Agency Fund, advanced \$100,000 to the **General Fund** at June 30, 2004. The State Stores Fund, an Enterprise Fund, reported Advances to Other Funds of \$500 to the **General Fund** at its fiscal year ended June 29, 2004. At June 30, 2004 the **Motor License Fund** has reported an advance to the MCARE Fund, an Agency Fund, in the amount of \$220,000 (amounts in thousands); the MCARE Fund repaid the **Motor License Fund** during July 2004.

Advances – Statement of Net Assets

At June 30, 2004, governmental activities reports an other noncurrent asset of \$220,000 related to a loan to the MCARE Fund, an Agency Fund, and reports an other financing obligation of \$100,000 related to a loan from the Underground Storage Tank Indemnification Fund, an Agency Fund (amounts in thousands).

Transfers

A summary of transfers reported for the fiscal year ended June 30, 2004 is as follows, with Major Fund titles in bold. Aggregate nonmajor governmental fund transfers from other funds amount to \$1,203,420 during June 30, 2004 and include a \$370,000 transfer from the **State Lottery Fund** to the Pharmaceutical Assistance Fund. Aggregate nonmajor governmental transfers to other funds amount to \$42,762. Aggregate nonmajor proprietary transfers from other funds and transfers to other funds, respectively, amount to \$200 and \$52,986 (amounts in thousands):

<u>PRIMARY GOVERNMENT</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 133,670	\$ 775,732
<u>Special Revenue:</u>		
Tobacco Settlement Fund	-	34,531
Motor License Fund	-	61,279
Hazardous Sites Clean-up Fund.....	-	-
State Racing Fund.....	-	6,960
Vocational Rehabilitation Fund.....	38,083	-
Pharmaceutical Assistance Fund.....	399,557	-
Water Facilities Loan Fund.....	-	-
Environmental Stewardship Fund.....	15,000	15,851
Other Funds.....	<u>22,417</u>	<u>19,751</u>
	<u>475,057</u>	<u>138,372</u>

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)

TRANSFERS (continued from previous page)

	<u>Transfers In</u>	<u>Transfers Out</u>
<u>Debt Service:</u>		
Land and Water Development Sinking Fund	400	-
Water Facilities Loan Redemption Fund.....	6,287	-
Capital Debt Fund	688,331	-
Local Criminal Justice Sinking Fund	7,431	-
Agricultural Conservation Easement Sinking Fund ..	4,446	-
Keystone Recreation, Park and Conservation Fund ..	3,156	-
Disaster Relief Redemption Fund	2,735	-
Pennsylvania Economic Revitalization Sinking Fund	1,652	-
Volunteer Company Loan Sinking Fund.....	1,388	-
Pennsylvania Infrastructure Investment Authority Redemption Fund	12,046	-
Other Funds.....	491	-
	<u>728,363</u>	<u>-</u>
<u>Capital Projects:</u>		
Capital Facilities Fund	-	-
Keystone Recreation, Park and Conservation Fund ..	-	200
	<u>-</u>	<u>200</u>
<u>Enterprise:</u>		
State Lottery Fund	-	370,000
State Stores Fund.....	-	51,986
Minority Business Development Authority Fund	200	-
Other Funds.....	-	1,000
	<u>200</u>	<u>422,986</u>
 Total primary government	 <u>\$1,337,290</u>	 <u>\$1,337,290</u>

Total primary government governmental funds transfers between governmental funds of \$914,504 have been eliminated in the Statement of Activities; total business-type activities transfers of \$422,786 to governmental activities are reported.

Assigned Investment Income: Certain funds, as follows, receive but do not financially report investment income that is assigned to (and reported by) another fund for legal or contractual reasons. Investment income and related interfund transfers are reported by those funds which assign/receive investment income for other than legal/contractual reasons (in thousands).

<u>Assigning Fund</u>	<u>Receiving Fund</u>	<u>Reason</u>	<u>Amount</u>
Liquor License	General	Legal/contractual	\$ 28
Liquid Fuels Tax	Motor License	Legal/contractual	126
Land and Water Development	Land and Water Development Sinking	Legal/contractual	21
Remining Financial Assurance	Land and Water Development Sinking	Other than legal/contractual	112
PA Economic Revitalization	PA Economic Revitalization Sinking	Other than legal/contractual	3
Fire Insurance Tax	State Insurance	Legal/contractual	489

NOTE I - RETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS**Pension Systems**

Commonwealth laws established contributory defined benefit pension plans covering substantially all Commonwealth and public school employees. Generally, Commonwealth employees are members of the State Employees' Retirement System (SERS) and public school employees are members of the Public School Employees' Retirement System (PSERS). Both the SERS and the PSERS are reported as Pension Trust Funds, Fiduciary funds. Both the SERS and the PSERS issue stand-alone financial statements which are available to the public. Written requests for financial statements should be directed to the following addresses:

State Employees' Retirement System
30 North Third Street, Executive Office
P.O. Box 1147
Harrisburg, PA 17108

Public School Employees' Retirement System
Bureau of Communications
P.O. Box 125
Harrisburg, PA 17108

State Employees' Retirement System

Plan Description: The SERS is the administrator of a cost-sharing multiple-employer defined benefit retirement system established to provide pension benefits for employees of state government and certain other organizations. At December 31, 2003 there were 106 employer state agencies and other organizations participating in the SERS. The SERS provides retirement, death, and disability benefits. Retirement benefits vest after 5 years of credited service. Employees who retire at age 60 with three years of service, or with 35 years of service if under age 60, are entitled to a normal (unreduced) annual retirement benefit. Members of the General Assembly and certain employees classified in hazardous duty positions can retire with full benefits at age 50 with at least three years of service.

Article II of the Pennsylvania Constitution provides the General Assembly the authority to establish or amend benefit provisions. Act 2001-9, signed into law on May 17, 2001 established Class AA membership whereby, generally, annual full retirement benefits for electing active members is 2.5 percent of the member's highest three-year average salary (final average salary) multiplied by years of service. State employees hired after June 30, 2001 are Class AA members. Members hired before May 17, 2001 had the option, but were not required, to elect Class AA membership. Substantially all eligible members chose the Class AA option. For legislators in office on May 17, 2001 Act 2001-9 established Class D-4 membership whereby the general annual benefit is 3 percent of final average salary for each year of service.

The general annual benefit for full retirement for Class A members is 2 percent of the member's final average salary multiplied by years of service. State police troopers are entitled to an annual benefit equal to a percentage of their highest annual salary (excluding their year of retirement). The annual benefit is 75 percent of salary for 25 or more years of service and 50 percent of salary for 20-24 years of service. Judges are entitled to a benefit of 4 percent of final average salary for each of the first 10 years of service and 3 percent for subsequent years. District Justices are entitled to a benefit of 3 percent of final average salary for each year of service.

Funding Policy: The SERS Board has the authority to establish or amend periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll. Commonwealth law determines all member contribution rates. The active plan member contribution rate is 5 percent of covered payroll for most employees in Class A; for Class AA members, the contribution rate is 6.25 percent. Higher contributions are required for certain members of the General Assembly and judges and district justices who elect higher contribution rates.

Act 9 of 2001 provided that new benefits arising from Act 9 were to be funded over a ten-year period, with level dollar funding, beginning July 1, 2002. Act 9 also provided that all the existing actuarial assets and liabilities would be combined and refinanced over a ten-year period using level dollar funding and future actuarial gains and losses were to be amortized using ten-year level dollar funding.

On December 10, 2003, Governor Rendell signed Act 2003-40 ("Act 40") into law. The significant provisions of the law were to change certain actuarial methods used to amortize the unfunded liabilities. The selection of actuarial methods has a significant impact in developing employer contribution rates. Immediately, Act 40 is expected to reduce employer contributions over a 10-year period by approximately \$5 billion. Under Act 40, employer contribution rates are expected to climb from 2.0 percent of payroll at July 1, 2004 to approximately 8.8 percent at July 1, 2008; this compares to the contribution rates rising from 3.5 percent to 20.3 percent over the respective period under the previous 10-year amortization period.

NOTE I - RETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS (continued)

During each of the three years ended December 31, the annual required employer contributions (amounts in thousands) and the related percentage of that amount actually contributed are as follows (amounts in thousands):

<u>Year ended December 31</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2003	\$ 55,079	123.4
2002	\$ 22,906	221.9
2001	\$ 52,104	147.2

At December 31, 2003, the SERS disclosed no long-term contracts for contributions to the plan.

Summary of Significant Accounting Policies: The SERS financial statements are prepared on the accrual basis of accounting, whereby expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of the related trade date. Member and employer contributions are recognized in the period in which employee salaries are reported. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investment Valuation: The investment in the Commonwealth Treasury short-term investment pool is reported at cost plus allocated interest, which approximates fair value. Collateral received under the Commonwealth Treasury securities lending program is reported at cost plus accrued interest. United States government obligations, corporate and foreign bonds and notes, and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Securities that are not traded on a national security exchange are valued by the asset manager or third parties based on similar sales. The System has entered into certain swap contracts with a notional amount equivalent to the System’s original investment in the absolute return fund-of-funds limited partnerships to provide S&P 500 returns. The combination of the swaps and the underlying investments result in a return consistent with an actively managed equity portfolio. Accordingly, those investments have been classified as common stocks on the statement of net assets. Real estate is primarily valued based on appraisals performed by independent appraisers or, for properties not appraised, at the present value of the projected future net income stream. Alternative investments, which include interests in limited partnerships invested in venture capital, leveraged buyouts, private equities, and other investments are valued based on amounts established by valuation committees, which are subject to an annual independent audit. The values for real estate and alternative investments are reported on a one-quarter lag (September 30), adjusted for cash flows through December 31. Foreign exchange and futures contracts are marked-to-market daily with changes in fair value recognized as part of investments and investment income. The net values of swaps are determined no less than monthly based on the return of the underlying indices, which is generally exchanged for a short-term rate plus a spread.

The Collective Trust Funds (CTF) consists primarily of domestic and international institutional mutual and index funds. The funds do not pay interest or dividends to shareholders, and reinvest all income earned on securities held by the fund. The fair value of CTF is based on the reported share value of the respective fund.

Investment Concentration: At December 31, 2003, approximately \$371 million, or 16.6 percent, of the total SERS real estate portfolio was located in the Commonwealth of Pennsylvania. Also, investments in corporate and foreign bonds and notes include approximately \$1,068 million of high-yield bonds at December 31, 2003.

Public School Employees’ Retirement System

Plan Description: The PSERS is a cost-sharing multiple-employer defined benefit retirement system established to provide pension and other benefits for public school employee members. At June 30, 2004 there were 733 participating employers, generally school districts. The PSERS provides retirement, death, disability and health care benefits. In most cases, retirement benefits vest after 5 years of credited service. Members are eligible for full monthly retirement benefits upon reaching (a) age 62 with at least one year of service, (b) age 60 with 30 or more years of service, or (c) 35 or more years of service regardless of age.

Act 9 of 2001 provided for members to elect Membership Class T-D and convert from Membership Class T-C effective July 1, 2001. Benefits for full retirement are generally equal to 2 percent (Membership Class T-C) or 2.5 percent (Membership Class T-D) of the member’s final average salary multiplied by years of credited service. The Commonwealth has the authority to establish or amend benefit provisions.

NOTE I - RETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Funding Policy: The Public School Employees’ Retirement Code provides that the PSERS Board has the authority to establish or amend periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll. The active plan member contribution rates for employees in Membership Class T-C and T-D hired before July 22, 1983 are 5.25 and 6.50 percent of covered payroll, respectively; for employees in Membership Class T-C and T-D hired after July 21, 1983, the rate are 6.25 and 7.50 percent, respectively. The increased member contribution rates for Class T-D became effective January 1, 2002. Commonwealth law determines member contribution rates.

Since 1995, employers defined as school entities (school districts, area vocational-technical schools, and intermediate units) are required to pay the entire employer contribution. The Commonwealth partially reimburses school entities in accordance with Act 29 of 1994. The amount of reimbursement is at least one half of the total employer contribution. For employers that are not school entities, the employer and the Commonwealth pay the employer contribution equally to the PSERS; no Commonwealth reimbursement occurs.

Act 40 of 2003 amended the actuarial cost method in three areas that affect employer contribution rates. Act 40 changed the amortization period from 10 years to 30 years for: unfunded liabilities accrued as a result of Act 9 of 2001; outstanding balances of net actuarial losses the fiscal years ended June 30, 2001 and 2002; and net gains and losses in future years. Act 40 continued a 10-year amortization period for unfunded liabilities accrued prior to Act 9 of 2001; any future active member improvements; and any retiree cost-of-living adjustments. Finally, Act 40 established an employer contribution rate ‘floor’ of 4 percent, exclusive of the premium assistance contribution rate, beginning July 1, 2004.

During each of the three fiscal years ended June 30, the annual required employer contributions (in thousands) and the related percentage of that amount actually contributed are as follows:

<u>Fiscal year</u> <u>Ended June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2004	\$ 321,091	100
2003	\$ 20,831	100
2002	\$ 539	100

At June 30, 2004, the PSERS disclosed that \$115,900 of \$214,599 (in thousands) of member receivables for purchases of service credit is due subsequent to June 30, 2005.

Summary of Significant Accounting Policies: The PSERS financial statements are prepared on the accrual basis of accounting, whereby expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of the related trade date. Member and employer contributions are recognized in the period in which employees’ salaries are reported. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investment Valuation: Investments are reported at fair value, which is the amount that the PSERS can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Short-term securities are reported at cost, which approximates fair value, unless they have a published market price or quotation from national security exchanges and securities pricing services, in which case they are reported at the published market price. Fixed income securities and common and preferred stocks are generally reported based on published market prices and quotations from national security exchanges and securities pricing services. Securities that are not traded on a national security exchange are valued by the respective fund manager or other third parties based on similar sales. Real estate is primarily valued based on appraisals performed by independent appraisers or, for properties not appraised, at cost or the present value of projected future net income. Private equity, private debt, venture capital and equity real estate are primarily valued based on amounts established by valuation committees. Futures contracts, foreign exchange contracts, and options are marked-to-market daily; changes in market value are recognized as part of net appreciation/depreciation in the fair value of investments. Initial margin requirements for such financial instruments are provided by investment securities pledged as collateral or by cash.

Collective trust fund investments (CTF) consist primarily of domestic and international institutional funds. The funds do not pay interest or dividends to shareholders and reinvest all income earned on securities held by the fund. The fair value of CTF is based on the reported share value of the respective fund. CTF are managed by state chartered banks for which various state banking departments have regulatory oversight and investment advisors for which the Securities and Exchange Commission has regulatory oversight.

NOTE I - RETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Investment Concentration: At June 30, 2004, there were no investments in any one organization that represented 5 percent or more of plan net assets.

Other Postemployment Benefits

The Commonwealth funds certain health care benefits for retired primary government and certain component unit employees (that meet specified length-of-service and age requirements) and their eligible dependents. These benefits are provided as a result of negotiated union contracts and through administrative policy. The Commonwealth recognizes the cost of providing these benefits as paid, which totaled \$345 million for the fiscal year ended June 30, 2004. Approximately 98,000 individuals were covered by these benefits during the fiscal year.

The Commonwealth provides several other postemployment benefits, including disability life insurance and certain benefits to beneficiaries of state police officers killed in the line of duty. The amount expended for these benefits was not material during the fiscal year ended June 30, 2004.

NOTE J - NOTES AND DEMAND REVENUE BONDS PAYABLE

Primary Government

During the fiscal year ended June 30, 2004, the Commonwealth did not issue any tax or bond anticipation notes or any other short-term debt and no short-term debt was repaid. At June 30, 2004 and 2003, no short-term debt was outstanding. A noncurrent other financing obligation is reported as a governmental activities liability for \$100,000 (in thousands) which is owed to the Underground Storage Tank Indemnification Fund, an Agency Fund, at June 30, 2004.

Discretely Presented Component Units

The Pennsylvania Higher Education Assistance Agency (PHEAA), a discretely presented component unit, has reported \$4,240,778 of demand revenue bonds outstanding and \$914,849 of notes payable, consisting of student loan financing of \$728,619, capital financing of \$74,000, term financings of \$81,119 and lines of credit of \$32,000, net of unamortized discount of \$889 at June 30, 2004 as follows (amounts in thousands):

	<u>Balance</u> <u>June 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Add:</u> <u>Remarketing</u>	<u>Balance</u> <u>June 30, 2004</u>
Student loan demand revenue bonds due 2017-2044, at weighted average interest rates of 1.31 and 1.14 percent at June 30, 2004 and 2003, respectively	\$3,471,000	\$ 470,000	\$ 25	\$ 312,925	\$4,253,900
Deferred amount on current refundings of student loan demand revenue bonds.....	-	(2,526)	(799)	(11,395)	(13,122)
Total.....	<u>\$3,471,000</u>	<u>\$ 467,474</u>	<u>\$ (774)</u>	<u>\$ 301,530</u>	<u>\$4,240,778</u>
Notes payable:					
Student loan financing, due 2005-2008, at weighted average interest rates of 1.60 and 1.65 percent at June 30, 2004 and 2003, respectively.....	\$ 550,619	\$ 453,000	\$ 275,000	\$ -	\$ 728,619
Capital and other financing obligations:					
Capital financings, due 2005-2011 at weighted average interest rates of 6.09 and 6.23 percent at June 30, 2004 and 2003, respectively.....	76,592	1,116	3,708	-	74,000
Term financings, due 2005-2031, at weighted average interest rates of 5.17 and 5.22 percent at June 30, 2004 and 2003, respectively.....	87,022	-	5,903	-	81,119
Lines of credit, due on demand at weighted average interest rates of 3.01 and 3.47 percent at June 30, 2004 and 2003, respectively.....	<u>46,000</u>	<u>10,000</u>	<u>24,000</u>	<u>-</u>	<u>32,000</u>
Subtotal	\$ 760,233	\$ 464,116	\$ 308,611	\$ -	\$ 915,738
Less: unamortized discount	<u>(956)</u>	<u>-</u>	<u>(67)</u>	<u>-</u>	<u>(889)</u>
Total notes payable.....	<u>\$ 759,277</u>	<u>\$ 464,116</u>	<u>\$ 308,544</u>	<u>\$ -</u>	<u>\$ 914,849</u>

NOTE J - NOTES AND DEMAND REVENUE BONDS PAYABLE (continued)

The note and bond indentures, among other things, require the PHEAA to comply with various covenants including minimum parity levels as defined, student loan and investment yields, and program expenses. The demand bonds payable are subject to purchase, at par plus accrued interest, by the PHEAA on demand of the bondholders upon seven days prior irrevocable written notice. Under the irrevocable letters of credit, the trustee is entitled to draw an amount sufficient to pay the purchase price of the bonds delivered to it. The letters of credit are valid from 2004 through 2010. The PHEAA is required to pay annual commitment fees ranging from 18 to 33 basis points on the stated amount of the letter of credit coverage. At June 30, 2004 total letter of credit coverage was \$1.5 billion.

All student loan financing notes payable, student loan demand revenue bonds payable and student loan revenue bonds payable are collateralized by student loans and investments. At June 30, 2004, \$5.0 billion of debt is collateralized by \$4.9 billion of student loan principal and related interest receivable, and \$303.8 million of investments and related interest receivable. Capital financings are collateralized with capital assets. Amounts due under other lines of credit are generally unsecured. At June 30, 2004 the PHEAA had \$139 million of available credit under student loan financing arrangements and \$23 million available under other lines of credit.

Debt service requirements subsequent to June 30, 2004, based upon stated maturities of notes payable, bonds payable and other financings and obligations are as follows (amounts in thousands):

<u>Year of Maturity</u>	<u>Student Loan Bonds and Notes</u>		<u>Capital and Other Financings</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005.....	\$ 141,709	\$ 65,496	\$ 47,934	\$ 8,030
2006.....	-	55,819	3,570	7,571
2007.....	586,910	55,819	3,235	7,289
2008.....	-	55,819	3,385	7,116
2009.....	-	55,819	3,330	6,956
2010-14.....	-	279,094	74,735	20,269
2015-19.....	538,900	270,503	9,380	12,566
2020-24.....	445,000	245,433	16,160	9,202
2025-29.....	600,000	215,335	20,625	4,834
2030-34.....	150,000	185,386	4,765	451
2035-39.....	470,000	173,568	-	-
2040-44.....	2,050,000	79,947	-	-
Total.....	<u>\$ 4,982,519</u>	<u>\$1,738,038</u>	<u>\$ 187,119</u>	<u>\$ 84,284</u>

Reported as:

Demand revenue bonds payable.....	\$ 4,240,778	-
Notes payable - current.....	141,709	-
Notes payable - noncurrent.....	586,910	-
Deferred amount on current refundings.....	13,122	-
Other financing obligations.....	-	\$ 186,230
Unamortized discount.....	-	889
Total.....	<u>\$ 4,982,519</u>	<u>\$ 187,119</u>

The PHEAA has \$5.0 billion of student loan bonds and notes that are variable-rate debt, of which \$1.4 billion resets based upon auctions every seven days, \$2.2 billion resets based upon auctions every 28 days, \$620 million resets based upon auctions every 35 days, \$586.9 million is indexed to 91-day Treasury bills, and the remaining \$141.7 million is indexed to the 3-month LIBOR.

Notes and bonds payable, as well as all other debt, are limited obligations of the PHEAA. The PHEAA has no taxing power, and the Commonwealth is not obligated to pay the principal, redemption price, if any, or interest on any of the PHEAA's debt.

Additionally, the Philadelphia Regional Port Authority respectively reported current and non-current notes payable of \$216 and \$3,384 (in thousands) at June 30, 2004; the State System of Higher Education and the Port of Pittsburgh Commission, respectively, reported other financing obligations of \$52,058 and \$2,000 (in thousands) at June 30, 2004.

**NOTE K – GENERAL LONG-TERM OBLIGATIONS-
GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS**

Long-term obligations of the Commonwealth’s governmental activities at June 30, 2004 and changes for the fiscal year ended June 30, 2004 are as follows (amounts in thousands):

GENERAL LONG-TERM OBLIGATIONS	Issue Dates	Interest Rates	Maturity Dates Through	Bonds Authorized But Unissued	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004
General Obligation Bonds Payable From								
Tax Revenues:								
Capital Facilities	1992-04	3.12-6.60%	2024	\$ 44,995,497	\$ 4,611,525	\$ 622,500	\$ 437,080	\$ 4,796,945
Disaster Relief	2000-01	4.60- 5.56%	2021	105,908	21,625	-	9,605	12,020
Land and Water Development.....	1992	6.02%	2012	300	2,260	-	505	1,755
Nursing Home Loan Development.....	-	-	-	31,000	-	-	-	-
Volunteer Companies Loan.....	1992-98	4.84-6.02%	2018	50,000	9,010	-	2,350	6,660
Vietnam Conflict Veterans								
Compensation	-	-	-	3,000	480	-	480	-
Water Facilities Loan	1992-97	5.00- 6.02%	2017	11,500	30,725	-	10,710	20,015
Pennsylvania Economic Revitalization	1992-95	5.12- 6.02%	2015	14,000	6,065	-	1,855	4,210
Pennsylvania Infrastructure								
Investment Authority.....	1992-01	4.62- 6.02%	2021	267,000	81,255	-	27,215	54,040
Agricultural Conservation Easement								
Purchase	1992-98	4.47- 6.60%	2018	-	23,405	-	3,740	19,665
Local Criminal Justice.....	1994-04	3.86-6.60%	2024	5,500	24,725	2,500	10,745	16,480
Keystone Recreation, Park and								
Conservation.....	1994-98	4.84- 6.60%	2018	-	20,630	-	6,540	14,090
Refunding Bonds	1992-04	2.64-5.73%	2017	-	1,969,136	460,838	422,410	2,007,564
Total principal				45,483,705	6,800,841	1,085,838	933,235	6,953,444
Unamortized premium on bonds issued.				-	254,261	88,007	14,442	327,826
Unamortized deferred net refunded loss				-	(24,483)	(34,786)	(3,165)	(56,104)
Total general obligation bonds payable				45,483,705	7,030,619	1,139,059	944,512	7,225,166
Other General Long-Term Obligations								
Payable From Tax and Other Revenues:								
Installment Purchase Obligations.....	-	-	-	-	10,449	653	3,949	7,153
Capital Lease Obligations.....	-	-	-	-	51,682	882	5,766	46,798
Self-Insurance—Note M *	-	-	-	-	760,490	152,371	97,353	815,508
Compensated Absences *	-	-	-	-	740,255	382,013	429,383	692,885
Catastrophic Motor Vehicle Losses	-	-	-	-	123,215	-	10,066	113,149
Other	-	-	-	-	445,352	386,220	132,401	699,171
Subtotal.....				-	2,131,443	922,139	678,918	2,374,664
TOTAL GENERAL LONG-TERM OBLIGATIONS				\$ 45,483,705	\$ 9,162,062	\$ 2,061,198	\$ 1,623,430	\$ 9,599,830

* The estimated current portion of self-insurance and compensated absence liabilities, respectively, is \$93,144 and \$113,781.

Revenue bond obligations of discretely presented component units at June 30, 2004 (May 31, 2004 for the Pennsylvania Turnpike Commission) and changes for the fiscal year then ended are as follows (amounts in thousands):

REVENUE BONDS PAYABLE	Issue Dates	Interest Rates	Maturity Dates Through	Bonds Authorized But Unissued	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004
Pennsylvania Higher Education								
Assistance Agency.....	-	-	-	-	\$ 387,925	\$ -	\$ 387,925	\$ -
Philadelphia Regional Port Authority	2003	Variable	2021	-	50,605	53,900	53,805	50,700
Pennsylvania Housing Finance Agency.	1982-04	1.15-10.88%	2034	-	3,075,311	883,665	988,332	2,970,644
Pennsylvania Industrial Development								
Authority.....	1994-04	4.00-7.00%	2021	-	531,810	99,150	131,030	499,930
Pennsylvania Turnpike Commission.....	1998-03	2.50-5.60%	2041	-	2,130,550	482,685	386,360	2,226,875
Pennsylvania Infrastructure Investment								
Authority.....	1990-03	4.10-6.00%	2014	-	132,630	21,590	41,825	112,395
					6,308,831	1,540,990	1,989,277	5,860,544
Less: Bond discounts/(premiums)	-	-	-	-	(372)	6,176	18,201	(12,397)
Deferred costs of refunding.....	-	-	-	-	31,581	13,140	14,254	30,467
Deferred refunding loss.....	-	-	-	-	1,568	1,952	540	2,980
TOTAL REVENUE BONDS PAYABLE					\$ 6,276,054	\$ 1,519,722	\$ 1,956,282	\$ 5,839,494

**NOTE K – GENERAL LONG-TERM OBLIGATIONS –
GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS (continued)**

Additionally, component unit organizations of the State System of Higher Education reported \$228,870 of revenue bonds payable at June 30, 2004.

Primary Government

The Commonwealth has pledged its full faith and credit for the payment of principal and interest on its general obligation bonds. Typically only the **General Fund** and the **Motor License Fund** transfer amounts to Debt Service funds for general obligation bond principal and interest payments. During the fiscal year ended June 30, 2004, respectively, these two Funds transferred \$629,338 and \$58,993 to the Capital Debt fund, which reported \$724,127 (over 94 percent) of total Debt Service funds principal and interest expenditures of \$767,576 (amounts in thousands). Except for Catastrophic Motor Vehicle Losses, which are funded by motorist violation fines, general long-term obligations other than general obligation bonds are funded by specific Funds where capital assets are procured using long-term vendor or other financing, where employees earn compensated absences or where self-insurance claims originate.

The total “Additions” of \$1,139,059 for General Obligations Bonds Payable from Tax Revenues at June 30, 2004 consists of total bond and refunding bond proceeds of \$660,592 and \$511,884, respectively, for Governmental Funds (as reported in the Statement of Revenues, Expenditures and Changes in Fund Balances), plus net principal accretion on maturing debt for capital appreciation bonds of \$1,369 less deferred net refunded loss of \$34,786 during the fiscal year ended June 30, 2004. Total Governmental Fund bond/refunding bond proceeds of \$1,172,476 equal “Additions” of \$1,085,838 plus premium on bonds issued of \$88,007, less net principal accretion on maturing debt for capital appreciation bonds of \$1,369. During the fiscal year ended June 30, 2004 \$14,442 of bond premium was amortized and credited to bond interest expense in the Statement of Activities; unamortized premium in the Statement of Net Assets at June 30, 2004 is \$327,826. Also, during the fiscal year ended June 30, 2004 \$3,165 of deferred net refunded loss was amortized and charged to bond interest expense in the Statement of Activities; unamortized deferred net refunded loss in the Statement of Net Assets at June 30, 2004 is \$56,104 (amounts in thousands).

The Commonwealth uses fiscal agents to process payments for the servicing of certain bond issues. Additional cash with fiscal agents is held by the Federal government for unemployment compensation claims.

The balance outstanding at June 30, 2004 for general obligation refunding bonds includes \$29.6 million of accreted value for capital appreciation bonds. No principal or interest is payable on the capital appreciation bonds until maturity.

Included in “Other” for Other General Long-Term Obligations payable from workers’ compensation assessments and **General Fund** tax revenues are the following at June 30, 2004 (amounts in thousands):

Workers’ Compensation Security Trust Claims.....	\$ 509,426
Public Utility Realty Tax Act (PURTA).....	22,177
Litigation—Note N.....	167,483
Arbitrage Rebate Tax.....	85
	<u>\$ 699,171</u>

The Workers’ Compensation Security Trust Fund provides for payment of valid claims under the Workers’ Compensation Law to individuals whose employers are insured by insolvent insurance carriers. The PURTA provides for a tax on utility realty property whereby amounts received during the fiscal year are used as a General Fund revenue source. The Act also provides for payment of a majority of the PURTA revenues as a distribution to local taxing authorities during the following fiscal year (normally in October). Such payments are appropriated for expenditure in the following fiscal year and are, therefore, not expendable during the fiscal year the related revenue is received. The other amounts included in General Long-Term Obligations at June 30, 2004 relating to Workmen’s Compensation Claims, Litigation and Arbitrage Rebate Tax are not payable with currently expendable available financial resources.

**NOTE K – GENERAL LONG-TERM OBLIGATIONS –
GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS (continued)**

The Commonwealth’s constitutional debt limit, which allows for the incurrence of debt to be used for capital projects without electorate approval as specifically itemized in a capital budget, was \$43.9 billion as of August 31, 2004, with net debt outstanding of \$6.2 billion.

Discretely Presented Component Units

The Pennsylvania Housing Finance Agency (PHFA), the Pennsylvania Higher Education Assistance Agency (PHEAA), the Pennsylvania Industrial Development Authority, the Pennsylvania Turnpike Commission (PTC) and the Pennsylvania Infrastructure Investment Authority, discretely presented component units, have pledged substantially all of their revenues for the redemption of revenue bonds outstanding. Revenue bonds outstanding as reported in this note disclosure for the fiscal year ended June 30, 2004 (May 31, 2004 for the PTC) include bond premiums, deferred costs of refunding, and deferred refunding losses of \$12.4 million, \$30.5 million, and \$3 million, respectively.

The following table presents annual principal and interest payments for long-term debt outstanding for the primary government and discretely presented component units at June 30, 2004 (May 31, 2004 for the Pennsylvania Turnpike Commission) (amounts in thousands):

PRIMARY GOVERNMENT

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010-14</u>	<u>2015-19</u>
GENERAL OBLIGATION BONDS:							
Capital Facilities	\$ 523,573	\$ 517,432	\$ 497,347	\$ 479,033	\$ 454,985	\$ 2,109,281	\$ 1,605,164
Disaster Relief	2,170	2,091	2,009	1,927	1,844	4,095	948
Land and Water Development.....	257	253	253	253	251	1,016	-
Nursing Home Loan Development.....	-	-	-	-	-	-	-
Volunteer Companies Loan.....	857	840	827	809	590	2,899	2,312
Vietnam Conflict Veterans Compensation	-	-	-	-	-	-	-
Water Facilities Loan	3,424	3,295	3,263	2,800	2,003	8,955	2,185
Pennsylvania Economic Revitalization..	642	639	629	627	522	2,194	210
Pennsylvania Infrastructure Investment Authority	8,785	8,458	8,278	6,740	4,562	21,694	12,094
Agricultural Conservation Easement Purchase	2,684	2,642	2,199	2,156	2,111	9,178	5,343
Local Criminal Justice.....	4,160	3,739	1,403	1,071	1,044	4,811	3,879
Keystone Recreation, Park and Conservation	3,003	2,819	2,336	1,078	1,044	4,694	3,125
Refunding Bonds	<u>283,848</u>	<u>292,924</u>	<u>283,593</u>	<u>275,669</u>	<u>275,803</u>	<u>1,025,220</u>	<u>115,093</u>
Total Principal and Interest	833,403	835,132	802,137	772,163	744,759	3,194,037	1,750,353
Less: Interest Payments	<u>342,140</u>	<u>321,968</u>	<u>295,614</u>	<u>270,324</u>	<u>245,192</u>	<u>838,975</u>	<u>349,673</u>
Other General Long-Term Obligations..	491,263	513,164	506,523	501,839	499,567	2,355,062	1,400,680
	<u>161,336</u>	<u>137,357</u>	<u>136,863</u>	<u>135,310</u>	<u>184,946</u>	<u>611,507</u>	<u>596,122</u>
TOTAL GENERAL LONG-TERM OBLIGATIONS	<u>\$ 652,599</u>	<u>\$ 650,521</u>	<u>\$ 643,386</u>	<u>\$ 637,149</u>	<u>\$ 684,513</u>	<u>\$ 2,966,569</u>	<u>\$ 1,996,802</u>

The portion of Total General Long-Term Obligations due by June 30, 2005 amounts to \$652,599 (in thousands).

	<u>2020-24</u>	<u>2025-29</u>	<u>2030-34</u>	<u>2035-39</u>	<u>2040-44</u>	<u>Total</u>
GENERAL OBLIGATION BONDS:						
Capital Facilities	\$ 760,535	\$ -	\$ -	\$ -	\$ -	\$ 6,947,350
Disaster Relief	224	-	-	-	-	15,308
Land and Water Development.....	-	-	-	-	-	2,283
Nursing Home Loan Development.....	-	-	-	-	-	-
Volunteer Companies Loan.....	-	-	-	-	-	9,134
Vietnam Conflict Veterans Compensation	-	-	-	-	-	-
Water Facilities Loan	-	-	-	-	-	25,925
Pennsylvania Economic Revitalization..	-	-	-	-	-	5,463
Pennsylvania Infrastructure Investment Authority	747	-	-	-	-	71,358
Agricultural Conservation Easement						

**NOTE K – GENERAL LONG-TERM OBLIGATIONS –
GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS (continued)**

	<u>2020-24</u>	<u>2025-29</u>	<u>2030-34</u>	<u>2035-39</u>	<u>2040-44</u>	<u>Total</u>
Purchase	-	-	-	-	-	26,313
Local Criminal Justice	1,374	-	-	-	-	21,481
Keystone Recreation, Park and Conservation	-	-	-	-	-	18,099
Refunding Bonds	-	-	-	-	-	<u>2,552,150</u>
Total Principal and Interest	762,880	-	-	-	-	9,694,864
Less: Interest Payments	<u>77,534</u>	-	-	-	-	<u>2,741,420</u>
	685,346	-	-	-	-	6,953,444
Other General Long-Term Obligations ..	<u>411,223</u>	-	-	-	-	<u>2,374,664</u>
TOTAL GENERAL LONG- TERM OBLIGATIONS	<u>\$ 1,096,569</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,328,108</u>

DISCRETELY PRESENTED COMPONENT UNITS

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010-14</u>	<u>2015-19</u>
Philadelphia Regional Port Authority	\$ 4,979	\$ 4,850	\$ 4,330	\$ 4,428	\$ 4,406	\$ 22,186	\$ 21,970
Pennsylvania Housing Finance Agency. Pennsylvania Industrial Development Authority	290,002	285,780	283,056	262,224	205,362	982,345	872,934
Pennsylvania Turnpike Commission.....	42,930	45,943	48,940	52,705	66,258	241,675	158,231
Pennsylvania Infrastructure Investment Authority	123,421	126,079	126,677	127,324	127,998	648,530	634,119
	<u>18,433</u>	<u>19,498</u>	<u>18,452</u>	<u>17,063</u>	<u>16,112</u>	<u>39,747</u>	<u>8,381</u>
Total Principal and Interest	479,765	482,150	481,455	463,744	420,136	1,934,483	1,695,635
Less: Interest Payments.....	<u>232,074</u>	<u>227,321</u>	<u>219,342</u>	<u>211,241</u>	<u>202,521</u>	<u>864,886</u>	<u>619,911</u>
TOTAL REVENUE BONDS.....	<u>\$ 247,691</u>	<u>\$ 254,829</u>	<u>\$ 262,113</u>	<u>\$ 252,503</u>	<u>\$ 217,615</u>	<u>\$ 1,069,597</u>	<u>\$ 1,075,724</u>

	<u>2020-24</u>	<u>2025-29</u>	<u>2030-34</u>	<u>2035-39</u>	<u>2040-44</u>	<u>Total</u>
Philadelphia Regional Port Authority	\$ 8,848	\$ -	\$ -	\$ -	\$ -	\$ 75,997
Pennsylvania Housing Finance Agency. Pennsylvania Industrial Development Authority	680,945	530,047	256,717	5,389	-	4,654,801
Pennsylvania Turnpike Commission.....	57,668	-	-	-	-	714,350
Pennsylvania Infrastructure Investment Authority	543,304	556,185	409,888	137,376	82,074	3,642,975
	-	-	-	-	-	<u>137,686</u>
Total Principal and Interest	1,290,765	1,086,232	666,605	142,765	82,074	9,225,809
Less: Interest Payments.....	<u>414,192</u>	<u>239,994</u>	<u>95,029</u>	<u>32,855</u>	<u>5,899</u>	<u>3,365,265</u>
TOTAL REVENUE BONDS	<u>\$ 876,573</u>	<u>\$ 846,238</u>	<u>\$ 571,576</u>	<u>\$ 109,910</u>	<u>\$ 76,175</u>	<u>\$ 5,860,544</u>

Additionally, component unit organizations of the State System of Higher Education reported \$228,870 of revenue bonds payable at June 30, 2004.

**NOTE K – GENERAL LONG-TERM OBLIGATIONS –
GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS (continued)**

The Commonwealth has entered into certain agreements to lease various facilities and equipment. Such agreements are in-substance purchases (capital leases) and are reported as Capital Lease Obligations. In addition, the Commonwealth also makes purchases using installment purchase arrangements. The following is a schedule by fiscal year of future minimum payments under capital leases and installment purchase obligations, together with the present value of the net minimum lease payments as of June 30, 2004 (amounts in thousands):

	<u>Primary Government</u>		<u>Discretely Presented</u>
	<u>Capital Lease Obligations</u>	<u>Installment Purchase Obligations</u>	<u>Component Unit</u> State System of Higher Education
Fiscal year ending June 30			
2005	\$ 8,526	\$ 3,181	\$ 43,750
2006	7,524	1,588	43,216
2007	6,667	988	43,059
2008	6,282	680	42,571
2009	6,178	595	58,181
2010-14	30,891	2,757	192,375
2015-19	12,356	-	187,540
2020-24	-	-	129,365
Total minimum lease payments	78,424	9,789	740,057
Less: amount representing estimated executory cost included in minimum lease payments	9,722	-	-
Net minimum lease payments and Installment purchases	68,702	9,789	740,057
Less: amount representing interest	21,904	2,636	227,142
Total Capital Lease and Installment Purchase Obligations	\$ 46,798	\$ 7,153	\$ 512,915

At June 30, 2004 general capital assets included \$95.8 million of buildings and \$12.1 million of equipment being procured by capital leases. A total of \$28.5 million in general capital assets is being procured by vendor-financed installment purchase arrangements.

Capital lease obligations outstanding as of June 30, 2004 reported by the State System of Higher Education (SSHE), a discretely presented component unit, relate to various capital projects currently under construction for which a related public financing authority is the lessor. Revenue bonds were issued by the public financing authority to provide funding for these capital projects. SSHE capital assets include \$68.5 million of construction in progress related to capital leases at June 30, 2004.

Conduit Debt

The State Public School Building Authority (SPSBA), a discretely presented component unit, finances construction and improvement projects for public schools through the issuance of tax-exempt instruments (bonds, notes or other obligations) for the purpose of making lower cost tax-exempt financing available to school districts and community colleges. The debt instruments issued by the SPSBA represent limited obligations payable solely from lease/loan payments made by the borrowing institutions and related assets held by trustees. At June 30, 2004 the SPSBA has \$1.4 billion of debt outstanding. Neither the SPSBA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are included in the accompanying financial statements.

The Pennsylvania Higher Educational Facilities Authority (PHEFA), a discretely presented component unit, finances projects through the issuance of tax-exempt instruments (bonds, notes and other obligations) to provide a source of tax-exempt financing for colleges and universities. The debt instruments issued by the PHEFA represent limited obligations payable solely from payments made by the related borrowing institutions and related assets held by the trustees. At June 30, 2004 the PHEFA has \$4.5 billion of debt outstanding. Neither the PHEFA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are included in the accompanying financial statements.

**NOTE K – GENERAL LONG-TERM OBLIGATIONS –
GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS (continued)**

The Pennsylvania Economic Development Financing Authority (PEDFA) finances projects on behalf of local industrial and commercial development authorities to promote economic growth within the Commonwealth. Revenue bonds issued by the PEDFA represent limited obligations payable solely from Authority financed project revenues. At June 30, 2004 the PEDFA has \$1.67 billion of debt outstanding. Neither PEDFA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are included in the accompanying financial statements.

The Pennsylvania Energy Development Authority (PEDA) finances projects related to energy conservation and research. Fees are assessed to recover related processing and application costs incurred. The bonds issued by the Authority represent limited obligations payable solely from payments made by the borrowing entities. The majority of the bonds are secured by the property financed. Upon repayment of a bond, ownership of acquired property transfers from the trustees to the entity served by the bond issuance. The PEDA has \$77.77 million in revenue bonds outstanding at June 30, 2004. The Commonwealth has no obligation for this debt. Accordingly, neither the financed assets nor the bonds are included in the accompanying financial statements.

NOTE L - REFUNDED DEBT**Primary Government**

During the fiscal year ended June 30, 2004 the Commonwealth issued \$459.5 million in general obligation bonds, First Series of 2004 with an average interest rate of 5.15 percent to current refund \$262.9 million and to advance refund \$214.4 million of previously issued general obligation bonds with an average interest rate of 5.44 percent. The net refunding bond proceeds of \$511.9 million (including bond premium of \$52.6 million), after payment of underwriting fees, insurance, and other issuance costs, were deposited in irrevocable trusts to provide for all future debt service payments on the refunded bonds. As a result, the bonds refunded are considered to be defeased and have been removed from the Commonwealth's financial statements. The Commonwealth refunded its previously issued bonds to reduce debt service payable on its general obligation bonds by \$36.5 million and to obtain an economic gain of \$32.3 million.

In prior years, the Commonwealth defeased certain general obligation bonds by placing the proceeds of refunding bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. At June 30, 2004, \$589.7 million of general obligation bonds outstanding that were previously accounted for in the Commonwealth's financial statements have been defeased through advance refundings.

Discretely Presented Component Units

During the fiscal year ended June 30, 2003, the Pennsylvania Higher Education Assistance Agency (PHEAA) issued \$225 million of student loan demand revenue bonds to refund \$225 million of outstanding student loan revenue bonds. On July 25, 2002, \$150 million of bonds were refunded, decreasing the effective interest rate from 6.22 percent to variable-rate bonds with a weighted-average interest rate of 1.28 percent for the year ended June 30, 2003. An additional \$75 million was refunded on July 1, 2003 decreasing the effective interest rate from 6.05 percent to variable-rate bonds with a weighted-average interest rate of 1.05 percent for the year ended June 30, 2004. For the year ended June 30, 2004, interest payments were reduced by \$3.7 million because of the refundings. The refundings resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2.5 million in 2004 and \$4 million in 2003. This difference, reported in the accompanying statement of net assets as a deduction from bonds payable is being charged to student loan financings and bonds payable interest expense ratably over the life of the student loan revenue bonds.

During the fiscal year ended June 30, 2004 the Pennsylvania Housing Finance Agency (PHFA) redeemed prior to maturity \$2 million of Multi-Family Housing Bonds and \$715 thousand of Residential Development Bonds, Issues 1985A and 1993, using mortgage prepayments. An extraordinary loss of \$35 thousand resulted from the redemptions as unamortized bond discounts and the related costs of issuance for the bonds were expensed. Additionally, during that year, the PHFA redeemed prior to maturity \$141.6 million of Residential Development Bonds issue 1993 using bond issuance proceeds. Although a deferred loss of \$4.5 million resulted from the refundings, the PHFA in effect obtained an economic gain of \$21.4 million and was able to reduce its aggregate debt service payments as a result of these transactions by a total of \$28.4 million over the next 30 years.

Also during the fiscal year ended June 30, 2004, the PHFA redeemed prior to maturity \$178.5 million of Single Family Mortgage Revenue Bonds, Series 1992-35, 1993-36, 1993-37, 1994-38, 1994-39, 1994-41, 1994-42, 1995-44, 1995-45, 1995-46, 1996-47, 1996-48, 1996-50, 1996-51, 1996-52, 1996-53, 1997-54, 1997-56, 1997-57, 1997-58, 1997-59, 1997-60, 1997-61, 1998-62, 1998-64, 1999-65, 1999-66, 1999-67, 1999-68, 2000-70, 2001-72, and 2002-73, using mortgage prepayments. Extraordinary losses of \$2 million resulted from the redemptions as unamortized bond discount and related costs of issuance for the bonds redeemed were expensed. Additionally, during this year, the PHFA redeemed prior to maturity \$584.5 million of Single Family Mortgage Revenue Bonds, Series 1992-35, 1993-36, 1993-37, 1994-38, 1994-39, 1994-40, 1994-41, 1994-42, 1994-43, 1994-44, 1994-45, 1995-46, 1996-48, 1996-49, 1996-50, 1996-51, 1996-52, 1996-53, 1997-54, 1997-56, 1997-57, and 2000-69 using bond issuance proceeds. Although a deferred loss of \$8.6 million resulted from the refundings, the PHFA in effect obtained an economic gain of \$324.5 million and was able to reduce its aggregate debt service payments as a result of these transactions by a total of \$381 million over the next 30 years.

During the fiscal year ended June 30, 2004, the Pennsylvania Infrastructure Investment Authority (PENNVEST) issued \$21.6 million in Revenue Refunding Bonds Series 2003A to current refund the outstanding Series 1991A and 1992A Revenue Bonds, to fund a debt service reserve fund for the Revenue Refunding Bonds Series 2003A, and to pay the costs of issuance. The refunding resulted in the recognition of an accounting loss of \$663 thousand for the fiscal year ended June 30, 2004. PENNVEST, in effect, reduced its aggregate debt service payments by \$2.3 million over the next 5 years and obtained an economic gain of \$1.96 million.

NOTE L - REFUNDED DEBT (continued)

At May 31, 2004, \$424.5 million of bonds outstanding that were previously accounted for in the financial statements of the Pennsylvania Turnpike Commission have been defeased through refundings.

During the fiscal year ended June 30, 2004, the Pennsylvania Industrial Development Authority (PIDA) defeased \$11.9 million of the Series 1996 Economic Development Revenue Bonds using unrestricted net assets. The PIDA issued \$99.1 million of Series 2004 Economic Development Revenue Bonds, which was used to redeem \$97.1 million of Series 1994 Economic Development Revenue Bonds. These actions resulted in an extraordinary loss of \$.7 million and a deferred loss on refunding of \$1.4 million.

A portion of the Series 1996 Bonds was deposited into an irrevocable trust with an escrow agent to provide for certain future principal and interest payments on the Series 1996 Bonds. As a result, that portion of the Series 1996 Bonds are considered to be defeased and the liability for those bonds has been removed from the PIDA's financial statements.

At June 30, 2004, \$11.9 million of bonds outstanding that were previously accounted for in the financial statements of the PIDA have been defeased through refundings.

During the fiscal year ended June 30, 2004, the Philadelphia Regional Port Authority (PRPA) issued \$53.9 million of Series 2003 Commonwealth Lease Revenue Bonds (Series 2003 Bonds) with a variable interest rate to current refund and defease the Series 1993 Bonds. The PRPA has entered into an interest rate swap agreement with Citigroup in connection with the Series 2003 Bonds and pays a fixed rate of interest of 5.19 percent on the notional amount of the Series 2003 Bonds then outstanding. The current refunding reduced total debt service payments over the next eighteen (18) years by \$1.9 million, and resulted in an economic gain of \$1.4 million.

At June 30, 2004, \$67.2 million of bonds outstanding that were previously accounted for in the financial statements of the State System of Higher Education have been defeased through refundings.

NOTE M - SELF-INSURANCE

The Commonwealth is self-insured for statutory workers' compensation, which includes indemnity and medical benefits (employee disability), for its employees injured on the job. The Commonwealth is also self-insured for annuitant medical/hospital claims and for tort liability claims. Major tort risks include automobile, employee and general torts. For property losses, the Commonwealth has \$1 million retention with excess commercial insurance coverage up to \$134 million per occurrence. The Commonwealth is also self-insured for claims against the Department of Transportation (transportation claims). The Commonwealth has established various administrative policies that are intended to avoid or limit the aforementioned risks.

There were no reductions in commercial insurance coverage during the fiscal year ended June 30, 2004. No settlements exceeded commercial insurance coverage during any of the past three fiscal years.

Accrued liabilities for tort and transportation claims are established based on reserves computed from the Commonwealth's claim experience; such claims are not discounted. These liabilities include liabilities for allocated claim adjustment expenditures/expenses and include salvage and subrogation. Salvage and subrogation were not material for the fiscal year ended June 30, 2004. No accrued liability has been reported for property losses.

At June 30, 2004, none of the accrued liabilities for governmental activities were payable from current expendable available financial resources. It is anticipated that the **General Fund** and the **Motor License Fund**, respectively, will fund governmental activities liabilities of \$269,669 and \$308,097. Business-type activities liabilities are primarily owed by the **State Workers' Insurance Fund** (\$1,169) and the State Stores Fund (\$14,004), Enterprise Funds. All accrued self-insurance liabilities at June 30, 2004 are summarized as follows (amounts in thousands):

	Governmental Activities		Business Type Activities		Fiduciary Fund Types	
	Current	Non-current	Current	Non-current	Current	Non-current
Employee disability.....	\$ 75,477	\$ 301,909	\$ 3,468	\$ 13,870	\$ 53	\$ 213
Annuitant medical/hospital ..	32,044	-	-	-	-	-
Automobile tort.....	3,145	17,165	-	-	-	-
Employee tort.....	2,900	27,288	-	-	-	-
General tort.....	1,420	46,058	-	-	-	-
Transportation.....	10,200	297,897	-	-	-	-
Totals.....	<u>\$125,186</u>	<u>\$ 690,317</u>	<u>\$ 3,468</u>	<u>\$ 13,870</u>	<u>\$ 53</u>	<u>\$ 213</u>

The following summary provides aggregated information on June 30, 2003 reported self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2004 and reported self-insurance liabilities at June 30, 2004 (amounts in thousands):

	June 30, 2003	Incurred Claims		Payments		June 30, 2004
	Liability	Current	Prior	Current	Prior	Liability
Employee disability.....	\$ 377,094	\$ 58,777	\$ 27,362	\$ 8,362	\$ 59,881	\$ 394,990
Annuitant medical/hospital ..	38,447	321,918	-	289,874	38,447	32,044
Automobile tort.....	21,108	6,511	(4,469)	1,072	1,768	20,310
Employee tort.....	28,480	711	2,788	25	1,766	30,188
General tort.....	43,901	8,540	(3,760)	60	1,143	47,478
Transportation.....	<u>289,907</u>	<u>54,637</u>	<u>(28,093)</u>	<u>438</u>	<u>7,916</u>	<u>308,097</u>
Totals.....	<u>\$ 798,937</u>	<u>\$ 451,094</u>	<u>\$ (6,172)</u>	<u>\$ 299,831</u>	<u>\$ 110,921</u>	<u>\$ 833,107</u>

NOTE M - SELF-INSURANCE (continued)

The following summary provides aggregated information on June 30, 2002 self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2003 and reported self-insurance liabilities at June 30, 2003 (amounts in thousands):

	June 30,	Incurred		Payments		June 30,
	2002	Current	Prior	Current	Prior	2003
	Liability					Liability
Employee disability.....	\$ 379,248	\$ 60,021	\$ 6,247	\$ 8,843	\$ 59,579	\$ 377,094
Annuitant medical/hospital ..	36,499	341,265	-	302,818	36,499	38,447
Automobile tort.....	19,676	10,484	(5,959)	1,143	1,950	21,108
Employee tort.....	27,631	1,085	3,090	30	3,296	28,480
General tort.....	41,324	9,563	(6,314)	45	627	43,901
Transportation.....	<u>331,358</u>	<u>60,523</u>	<u>(90,587)</u>	<u>429</u>	<u>10,958</u>	<u>289,907</u>
Totals.....	<u>\$ 835,736</u>	<u>\$ 482,941</u>	<u>\$ (93,523)</u>	<u>\$ 313,308</u>	<u>\$112,909</u>	<u>\$ 798,937</u>

NOTE N – COMMITMENTS AND CONTINGENCIES

Construction and Other Commitments: At June 30, 2004, the Department of Transportation and at May 31, 2004, the Pennsylvania Turnpike Commission, a discretely presented component unit, have contractual commitments of approximately \$2,028.9 million and \$751 million, respectively, for various highway construction and mass transit projects. Financing for these future expenditures will be primarily from approved federal grants and general obligation bond proceeds. In addition, the Commonwealth has a variety of contractual and other commitments for future subsidies and purchases of goods and services for approximately \$5.9 billion at June 30, 2004. Actual expenditures are contingent upon approved spending authority and/or availability of financial resources.

Loan Commitments: At June 30, 2004, the following discretely presented component units had approved loans that had not been disbursed (amounts in millions):

Pennsylvania Housing Finance Agency.....	\$	36
Pennsylvania Industrial Development Authority	\$	142
Pennsylvania Infrastructure Investment Authority	\$	520

Operating Lease Commitments: The Commonwealth and its discretely presented component units have commitments to lease certain buildings and equipment. Future minimum rental commitments for non-cancelable operating leases as of June 30, 2004 were as follows (amounts in thousands):

Fiscal year ending June 30:	<u>Primary Government</u>	<u>Discretely Presented Component Units</u>
2005	\$ 284,697	\$ 6,604
2006	163,367	5,057
2007	130,873	3,488
2008	101,593	989
2009	69,277	277
2010-2014	<u>134,110</u>	<u>174</u>
Total Minimum Lease Payments	<u>\$ 883,917</u>	<u>\$16,589</u>

Rental expenditures/expenses for all operating leases for the fiscal year ended June 30, 2004 amounted to \$275.2 million (\$265.7 million for primary government and \$9.5 million for discretely presented component units).

Child Support Payments: At June 30, 2004, the Commonwealth is contingently liable for approximately \$39 million in payments received by a contractor to be used for child support payments.

Litigation: The Commonwealth is a defendant in numerous legal proceedings pertaining to matters normally incidental to routine operations. Such litigation includes, but is not limited to, claims asserted against the Commonwealth arising from alleged torts, alleged breaches of contracts, condemnation proceedings and other alleged violations of Commonwealth and Federal laws. The Commonwealth has recorded accrued liabilities at June 30, 2004 with respect to torts as described in Note M, and other General Long-Term Obligations with respect to other matters of litigation in the amount of \$167.5 million for which the likelihood of an unfavorable outcome is probable.

Additionally, the Commonwealth is currently involved in certain legal proceedings for which the likelihood of an unfavorable outcome is reasonably possible, for which liabilities have not been accrued as of June 30, 2004. Unfavorable outcomes for such cases, which the Commonwealth is vigorously contesting, could range from approximately \$49 million to \$414 million for the **General Fund**; \$2 million to \$387 million for Special Revenue Funds; \$7.5 million to \$33.2 million for the Capital Facilities Fund, a Capital Projects fund; zero to \$.7 million for the **Unemployment Compensation Fund**, an Enterprise Fund; and \$.3 million to \$1.1 billion of possible additional liabilities for the State Employees' Retirement System, a fiduciary fund. The range for the **Motor License Fund**, a Special Revenue Fund, is from \$.2 million to \$267 million. One additional **General Fund** case, for which the likelihood of an unfavorable outcome is remote, relates to the distribution of certain state funding for public education in an approximate range from \$200 million to \$1 billion.

The range of potential liability for governmental and business-type activities, respectively, is between \$293 million and \$1.9 billion and zero to \$.7 million at June 30, 2004.

NOTE N – COMMITMENTS AND CONTINGENCIES (continued)

Federal Grants: The Commonwealth receives significant financial assistance from the Federal government in the form of grants and entitlements, including several non-cash programs (which are not included in the basic financial statements). Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit Act or to financial and compliance audits by the grantor agencies of the Federal government or their designees. Disallowances and sanctions as a result of these audits may become liabilities of the Commonwealth. The Commonwealth is currently involved in administrative and legal proceedings, with certain Federal agencies, contesting various disallowances and sanctions related to Federal Assistance Programs ranging from \$40 to \$144 million at June 30, 2004. The Commonwealth's management believes ultimate disallowances and sanctions, if any, will not have a material effect on the basic financial statements.

Student Loan Guarantees: The Pennsylvania Higher Education Assistance Agency (PHEAA), a discretely presented component unit, guarantees loans made by private lenders to certain resident students. Total original principal of outstanding guarantees issued by PHEAA approximated \$24 billion at June 30, 2004. Under the Federal Family Education Loan Program, as amended, the PHEAA has entered into agreements with the U.S. Department of Education for reinsurance of death, disability, bankruptcy, default, school closure and borrower ineligibility claims paid to lenders. Pursuant to these agreements, PHEAA receives reimbursement of claims paid to lenders, provided that PHEAA is in compliance with numerous Federal requirements. Reinsurance rates vary from 75 percent to 100 percent depending upon default rates in the portfolio guaranteed by PHEAA and upon the time period when specific loans were guaranteed by PHEAA. During the fiscal year ended June 30, 2004, PHEAA's default rate was in a range that permitted the maximum reinsurance reimbursement from the U.S. Department of Education.

Lottery Prizes: The **State Lottery Fund**, an Enterprise Fund, awards a variety of prizes, including immediate, lump-sum cash prizes and certain large prizes, which provide for periodic payments to winners for specific periods of time (in some cases throughout the winners' lifetimes, and to designated beneficiaries). At June 30, 2004, the amount of future payments owed to prizewinners is \$1.2 billion. To satisfy its financial obligation to these prizewinners, the Fund purchases annuity contracts from insurance companies whereby the insurance companies make periodic payments to prizewinners. Generally, in the event of insurance company default, the Fund is liable for the related annuity payments. However, certain prizewinners voluntarily assign their annuity rights to other parties and receive lump-sum payments in return. In the event of insurance company default where annuity rights have been voluntarily assigned by prizewinners, the Fund is not liable for the related annuity payments. At June 30, 2004, prizewinners have voluntarily assigned future payments of \$444 million.

NOTE O - CERTAIN AGENCY FUND CLAIMS LIABILITIES

The Pennsylvania Medical Care Availability and Reduction of Error Fund, an Agency Fund, acts as a service agent to facilitate the payment of medical malpractice claims exceeding basic liability coverage carried by healthcare providers practicing in the Commonwealth. The fund levies healthcare provider surcharges, as a percentage of insurance premiums for basic coverage, to pay claims and administrative expenses paid on behalf of healthcare providers during the prior year. The actuarially computed liability to the healthcare providers for claims outstanding at June 30, 2004 totals \$2.4 billion. The claims will be funded exclusively through surcharge assessment in future years as claims are settled and paid.

The Underground Storage Tank Indemnification Fund (the Fund), an Agency Fund, is used to collect fees from underground storage tank owners and operators sufficient to pay owners and operators for costs associated with corrective actions or for bodily injury or property damage caused by underground tank leaks and other releases. Owners and operators are assessed actuarially determined amounts to accumulate sufficient assets to pay claims. The Fund actuary has estimated potential claims of \$4.3 billion at June 30, 2004. There are statutory limits on the extent of the Fund's liability to participating owners and operators; the Fund is not obligated beyond assets held at June 30, 2004. Owners and operators will be assessed for any claims exceeding Fund assets and no financial liability is reported for those claims.

NOTE P - DEFERRED COMPENSATION

The Commonwealth sponsors a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, which is administered by the State Employees' Retirement System, permits participants to defer a portion of their salary until future years. Amounts deferred under the plan are not available to employees until termination, retirement, death or unforeseeable emergency.

Of the \$1,215 million in assets reported in the Deferred Compensation Fund, a Pension Trust Fund, at December 31, 2003, \$1,172 million relates to primary government employees and \$38 million relates to employees of discretely presented component units. The remaining balance of \$5 million relates to organizations not included in the Commonwealth's financial reporting entity.

NOTE Q - JOINT VENTURE

The Commonwealth and various labor unions representing Commonwealth employees participate in a joint venture, the Pennsylvania Employees Benefit Trust Fund (PEBTF). The PEBTF establishes and provides health and welfare benefits for active Commonwealth employees and is a third party administrator for Commonwealth annuitant medical/hospital benefits. The Commonwealth has, in its collective bargaining agreements with unions subject to the agreement, obligated itself to provide certain contributions on behalf of all bargaining unit employees. The Commonwealth also remits contractually established contributions on behalf of non-union employees and other employees covered by contracts between the Commonwealth and other unions. During the fiscal year ended June 30, 2004, total contributions amounted to approximately \$1,034 million. Neither the Commonwealth nor the unions have an equity interest in the PEBTF.

At June 30, 2004, the PEBTF reported total assets of \$123 million, total liabilities and benefit obligations of \$129 million, and a deficiency of net assets over benefit obligations of \$6 million. The financial status of the PEBTF is monitored on an ongoing basis; financial stress is evident as a result of increasing benefit and other expenses. During the fiscal year ended June 30, 2004 the PEBTF reported an increase in net assets available for benefits of \$15 million for the Active Plan program. This was caused by an increase in the contribution rate from \$190 per employee per pay period to \$235 per employee per pay period and benefit plan changes for pharmaceutical benefits and medical benefits effective August 16, 2003 and October 1, 2003, respectively.

In order to maintain the Trust Fund's liquidity in early fiscal year 2003-04, the collective bargaining agreement negotiated by the Commonwealth and the Unions effective July 1, 2003, provided for the Commonwealth to contribute \$80 million, over and above the biweekly contribution to the Trust Fund, during the first 3 months of fiscal year 2004. The Commonwealth's supplemental budget for fiscal year 2003-04 included an appropriation for the Commonwealth's **General Fund** share of this lump sum contribution. However, as the approval of this appropriation was delayed, the Commonwealth, through the Pennsylvania Department of Transportation's **Motor License Fund**, entered into a loan agreement with the Trust Fund for \$80 million. In December 2003, upon passage of the supplemental budget, the Commonwealth contributed the \$80 million to the Active Plan, and the Trust Fund repaid the loan, with interest, to the **Motor License Fund**.

On July 15, 2004, the PEBTF received \$30 million from the Commonwealth of Pennsylvania as an interest-free advance payment of the Commonwealth's active employee contribution. Repayment of this advance by the PEBTF will occur when the PEBTF's financial resources are sufficient to meet its ongoing cash flow needs.

Audited financial statements for the PEBTF are available, by request, from:

William K. Schantzenbach
Chief Financial Officer
Pennsylvania Employees Benefit Trust Fund
150 South 43rd Street
Harrisburg, Pennsylvania 17111-5700

NOTE R – SUBSEQUENT EVENTS**Primary Government**

On September 28, 2004, the Commonwealth issued \$798.8 million of General Obligation Bonds, Third Series of 2004, with an interest rate of 3.7 percent. The Commonwealth issued the bonds to refund all or a portion of twelve separate issues of previously issued general obligation bonds in order to reduce debt service on its general obligation bonds.

On December 21, 2004, the Commonwealth issued \$670.5 million and \$201 million of General Obligation Bonds, Third Refunding Series of 2004 and Fourth Series of 2004, respectively, with interest rates of 3.9 percent and 4.1 percent. The Commonwealth issued the bonds to fund transportation assistance, redevelopment assistance, and flood control projects, and to reduce debt service payable on its general obligation bonds.

Discretely Presented Component Units

On January 20, 2004, the **Pennsylvania Turnpike Commission (PTC)** approved a resolution to adopt a new fare rate schedule. The new fare rate schedule is effective August 1, 2004 and is the first toll increase since June 1, 1991. Rates on average will increase 1.8 cents per mile for cars and 5.3 cents per mile for trucks. On June 7, 2004, the **PTC** issued 2004 Series A Revenue Bonds in the amount of \$269,245,000. The bond interest rate varies from 5.00 percent to 5.50 percent, due in varying installments through December 1, 2034. The proceeds of the bonds will be used to fund various capital expenditures included in the Commission's 10-year capital plan.

In July 2004, the **Pennsylvania Higher Educational Facilities Authority (PHEFA)** issued Series AA tax-exempt bonds in the amount of \$28,750,000 and Series AB tax-exempt bonds in the amount of \$20,970,000. In connection with the bond issuance, **Pennsylvania State System of Higher Education (PASSHE)** entered into a loan agreement with PHEFA under which PASSHE pledged its full faith and credit for repayment of the bonds. The bonds were issued to provide funds to undertake various capital projects at the universities within PASSHE.

On August 4, 2004, the **Pennsylvania Housing Finance Agency (PHFA)** issued \$127,510,000 Single Family Mortgage Revenue Bonds, Series 2004-83. The proceeds of the bonds will be used to finance new loan purchases and refund existing bonds. On September 17, 2004, the **PHFA** issued \$100 million Single Family Revenue Bonds, Series 2004-84. The proceeds from these bond issuances were used to finance new loan purchases and refund existing bonds.

On November 17, 2004, the **Pennsylvania Higher Education Assistance Agency** issued \$300,000,000 of student loan revenue bonds.

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Required Supplementary Information



Barn in Potter County

BUDGETARY COMPARISON SCHEDULE

Budgeted Major Funds

General Fund

For the Fiscal Year Ended June 30, 2004

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Taxes, net of refunds.....	\$ 20,533,600	\$ 450,653	\$ 20,984,253	\$ 47,164	\$ 21,031,417
Liquor store profits transfer.....	50,000	-	50,000	-	50,000
Licenses and fees.....	119,700	(13,093)	106,607	(1,434)	105,173
Fines, penalties and interest.....	29,000	5,484	34,484	601	35,085
Investment income.....	110,370	(1,347)	109,023	(148)	108,875
Unclaimed property.....	218,100	105,439	323,539	11,548	335,087
Departmental services.....	2,077,621	343,537	2,421,158	-	2,421,158
Miscellaneous.....	95,830	46,787	142,617	5,124	147,741
TOTAL STATE PROGRAMS.....	23,234,221	937,460	24,171,681	62,855	24,234,536
Federal Programs.....	14,556,243	107,566	14,663,809	(276,216)	14,387,593
TOTAL REVENUES.....	37,790,464	1,045,026	38,835,490	(213,361)	38,622,129
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	941,473	19,050	960,523	(5,180)	955,343
Protection of persons and property.....	2,616,521	340,090	2,956,611	(6,827)	2,949,784
Health and human services.....	8,852,602	565,444	9,418,046	(12,733)	9,405,313
Public education.....	9,118,337	(11,159)	9,107,178	(193)	9,106,985
Recreation and cultural enrichment.....	277,974	(7,329)	270,645	(1,300)	269,345
Debt service.....	669,827	(460)	669,367	-	669,367
Economic development.....	580,877	18,919	599,796	(13,963)	585,833
Transportation.....	372,461	(7,690)	364,771	(217)	364,554
TOTAL STATE PROGRAMS.....	23,430,072	916,865	24,346,937	(40,413)	24,306,524
Federal Programs.....	14,556,243	107,566	14,663,809	(276,216)	14,387,593
TOTAL EXPENDITURES.....	37,986,315	1,024,431	39,010,746	(316,629)	38,694,117
REVENUES OVER/(UNDER)					
EXPENDITURES.....	(195,851)	20,595	(175,256)	103,268	(71,988)
OTHER FINANCING SOURCES (USES):					
Prior year lapses.....	-	142,511	142,511	-	142,511
Transfer to Budget Stabilization Reserve Fund.....	-	-	-	(190,000)	(190,000)
TOTAL OTHER FINANCING SOURCES (USES).....	-	142,511	142,511	(190,000)	(47,489)
REVENUES AND OTHER SOURCES OVER					
(UNDER) EXPENDITURES AND OTHER USES.....	(195,851)	163,106	(32,745)	(86,732)	(119,477)
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2003, RESTATED.....	196,227	-	196,227	-	196,227
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2004.....	\$ 376	\$ 163,106	\$ 163,482	\$ (86,732)	\$ 76,750

- The notes to required supplementary information are an integral part of this schedule. -

BUDGETARY COMPARISON SCHEDULE

Budgeted Major Funds

Special Revenue Fund-Motor License

For the Fiscal Year Ended June 30, 2004

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Taxes, net of refunds.....	\$ 1,119,608	\$ -	\$ 1,119,608	\$ (6,580)	\$ 1,113,028
Licenses and fees.....	837,350	-	837,350	5,824	843,174
Fines, penalties and interest.....	30,550	-	30,550	1,552	32,102
Investment income.....	14,000	-	14,000	15,076	29,076
Departmental services.....	50,129	286,572	336,701	-	336,701
Miscellaneous.....	24,840	-	24,840	43,390	68,230
TOTAL STATE PROGRAMS.....	2,076,477	286,572	2,363,049	59,262	2,422,311
Federal Programs.....	1,543,780	39,000	1,582,780	(363,958)	1,218,822
TOTAL REVENUES.....	3,620,257	325,572	3,945,829	(304,696)	3,641,133
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	68,197	(200)	67,997	(7,300)	60,697
Protection of persons and property.....	493,869	17,475	511,344	(15,292)	496,052
Public education.....	1,230	-	1,230	-	1,230
Recreation and cultural enrichment.....	1,000	-	1,000	-	1,000
Debt service.....	38,736	-	38,736	(142)	38,594
Transportation.....	1,494,932	269,297	1,764,229	(2,474)	1,761,755
TOTAL STATE PROGRAMS.....	2,097,964	286,572	2,384,536	(25,208)	2,359,328
Federal Programs.....	1,543,780	39,000	1,582,780	(363,958)	1,218,822
TOTAL EXPENDITURES.....	3,641,744	325,572	3,967,316	(389,166)	3,578,150
REVENUES OVER (UNDER)					
EXPENDITURES.....	(21,487)	-	(21,487)	84,470	62,983
OTHER FINANCING SOURCES (USES):					
Prior year lapses.....	-	20,158	20,158	-	20,158
TOTAL OTHER FINANCING SOURCES.....	-	20,158	20,158	-	20,158
REVENUES AND OTHER SOURCES OVER					
(UNDER) EXPENDITURES AND OTHER USES.....	(21,487)	20,158	(1,329)	84,470	83,141
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2003.....	30,449	-	30,449	-	30,449
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2004.....	\$ 8,962	\$ 20,158	\$ 29,120	\$ 84,470	\$ 113,590

- The notes to required supplementary information are an integral part of this schedule. -

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1 - Budget Preparation Process

The process of preparing the General Fund Budget for the Commonwealth of Pennsylvania begins nearly one year before the new budget takes effect on July 1 each year. The budget process begins in August of the year previous to the budget year with the distribution of both the Budget Instructions and Program Policy Guidelines by the Office of the Budget and the Governor's Office, respectively. These provide detailed guidelines and define major policy issues to be considered when agencies complete their budget requests. As required by statute, agencies must prepare budgets that indicate the cost of supporting activities at the level expected in the immediate budget year and the ensuing four budget years. The five-year horizon does not include future program changes but considers the requirements and demands of current law, regulation, policy and program decisions.

Agencies submit budget requests to the Secretary of the Budget beginning in early October. From October through January, the Office of the Budget reviews these requests for accuracy and adherence to policy guidelines and prepares funding recommendations for the Secretary of the Budget and the Governor.

During December, the Governor meets with leaders of the General Assembly to inform them of anticipated spending and revenue levels and to discuss related budgetary issues. The Governor then conducts reviews to make the final budget decisions. The Governor's Executive Budget is finalized in January and is submitted to the General Assembly in early February.

After receiving the budget document, the appropriations committees of both houses of the legislature hold hearings to review agency funding requests. The General Assembly passes the budget in the form of a General Appropriations Bill and individual appropriations bills. At the time of passage of these bills and their presentation to the Governor, the official revised revenue estimates for the budget year are issued. If the combined appropriations bills passed by the legislature exceed the revenue estimates, the Governor is required and has the authority to either veto entire appropriations bills or to reduce the amount of appropriations in order to produce a budget that is in balance. The Governor also has the power to reduce or veto any specific appropriation even if the total appropriations do not exceed estimated revenues. The Governor's signing of the appropriations bills and any revenue bills is the last step in the approval stage of the budget.

Additional information regarding Pennsylvania's budgeting process may be located at: <http://www.oit.state.pa.us/budget>

Note 2 – Basis of Budgeting

On the budgetary basis, certain estimated tax revenue accruals are recorded at fiscal year end for the **General Fund** and the **Motor License Fund**, a Special Revenue Fund. Accruals include sales and use taxes and personal income taxes, both applicable to the General Fund, and liquid fuels taxes applicable to the **Motor License Fund**. These taxes are estimated to be owed to the Commonwealth but are not collected by fiscal year end. Also, estimated encumbrances are established for all funds at fiscal year end to pay certain direct expenditures for salaries, wages, travel, and utility costs payable against current year appropriation authority but expended in the subsequent year. Over-estimates of prior year encumbrances are lapsed in the subsequent year and under-estimates are charged to subsequent year appropriation authority.

Budgeted revenues in the Budgetary Comparison Schedules represent official estimates while expenditures represent amounts originally adopted or legally amended. Actual amounts are presented on the budgetary basis. Because the budgetary basis differs from the modified accrual basis of accounting for governmental funds, a reconciliation of the differences between budgetary basis and the modified accrual basis of reporting is presented.

Note 3 - Reconciliation of Budgetary to GAAP Basis Amounts

The Commonwealth adopts formal annual budgets for two major governmental funds (**General Fund** and **Motor License Fund**, Special Revenue Fund) and three nonmajor governmental funds (Workers' Compensation Administration, Banking Department, and Milk Marketing, Special Revenue funds). The Budgetary Comparison Schedules for Budgeted Major and Nonmajor Funds presents comparisons of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The following presents a reconciliation of the budgetary basis to the modified accrual basis of reporting (amounts in thousands):

	<u>Major Budgeted Funds</u>	
	<u>General Fund</u>	<u>Motor License Fund</u>
Budgetary basis — revenues and other sources over (under) expenditures and other uses.....	<u>\$(119,477)</u>	<u>\$83,141</u>
Adjustments:		
To adjust revenues, other financing sources and related receivables and deferred revenue.....	51,307	447,508
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	<u>716,971</u>	<u>(344,165)</u>
Net adjustments.....	<u>768,278</u>	<u>103,343</u>
Modified accrual basis – net change in governmental fund balance.....	<u><u>\$648,801</u></u>	<u><u>\$186,484</u></u>

The above revenue adjustments include net revenue accruals/deferrals, amounts to recognize certain pass-through grants and amounts to recognize certain intergovernmental revenues that are not reported for budgetary reporting purposes. Likewise, the above expenditure adjustments include net expenditure accruals, amounts to recognize certain pass-through grants and amounts to recognize certain expenditures related to Federal and other grants that are not reported for budgetary reporting purposes.

Note 4 – Budgetary Compliance

The General Assembly passes, and the Governor approves (or reduces or vetoes), individual appropriations as part of the annual budget adoption process. Budgetary expenditure control occurs at the appropriation level; this is the lowest level of legislative spending control. Encumbrances and expenditures within individual appropriations may not exceed total amounts appropriated plus actual augmentations (certain revenues credited to specific appropriations). Also, appropriation transfers between or within departments and any supplemental appropriations require both legislative and gubernatorial approval. The legislatively adopted budget for the **General Fund** includes \$695.3 million in supplemental appropriations approved during the fiscal year ended June 30, 2004.

A separately available report, the “*Status of Appropriations*,” demonstrates budgetary expenditure compliance for the **General Fund** for the fiscal year ended June 30, 2004. This report includes a variety of detail information and summaries related to individual appropriations. A second “*Status of Appropriations*” report (for Special Funds) demonstrates compliance for the four budgeted Special Revenue funds: **Motor License**, Workers’ Compensation Administration, Banking Department and Milk Marketing. Both “*Status*” reports are available online at the Office of the Budget internet site: <http://www.budget.state.pa.us> The Governor controls spending by using executive authorizations for Special Revenue funds not controlled by legislatively adopted budgets.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Total reported actual expenditures for “Total State Programs” included in the Budgetary Comparison Schedule – Budgeted Major Funds are based on appropriation, augmentation and lapse amounts reported in the respective June 30, 2004 “*Status of Appropriations*” (Total All Current State Ledgers) as follows (in thousands):

	“ <i>Status</i> ” Page <u>Reference</u>	Total Approved <u>Appropriations</u>	Total Actual <u>+ Augmentations</u>	Total Actual <u>- Lapses</u>	=	Actual Expenditure <u>Amounts</u>
General Fund amounts	6 ¹	\$ 22,940,479	\$ 2,421,158	\$ 40,413		\$ 25,321,224
Less: tax refunds	6 ¹	<u>(1,014,700)</u>	<u>-</u>	<u>-</u>		<u>(1,014,700)</u>
Amount reported		<u>\$ 21,925,779</u>	<u>\$ 2,421,158</u>	<u>\$ 40,413</u>		<u>\$ 24,306,524</u>
 Special Revenue Funds:						
Motor License Fund	48	\$ 2,802,062	\$ 1,561,231	\$ 96,770		\$ 4,266,523
less: reductions ²		<u>(754,227)</u>	<u>(1,224,542)</u>	<u>(71,562)</u>		<u>(1,907,207)</u>
Amount reported		<u>\$ 2,047,835</u>	<u>\$ 336,689</u>	<u>\$ 25,208</u>		<u>\$ 2,359,316</u>
 Workers’ Compensation						
Administration Fund	247	\$ 55,006	\$ 184	\$ -		\$ 55,190
Banking Department Fund	88	\$ 11,168	\$ -	\$ 6		\$ 11,162
Milk Marketing Fund	91	\$ 2,577	\$ -	\$ 10		\$ 2,567

Total actual expenditures for “Federal Programs” for the **General Fund** are derived from the **General Fund** “*Status*,” page no. 228 “Summary of All Current Federal Ledgers by Character of Expenditure” as follows (in thousands): Commitments of \$727,208 and Expenditures of \$12,173,016, for a total of \$12,900,224.

Total actual expenditures for “Federal Programs,” Special Revenue funds, are derived from the Special Funds “*Status*” as follows (in thousands): **Motor License** - \$1,012,012 (calculated in footnote 3 below).

¹ Page no. 6, “Summary of All Current State Ledgers by Character of Expenditure,” **General Fund** “*Status of Appropriations*.”

² Excludes the following appropriation symbols, beginning on page 51, Special Funds “*Status of Appropriations*”: 010-78-571-03-10; 010-78-572-03-10; 010-78-579-03-10; 010-73-132-03-20; 010-38-226-03-20; 010-78-172-03-20; 010-78-173-03-20; 010-78-174-03-20; and 010-78-177-03-20 through 010-78-185-03-20.

³ Consists of \$1,218,822 in Year-to-Date “Total Federal Funds” on page 116 of the “*Report of Revenues and Receipts*” less \$206,810 in Year-to-Date Federal Funds amounts for the following revenue codes (also on page 116 of the “*Report*”): 010811-008051-101; 010811-008181-101; 010811-008181-108; 010811-008232-101; 010811-008284-101; 010811-008289-101; and 010811-008289-102.

Note 5 – Restatement of June 30, 2003 Unreserved/Undesignated General Fund Fund Balance (Budgetary Basis)

The Budgetary Comparison Schedule reflects a restatement of minus \$13.1 million to the June 30, 2003 budgetary basis Unreserved/Undesignated fund balance. The restatement includes in fund balance, the results of \$12.2 million of additional funds appropriated to Pennsylvania Senate and House of Representatives 2002-03 fiscal year appropriations, \$1 million transferred from the Senate Special Leadership Account (D) for the 2003-04 fiscal year to the Senate Incidental Expenses appropriation for the 2002-03 fiscal year, and \$100 thousand transferred from the 1999 Drought Disaster Relief appropriation to the July 2003 Storm Relief appropriation for the Pennsylvania Emergency Management Agency.

Combining Financial Statements

Including

Nonmajor Budgetary Comparison Schedules



Monument to Civil War Soldiers

Erie County

COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS

June 30, 2004

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
ASSETS				
Cash.....	\$ 659	\$ -	\$ 8,132	\$ 8,791
Temporary investments.....	1,259,153	73,929	642,382	1,975,464
Long-term investments.....	468,391	-	-	468,391
Receivables, net:				
Taxes.....	24,780	-	-	24,780
Accounts.....	6,738	4,221	-	10,959
Accrued interest.....	3,945	9	372	4,326
Notes and loans.....	39,804	-	-	39,804
Lease rentals.....	-	1,178	-	1,178
Other.....	3	-	-	3
Due from other funds.....	24,017	-	35,721	59,738
Due from pension trust funds.....	-	3	-	3
Due from component units.....	-	-	24,588	24,588
Due from Federal government.....	13,136	-	-	13,136
Due from political subdivisions.....	-	-	61	61
Advances to other funds.....	3,000	-	-	3,000
TOTAL ASSETS.....	\$ 1,843,626	\$ 79,340	\$ 711,256	\$ 2,634,222
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities.....	\$ 176,524	\$ 18	\$ 89,603	\$ 266,145
Securities lending obligations.....	322,322	12,894	112,248	447,464
Due to other funds.....	14,526	-	1,775	16,301
Due to pension trust funds.....	3,435	-	-	3,435
Due to political subdivisions.....	11,169	-	27,539	38,708
Due to other governments.....	1,276	-	-	1,276
Deferred revenue.....	30,429	5,399	-	35,828
Advances from other funds.....	10,333	-	-	10,333
TOTAL LIABILITIES.....	570,014	18,311	231,165	819,490
Fund balances:				
Reserved for:				
Encumbrances.....	105,044	-	748,105	853,149
Advances.....	3,000	-	-	3,000
Loans receivable.....	39,804	-	-	39,804
Other.....	63,095	-	3,494	66,589
Unreserved:				
Designated for:				
Capital projects.....	-	-	96,787	96,787
Debt service:				
Retirement of general obligation bonds.....	-	61,029	-	61,029
Undesignated (deficit).....	1,062,669	-	(368,295)	694,374
TOTAL FUND BALANCES.....	1,273,612	61,029	480,091	1,814,732
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 1,843,626	\$ 79,340	\$ 711,256	\$ 2,634,222

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-NONMAJOR GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2004

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
REVENUES:				
Taxes.....	\$ 228,746	\$ -	\$ 75,545	\$ 304,291
Licenses and fees.....	333,498	-	-	333,498
Intergovernmental.....	145,849	-	-	145,849
Charges for sales and services.....	140,477	-	66,896	207,373
Investment income.....	88,597	1,285	3,493	93,375
Lease rental principal and interest.....	-	184	-	184
Other.....	7,024	66,035	956	74,015
TOTAL REVENUES	944,191	67,504	146,890	1,158,585
EXPENDITURES:				
Current:				
Direction and supportive services.....	1,091	-	75,693	76,784
Protection of persons and property.....	322,481	92	7,660	330,233
Health and human services.....	514,162	-	-	514,162
Public education.....	140	-	7,913	8,053
Recreation and cultural enrichment.....	119,659	-	32,954	152,613
Economic development.....	198,945	-	169,139	368,084
Transportation.....	168,776	-	147,992	316,768
Capital outlay.....	8,132	-	189,097	197,229
Debt service:				
Principal retirement.....	-	455,890	-	455,890
Interest and fiscal charges.....	-	311,686	-	311,686
TOTAL EXPENDITURES	1,333,386	767,668	630,448	2,731,502
REVENUES UNDER EXPENDITURES	(389,195)	(700,164)	(483,558)	(1,572,917)
OTHER FINANCING SOURCES (USES):				
Bond proceeds.....	-	-	625,247	625,247
Refunding bond proceeds.....	-	459,223	-	459,223
Premium on bonds/refunding bonds issued.....	-	52,661	35,345	88,006
Transfers in.....	475,057	728,363	-	1,203,420
Transfers out.....	(42,562)	-	(200)	(42,762)
Payment to refunded bond escrow agent.....	-	(511,884)	-	(511,884)
NET OTHER FINANCING SOURCES.....	432,495	728,363	660,392	1,821,250
NET CHANGE IN FUND BALANCES.....	43,300	28,199	176,834	248,333
FUND BALANCES JULY 1, 2003-Restated.....	1,230,312	32,830	303,257	1,566,399
FUND BALANCES JUNE 30, 2004.....	\$ 1,273,612	\$ 61,029	\$ 480,091	\$ 1,814,732

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Special Revenue Funds

Including
Nonmajor Budgetary Comparison Schedules



*Zippo Museum, Bradford
McKean County*

**SPECIAL REVENUE FUNDS
DESCRIPTION
NONMAJOR FUNDS**

Special revenue funds account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

Banking Department Fund — to account for the administration of the Department of Banking and regulation of financial institutions. Revenue is received from fees, assessments, charges and penalties collected or recovered from persons, firms, corporations or associations regulated by the Department of Banking.

Milk Marketing Fund — to account for the operation of the Milk Marketing Board and to serve as a depository for amounts due to dairy farmers from underpayments by dealers. Revenue is received from license fees, fines, penalties and permits relating to the milk industry.

Workmen's Compensation Administration Fund — to account for the administration of the Pennsylvania Workmen's Compensation Act and the Pennsylvania Occupational Disease Act. Insurance companies and self-insured businesses are assessed a periodic fee for costs incurred in administering these acts.

Workmen's Compensation Security Fund — to account for the payment of workmen's compensation claims to individuals who are insured by an insolvent insurance company and for the costs to administer the program. Funds are derived from an annual assessment on all insurance carriers authorized to transact and provide workmen's compensation insurance in the Commonwealth.

Catastrophic Loss Benefits Fund — to account for the payment of medical and rehabilitative expenses over \$100,000 to a lifetime aggregate of \$1 million to residents injured in a motor vehicle accident.

Pharmaceutical Assistance Fund — to account for the payment of prescription drugs and insulin supplies for eligible Commonwealth recipients who are at least 65 years old.

Recycling Fund — to account for grants for recycling solid waste, market and waste minimization studies and public information and educational activities. Financing for the planning, processing, resource recovery and recycling of solid waste is generated by a fee on all waste disposed of in landfills or processed by resource recovery facilities.

Fish and Boat Fund — to account for the administration and enforcement of fishing and boating laws and for the protection, propagation, management and preservation of aquatic life.

Game Fund — to account for the administration and enforcement of game laws and for the protection, propagation, management and preservation of game and wildlife.

Hazardous Sites Cleanup Fund — to account for cleaning up abandoned hazardous waste sites throughout the Commonwealth and restoring the land to productive use.

Other — to account for programs related to conservation and protection of natural resources, the preservation of historical landmarks, administrative and regulatory activities of various departmental programs, and other miscellaneous Commonwealth activities. This other category is an aggregation of fifty-one individual special revenue funds.

There are a total of sixty-three individual special revenue funds; **Motor License** and **Tobacco Settlement** special revenue funds are reported as Major Funds in the basic financial statements.

COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

June 30, 2004

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Budgeted Funds										Total	
	Banking Department	Milk Marketing	Workers' Compensation Admin.	Workers' Compensation Security	Catastrophic Loss	Pharmaceutical Assistance	Recycling	Fish and Boat	Game	Hazardous Sites Cleanup		Other
ASSETS												
Cash.....	\$ 83	\$ -	\$ 9	\$ 100	\$ -	\$ 7	\$ -	\$ 29	\$ 144	\$ -	\$ 287	\$ 659
Temporary investments.....	36,143	3,599	55,795	131,715	154,490	157,443	84,449	47,976	30,976	92,148	465,005	1,259,153
Long-term investments.....	-	-	-	468,391	-	-	-	-	-	-	-	468,391
Receivables, net												
Taxes.....	-	-	-	-	-	-	-	-	-	-	24,780	24,780
Accounts.....	4,308	-	2	511	-	1,706	-	16	130	8	57	6,738
Accrued interest.....	59	-	-	3,247	-	-	-	-	-	-	639	3,945
Loans.....	-	-	-	-	-	-	95	-	-	2	39,707	39,804
Other.....	-	-	-	-	-	-	-	-	-	-	3	3
Due from other funds.....	-	-	-	-	-	6,128	-	1,195	105	-	16,589	24,017
Due from Federal government.....	-	-	-	-	-	-	-	4,098	42	-	8,996	13,136
Advances to other funds.....	-	-	-	-	-	-	-	-	-	3,000	-	3,000
TOTAL ASSETS.....	\$ 40,593	\$ 3,599	\$ 55,806	\$ 603,964	\$ 154,490	\$ 165,284	\$ 84,544	\$ 52,728	\$ 31,397	\$ 95,158	\$ 556,063	\$ 1,843,626
LIABILITIES AND FUND BALANCES												
Liabilities:												
Accounts payable and accrued liabilities.....	\$ 1,004	\$ 478	\$ 2,551	\$ 65,361	\$ 2,170	\$ 30,942	\$ 3,011	\$ 3,200	\$ 6,659	\$ 7,705	\$ 53,443	\$ 176,524
Securities lending obligations.....	7,605	761	-	99,777	32,442	33,296	17,790	10,009	6,559	19,370	94,713	322,322
Due to other funds.....	31	23	91	-	6	-	48	148	481	2,890	10,808	14,526
Due to pension trust funds.....	4	1	16	-	3,320	-	1	25	20	7	41	3,435
Due to political subdivisions.....	-	-	-	-	-	-	8,387	6	21	22	2,733	11,169
Due to other governments.....	27	3	93	-	-	-	7	99	673	40	334	1,276
Deferred revenue.....	7,465	1,233	181	-	-	-	-	2,412	-	-	19,138	30,429
Advances from other funds.....	-	-	-	-	-	10,333	-	-	-	-	-	10,333
TOTAL LIABILITIES.....	16,136	2,499	2,932	165,138	37,938	74,571	29,244	15,899	14,413	30,034	181,210	570,014
Fund balances:												
Reserved for:												
Encumbrances.....	-	1	2,242	-	-	-	8,396	1,718	2,359	28,531	61,797	105,044
Advances.....	-	-	-	-	-	-	-	-	-	3,000	-	3,000
Loans receivable.....	-	-	-	-	-	-	95	-	-	2	39,707	39,804
Other.....	-	-	686	-	-	4,359	3,671	1,351	590	5,462	46,976	63,095
Unreserved:												
Undesignated.....	24,457	1,099	49,946	438,826	116,552	86,354	43,138	33,760	14,035	28,129	226,373	1,062,669
TOTAL FUND BALANCES.....	24,457	1,100	52,874	438,826	116,552	90,713	55,300	36,829	16,984	65,124	374,853	1,273,612
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 40,593	\$ 3,599	\$ 55,806	\$ 603,964	\$ 154,490	\$ 165,284	\$ 84,544	\$ 52,728	\$ 31,397	\$ 95,158	\$ 556,063	\$ 1,843,626

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Special Revenue Funds

For the Fiscal Year Ended June 30, 2004

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Budgeted Funds										Total	
	Banking Department	Milk Marketing	Workers' Compensation Admin.	Workers' Compensation Security	Catastrophic Loss	Pharmaceutical Assistance	Recycling	Fish and Boat	Game	Hazardous Sites Cleanup		Other
REVENUES:												
Taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 228,746	\$ 228,746
Licenses and fees.....	5,681	2,203	12	56,517	14,691	-	47,146	24,761	39,633	2,067	140,787	333,498
Intergovernmental.....	-	-	-	-	-	-	-	7,833	8,398	-	129,618	145,849
Charges for sales and services.....	8,941	-	54,979	-	-	1,533	-	2,058	11,631	22,676	38,659	140,477
Investment income.....	1,217	116	384	47,767	5,459	3,542	3,765	1,719	1,491	4,038	19,099	88,597
Other.....	5	1	133	-	56	-	68	71	-	3,464	3,226	7,024
TOTAL REVENUES	15,844	2,320	55,508	104,284	20,206	5,075	50,979	36,442	61,153	32,245	560,135	944,191
EXPENDITURES:												
Current:												
Direction and supportive services.....	511	-	-	-	-	-	-	-	-	-	580	1,091
Protection of persons and property.....	10,665	2,806	-	67,615	(406)	-	47,259	-	-	45,324	149,218	322,481
Health and human services.....	-	-	50,126	-	-	425,578	-	-	-	-	38,458	514,162
Public education.....	-	-	-	-	-	-	-	-	-	-	140	140
Recreation and cultural enrichment.....	-	-	-	-	-	-	-	35,004	60,391	-	24,264	119,659
Economic development.....	-	-	155	-	-	-	-	-	-	-	198,790	198,945
Transportation.....	-	-	-	-	-	-	-	-	-	-	168,776	168,776
Capital outlay.....	-	-	26	-	-	-	-	30	6,025	-	2,051	8,132
TOTAL EXPENDITURES	11,176	2,806	50,307	67,615	(406)	425,578	47,259	35,034	66,416	45,324	582,277	1,333,386
REVENUES OVER (UNDER)												
EXPENDITURES	4,668	(486)	5,201	36,669	20,612	(420,503)	3,720	1,408	(5,263)	(13,079)	(22,142)	(389,195)
OTHER FINANCING SOURCES (USES):												
Transfers in.....	-	-	-	-	-	399,557	1,000	2,286	-	-	72,214	475,057
Transfers out.....	-	-	-	-	-	-	(15,000)	-	-	-	(27,562)	(42,562)
NET OTHER FINANCING SOURCES (USES)	-	-	-	-	-	399,557	(14,000)	2,286	-	-	44,652	432,495
NET CHANGE IN FUND BALANCES	4,668	(486)	5,201	36,669	20,612	(20,946)	(10,280)	3,694	(5,263)	(13,079)	22,510	43,300
FUND BALANCES, JULY 1, 2003-Restated	19,789	1,586	47,673	402,157	95,940	111,659	65,580	33,135	22,247	78,203	352,343	1,230,312
FUND BALANCES, JUNE 30, 2004	\$ 24,457	\$ 1,100	\$ 52,874	\$ 438,826	\$ 116,552	\$ 90,713	\$ 55,300	\$ 36,829	\$ 16,984	\$ 65,124	\$ 374,853	\$ 1,273,612

BUDGETARY COMPARISON SCHEDULE
Budgeted Nonmajor Funds
Special Revenue Fund-Banking Department

For the Fiscal Year Ended June 30, 2004

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Licenses and fees.....	\$ 12,643	\$ 644	\$ 13,287	\$ 745	\$ 14,032
Fines, penalties and interest.....	70	130	200	245	445
Investment income.....	864	(51)	813	481	1,294
Miscellaneous.....	2	(2)	-	1	1
TOTAL REVENUES.....	13,579	721	14,300	1,472	15,772
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	343	-	343	(5)	338
Protection of persons and property.....	10,825	-	10,825	(1)	10,824
TOTAL EXPENDITURES.....	11,168	-	11,168	(6)	11,162
REVENUES OVER EXPENDITURES.....	2,411	721	3,132	1,478	4,610
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	162	162	-	162
TOTAL OTHER FINANCING SOURCES.....	-	162	162	-	162
REVENUES AND OTHER SOURCES OVER					
EXPENDITURES.....	2,411	883	3,294	1,478	4,772
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2003.....	22,125	-	22,125	-	22,125
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2004.....	\$ 24,536	\$ 883	\$ 25,419	\$ 1,478	\$ 26,897

Reconciliation of Budgetary to GAAP Basis Amounts

The Commonwealth adopts a formal annual budget for the Banking Department Fund. The Budgetary Comparison Schedule presented above presents a comparison of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals. The following presents a reconciliation of the budgetary basis to the modified accrual basis of reporting (amounts in thousands):

Budgetary basis — revenues and other sources over expenditures (from Actual column above).....	<u>\$ 4,772</u>
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(90)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	<u>(14)</u>
Net adjustments.....	<u>(104)</u>
Modified accrual basis — revenues and other sources over expenditures.....	<u>\$ 4,668</u>

The above revenue adjustments include net revenue accruals/deferrals, amounts to recognize certain pass-through grants and amounts to recognize certain intergovernmental revenues that are not reported for budgetary reporting purposes. Likewise, the above expenditure adjustments include net expenditure accruals, amounts to recognize certain pass-through grants and amounts to recognize certain expenditures related to Federal and other grants that are not reported for budgetary reporting purposes.

- The notes on pages 120 to 122 are an integral part of this schedule. -

BUDGETARY COMPARISON SCHEDULE

Budgeted Nonmajor Funds

Special Revenue Fund-Milk Marketing

For the Fiscal Year Ended June 30, 2004

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Licenses and fees.....	\$ 2,754	\$ (590)	\$ 2,164	\$ 22	\$ 2,186
Fines, penalties and interest.....	10	-	10	7	17
Investment income.....	114	(37)	77	41	118
Miscellaneous.....	1	-	1	-	1
TOTAL REVENUES.....	2,879	(627)	2,252	70	2,322
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	10	-	10	(10)	-
Protection of persons and property.....	2,567	-	2,567	-	2,567
TOTAL EXPENDITURES.....	2,577	-	2,577	(10)	2,567
REVENUES OVER (UNDER)					
EXPENDITURES.....	302	(627)	(325)	80	(245)
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	179	179	-	179
TOTAL OTHER FINANCING SOURCES.....	-	179	179	-	179
REVENUES AND OTHER SOURCES OVER					
(UNDER) EXPENDITURES.....	302	(448)	(146)	80	(66)
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2003.....	1,376	-	1,376	-	1,376
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2004.....	\$ 1,678	\$ (448)	\$ 1,230	\$ 80	\$ 1,310

Reconciliation of Budgetary to GAAP Basis Amounts

The Commonwealth adopts a formal annual budget for the Milk Marketing Fund. The Budgetary Comparison Schedule presented above presents a comparison of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals. The following presents a reconciliation of the budgetary basis to the modified accrual basis of reporting (amounts in thousands):

Budgetary basis — revenues and other sources under expenditures (from Actual column above).....	<u>\$ (66)</u>
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(181)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	<u>(239)</u>
Net adjustments.....	<u>(420)</u>
Modified accrual basis — revenues and other sources under expenditures.....	<u>\$ (486)</u>

The above revenue adjustments include net revenue accruals/deferrals, amounts to recognize certain pass-through grants and amounts to recognize certain intergovernmental revenues that are not reported for budgetary reporting purposes. Likewise, the above expenditure adjustments include net expenditure accruals, amounts to recognize certain pass-through grants and amounts to recognize certain expenditures related to Federal and other grants that are not reported for budgetary reporting purposes.

- The notes on pages 120 to 122 are an integral part of this schedule. -

BUDGETARY COMPARISON SCHEDULE
Budgeted Nonmajor Funds
Special Revenue Fund-Workers' Compensation Administration

For the Fiscal Year Ended June 30, 2004

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Difference</u>	<u>Final Budget</u>	<u>Difference</u>	<u>Actual (Budgetary Basis)</u>
REVENUES:					
State Programs:					
Taxes, net of refunds.....	\$ 51,635	\$ 3,371	\$ 55,006	\$ (177)	\$ 54,829
Fines, penalties and interest.....	30	(14)	16	(4)	12
Investment income.....	2,046	(925)	1,121	(268)	853
Departmental services.....	184	-	184	-	184
Miscellaneous.....	324	(146)	178	(43)	135
TOTAL REVENUES.....	54,219	2,286	56,505	(492)	56,013
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	55,006	-	55,006	-	55,006
Economic development.....	184	-	184	-	184
TOTAL EXPENDITURES.....	55,190	-	55,190	-	55,190
REVENUES OVER (UNDER)					
EXPENDITURES.....	(971)	2,286	1,315	(492)	823
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	2,814	2,814	-	2,814
TOTAL OTHER FINANCING SOURCES.....	-	2,814	2,814	-	2,814
REVENUES AND OTHER SOURCES OVER					
(UNDER) EXPENDITURES.....	(971)	5,100	4,129	(492)	3,637
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2003.....	43,868	-	43,868	-	43,868
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2004.....	\$ 42,897	\$ 5,100	\$ 47,997	\$ (492)	\$ 47,505

Reconciliation of Budgetary to GAAP Basis Amounts

The Commonwealth adopts a formal annual budget for the Workers' Compensation Administration Fund. The Budgetary Comparison Schedule presented above presents a comparison of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals. The following presents a reconciliation of the budgetary basis to the modified accrual basis of reporting (amounts in thousands):

Budgetary basis — revenues and other sources over expenditures (from Actual column above).....	<u>\$ 3,637</u>
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(3,319)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	<u>4,883</u>
Net adjustments.....	<u>1,564</u>
Modified accrual basis — revenues and other sources over expenditures.....	<u>\$ 5,201</u>

The above revenue adjustments include net revenue accruals/deferrals, amounts to recognize certain pass-through grants and amounts to recognize certain intergovernmental revenues that are not reported for budgetary reporting purposes. Likewise, the above expenditure adjustments include net expenditure accruals, amounts to recognize certain pass-through grants and amounts to recognize certain expenditures related to Federal and other grants that are not reported for budgetary reporting purposes.

- The notes on pages 120 to 122 are an integral part of this schedule. -

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Debt Service Funds



Philadelphia Museum of Archaeology and Anthropology

**DEBT SERVICE FUNDS
DESCRIPTION
NONMAJOR FUNDS**

Debt service funds account for the accumulation of resources, principally from transfers from other Funds, for the payment of general long-term debt principal and interest.

Disaster Relief Redemption Fund — these funds account for the payment of principal and interest on bonds issued for the rehabilitation of areas of the Commonwealth affected by the floods of 1971, 1972, and 1977. Funding consists of transfers from the General Fund and investment income.

Pennsylvania Infrastructure Investment Authority (PENNVEST) Redemption Fund — to account for the payment of principal and interest on bonds issued for loans to local water companies for the repair, construction, extension and improvement of water supply systems, dams and port facilities and water control systems. Funding consists of transfers from the General Fund and the Pennsylvania Infrastructure Investment Authority Fund and investment income.

Capital Debt Fund — to account for the payment of principal and interest related to general obligation bonds issued for capital projects authorized by Capital Budget Acts. Funding consists of transfers from the General Fund and the Motor License Fund, facility rental and investment income.

Pennsylvania Economic Revitalization Sinking Fund — to account for the payment of principal and interest on bonds issued for the promotion of economic redevelopment throughout Pennsylvania for grants and loans for industrial and small business development. Funding consists of transfers from the General Fund and the Pennsylvania Economic Revitalization Fund and investment income.

Water Facilities Loan Redemption Fund — to account for the payment of principal and interest on bonds issued for the implementation of the water project loan referendum to provide loans to local water companies for repair, construction and improvement to water supply systems. Funding consists of transfers from the General Fund and the Water Facilities Loan Fund, investment income and proceeds from the sale, lease or disposal of loan collateral.

Land and Water Development Sinking Fund — to account for the payment of principal and interest on bonds issued for the acquisition, development and improvements to Commonwealth land and water facilities. Funding consists of transfers from the General Fund, the Land and Water Development Fund and investment income.

Other — these funds account for the payment of principal and interest on bonds issued for loans to nursing homes and volunteer fire companies and for compensation to Vietnam conflict veterans. Funding consists primarily of transfers from the General Fund and investment income. This other category is an aggregation of seven individual debt service funds.

There are a total of thirteen individual debt service funds; all are reported as nonmajor funds.

COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS

Debt Service Funds

June 30, 2004

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Disaster Relief Redemption	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Land and Water Development Sinking	Other	Total
ASSETS								
Temporary investments.....	\$ -	\$ -	\$ 73,736	\$ 4	\$ -	\$ 44	\$ 145	\$ 73,929
Receivables, net								
Accounts.....	-	-	4,221	-	-	-	-	4,221
Accrued interest.....	-	-	7	-	-	2	-	9
Lease rentals.....	-	-	1,178	-	-	-	-	1,178
Due from pension trust funds.....	-	-	-	-	-	3	-	3
TOTAL ASSETS.....	\$ -	\$ -	\$ 79,142	\$ 4	\$ -	\$ 49	\$ 145	\$ 79,340
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable and accrued liabilities.....	\$ -	\$ -	\$ 18	\$ -	\$ -	\$ -	\$ -	\$ 18
Securities lending obligations.....	-	-	12,885	1	-	8	-	12,894
Deferred revenue.....	-	-	5,399	-	-	-	-	5,399
TOTAL LIABILITIES.....	-	-	18,302	1	-	8	-	18,311
Fund balances:								
Unreserved:								
Designated for:								
Debt service:								
Retirement of general obligation bonds.....	-	-	60,840	3	-	41	145	61,029
TOTAL FUND BALANCES.....	-	-	60,840	3	-	41	145	61,029
TOTAL LIABILITIES AND FUND BALANCES.....	\$ -	\$ -	\$ 79,142	\$ 4	\$ -	\$ 49	\$ 145	\$ 79,340

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

Debt Service Funds

For the Fiscal Year Ended June 30, 2004

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)	Pennsylvania		Pennsylvania	Water	Land and	Other	Total	
	Disaster Relief Redemption	Infrastructure Investment Authority Redemption						Capital Debt
REVENUES:								
Investment income.....	\$ -	\$ -	\$ 1,165	\$ -	\$ -	\$ 120	\$ -	\$ 1,285
Lease rental principal and interest.....	-	-	184	-	-	-	-	184
Other.....	-	-	66,035	-	-	-	-	66,035
TOTAL REVENUES	-	-	67,384	-	-	120	-	67,504
EXPENDITURES:								
Current:								
Protection of persons and property.....	-	-	92	-	-	-	-	92
Debt service:								
Principal retirement.....	1,510	11,695	422,790	1,355	4,835	380	13,325	455,890
Interest and fiscal charges.....	1,225	3,663	301,337	300	1,452	122	3,587	311,686
TOTAL EXPENDITURES	2,735	15,358	724,219	1,655	6,287	502	16,912	767,668
REVENUES UNDER EXPENDITURES	(2,735)	(15,358)	(656,835)	(1,655)	(6,287)	(382)	(16,912)	(700,164)
OTHER FINANCING SOURCES (USES):								
Refunding bond proceeds.....	-	-	459,223	-	-	-	-	459,223
Premium on bonds/refunding bonds issued.....	-	-	52,661	-	-	-	-	52,661
Transfers in.....	2,735	12,046	688,331	1,652	6,287	400	16,912	728,363
Payment to refunded bond escrow agent.....	-	-	(511,884)	-	-	-	-	(511,884)
NET OTHER FINANCING SOURCES	2,735	12,046	688,331	1,652	6,287	400	16,912	728,363
NET CHANGE IN FUND BALANCES	-	(3,312)	31,496	(3)	-	18	-	28,199
FUND BALANCES, JULY 1, 2003-Restated	-	3,312	29,344	6	-	23	145	32,830
FUND BALANCES, JUNE 30, 2004	\$ -	\$ -	\$ 60,840	\$ 3	\$ -	\$ 41	\$ 145	\$ 61,029

Capital Projects Funds



*Kinzua Dam, Allegheny Forest
Warren County*

**CAPITAL PROJECTS FUNDS
DESCRIPTION
NONMAJOR FUNDS**

Capital projects funds account for financial resources to be used for the acquisition or construction of major capital facilities, including those provided to political subdivisions or other public organizations.

Capital Facilities Fund — to account for general obligation bond proceeds used to fund capital projects specifically itemized and authorized by Capital Budget Acts.

Keystone Recreation, Park and Conservation Fund — to account for bond proceeds and a percentage of the state realty transfer tax. The amounts are used to acquire, improve and expand Commonwealth and community parks, recreation facilities, historic sites, zoos, public libraries, nature preserves and wildlife habitats and other recreational areas and facilities.

Local Criminal Justice Fund — to account for the proceeds of bonds issued for grants to counties and multi-county authorities for the repair, expansion, construction, rehabilitation and improvement of local correctional facilities or multi-county regional prison facilities.

Land and Water Development Fund — to account for the proceeds of bonds issued for pollution remediation; grants to local governments for sewage treatment facilities; the development of public outdoor recreation areas; and, acquisition and development of park and recreation lands and related studies to determine such needs.

There are a total of four individual capital projects funds; all are reported as nonmajor funds.

COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS
Capital Projects Funds

June 30, 2004

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	<u>Capital Facilities</u>	<u>Keystone Recreation, Park and Conservation</u>	<u>Local Criminal Justice</u>	<u>Land and Water Development</u>	<u>Total</u>
ASSETS					
Cash.....	\$ 8,132	\$ -	\$ -	\$ -	\$ 8,132
Temporary investments.....	477,438	161,453	1,537	1,954	642,382
Receivables, net:					
Accrued interest.....	242	129	1	-	372
Due from other funds.....	28,632	7,089	-	-	35,721
Due from component units.....	24,588	-	-	-	24,588
Due from political subdivisions.....	61	-	-	-	61
TOTAL ASSETS.....	<u>\$ 539,093</u>	<u>\$ 168,671</u>	<u>\$ 1,538</u>	<u>\$ 1,954</u>	<u>\$ 711,256</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities.....	\$ 87,393	\$ 2,210	\$ -	\$ -	\$ 89,603
Securities lending obligations.....	83,427	28,212	268	341	112,248
Due to other funds.....	116	1,659	-	-	1,775
Due to political subdivisions.....	25,025	2,369	145	-	27,539
TOTAL LIABILITIES.....	<u>195,961</u>	<u>34,450</u>	<u>413</u>	<u>341</u>	<u>231,165</u>
Fund balances:					
Reserved for:					
Encumbrances.....	709,546	38,559	-	-	748,105
Other.....	1,857	-	-	1,637	3,494
Unreserved:					
Designated for:					
Capital projects.....	-	95,662	1,125	-	96,787
Undesignated deficit.....	(368,271)	-	-	(24)	(368,295)
TOTAL FUND BALANCES.....	<u>343,132</u>	<u>134,221</u>	<u>1,125</u>	<u>1,613</u>	<u>480,091</u>
TOTAL LIABILITIES AND FUND BALANCES.....	<u>\$ 539,093</u>	<u>\$ 168,671</u>	<u>\$ 1,538</u>	<u>\$ 1,954</u>	<u>\$ 711,256</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-NONMAJOR GOVERNMENTAL FUNDS

Capital Projects Funds

For the Fiscal Year Ended June 30, 2004

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Capital Facilities	Keystone Recreation, Park and Conservation	Local Criminal Justice	Land and Water Development	Total
REVENUES:					
Taxes.....	\$ -	\$ 75,545	\$ -	\$ -	\$ 75,545
Charges for sales and services.....	66,896	-	-	-	66,896
Investment income.....	1,974	1,506	13	-	3,493
Other.....	910	46	-	-	956
TOTAL REVENUES	69,780	77,097	13	-	146,890
EXPENDITURES:					
Current:					
Direction and supportive services.....	75,690	-	3	-	75,693
Protection of persons and property.....	5,718	-	1,927	15	7,660
Public education.....	-	7,913	-	-	7,913
Recreation and cultural enrichment.....	979	31,975	-	-	32,954
Economic development.....	169,139	-	-	-	169,139
Transportation.....	147,992	-	-	-	147,992
Capital outlay.....	180,054	9,043	-	-	189,097
TOTAL EXPENDITURES	579,572	48,931	1,930	15	630,448
REVENUES OVER (UNDER)					
EXPENDITURES	(509,792)	28,166	(1,917)	(15)	(483,558)
OTHER FINANCING SOURCES (USES):					
Bond proceeds.....	622,745	-	2,502	-	625,247
Premium on bonds/refunding bonds issued.....	35,191	-	154	-	35,345
Transfers out.....	-	(200)	-	-	(200)
NET OTHER FINANCING SOURCES (USES)	657,936	(200)	2,656	-	660,392
NET CHANGE IN FUND BALANCES	148,144	27,966	739	(15)	176,834
FUND BALANCES, JULY 1, 2003-Restated..	194,988	106,255	386	1,628	303,257
FUND BALANCES, JUNE 30, 2004	\$ 343,132	\$ 134,221	\$ 1,125	\$ 1,613	\$ 480,091

Enterprise Funds



Pennsylvania Renaissance Faire

Lancaster County

**ENTERPRISE FUNDS
DESCRIPTION
NONMAJOR FUNDS**

Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

State Stores Fund — to account for the general operations of the Pennsylvania Liquor Control Board. Expenses include all costs associated with the operation and administration of the liquor store system and enforcement of the Liquor Control Law.

Small Business First Fund — to account for and provide loans to eligible small businesses for capital development projects which will create or preserve employment opportunities and which will enhance business development in Pennsylvania. Sources of revenue include loan principal and interest payments, transfers from the General Fund, Federal funds and investment income.

Volunteer Companies Loan Fund — to account for and provide low-interest loans for acquisition and replacement of volunteer fire, ambulance and rescue company equipment and facilities.

Machinery and Equipment Loan Fund — to account for and provide low-interest loans to finance machinery and equipment purchases for eligible Pennsylvania businesses to facilitate their growth, competitiveness and value-added capacity. Sources of revenue include loan interest payments, General Fund appropriations and investment income.

Coal and Clay Mine Subsidence Insurance Fund — to account for and provide insurance coverage to homeowners in mining areas against damages resulting from mine subsidence.

Pennsylvania Infrastructure Bank — to account for and provide loans to, or enter into leases with, qualified borrowers to finance the costs of transportation projects.

Minority Business Development Fund — to account for and provide low-interest and short-term loans, loan and bond guarantees and other financial and technical assistance, to eligible minority business enterprises and for operating expenses of the Pennsylvania Minority Business Development Authority. Sources of revenue include loan repayments, transfers from the General Fund and investment income.

Other — to account for enterprise operations including activities associated with low interest loans to manufacturers, vocational rehabilitation services, and loans and grants provided to attract industrial, manufacturing or research and development enterprises to the Commonwealth. This other category is an aggregation of five individual enterprise funds.

There are a total of sixteen individual enterprise funds; **Unemployment Compensation, State Workers' Insurance, State Lottery and Tuition Payment** enterprise funds are reported as Major Funds in the basic financial statements.

COMBINING STATEMENT OF NET ASSETS-NONMAJOR PROPRIETARY FUNDS
Enterprise Funds

June 30, 2004

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	State Stores (June 29, 2004)	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Sub. Insurance	PA Infrastructure Bank	Minority Business Development	Other Funds	Total
ASSETS									
Current assets:									
Cash	\$ 14,814	\$ 584	\$ 201	\$ 232	\$ 3	\$ -	\$ 42	\$ 152	\$ 16,028
Temporary investments.....	65,569	62,864	9,873	46,150	55,310	24,886	7,591	22,485	294,728
Receivables:									
Accounts	3,243	-	-	-	1	-	-	322	3,566
Accrued interest.....	-	210	288	78	-	260	8	5	849
Loans.....	-	16,510	15,090	9,522	-	2,211	594	561	44,488
Other	-	3	-	72	-	-	-	-	75
Due from other funds	354	-	-	-	-	-	-	3,201	3,555
Due from pension trust funds.....	-	-	-	-	-	-	-	8	8
Due from component units.....	-	-	-	-	-	-	-	28	28
Other-Advances to other funds.....	500	-	-	-	-	-	-	-	500
Inventory.....	193,472	-	-	-	-	-	-	4	193,476
Prepaid expenses.....	950	-	-	-	-	-	-	-	950
Total current assets	<u>278,902</u>	<u>80,171</u>	<u>25,452</u>	<u>56,054</u>	<u>55,314</u>	<u>27,357</u>	<u>8,235</u>	<u>26,766</u>	<u>558,251</u>
Noncurrent assets:									
Receivables:									
Loans.....	-	59,802	98,166	20,544	-	11,111	678	1,438	191,739
Non-depreciable capital assets:									
Land.....	323	-	-	-	-	-	-	-	323
Construction in progress.....	-	-	-	-	-	-	-	7,827	7,827
Depreciable capital assets:									
Buildings and building improvements.....	19,978	-	-	-	-	-	-	10,567	30,545
Machinery and equipment.....	54,741	-	-	-	-	-	-	4,591	59,332
Less: accumulated depreciation	(41,919)	-	-	-	-	-	-	(11,847)	(53,766)
Net depreciable capital assets.....	<u>32,800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,311</u>	<u>36,111</u>
Total noncurrent assets	<u>33,123</u>	<u>59,802</u>	<u>98,166</u>	<u>20,544</u>	<u>-</u>	<u>11,111</u>	<u>678</u>	<u>12,576</u>	<u>236,000</u>
TOTAL ASSETS.....	<u>312,025</u>	<u>139,973</u>	<u>123,618</u>	<u>76,598</u>	<u>55,314</u>	<u>38,468</u>	<u>8,913</u>	<u>39,342</u>	<u>794,251</u>
LIABILITIES AND NET ASSETS									
Current liabilities:									
Accounts payable and accrued liabilities.....	107,376	38	259	83	238	3	-	1,222	109,219
Securities lending obligations.....	15,111	13,213	2,096	9,702	11,591	5,238	1,595	4,359	62,905
Due to other funds.....	2,982	-	-	-	26	-	-	981	3,989
Due to pension trust funds.....	84	-	-	-	1	-	-	1	86
Due to other governments.....	627	-	-	-	5	-	-	7	639
Deferred revenue.....	-	-	81	-	2,242	-	-	-	2,323
Self insurance.....	3,038	-	-	-	17	-	-	179	3,234
Compensated absences.....	5,182	-	-	-	-	-	-	339	5,521
Total current liabilities.....	<u>134,400</u>	<u>13,251</u>	<u>2,436</u>	<u>9,785</u>	<u>14,120</u>	<u>5,241</u>	<u>1,595</u>	<u>7,088</u>	<u>187,916</u>
Non-current liabilities:									
Advances from other funds.....	85,000	3,000	-	-	-	-	-	-	88,000
Insurance loss liability.....	-	-	-	-	847	-	-	-	847
Compensated absences.....	22,094	-	-	-	-	-	-	1,444	23,538
Self Insurance.....	12,152	-	-	-	67	-	-	716	12,935
Total non-current liabilities.....	<u>119,246</u>	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>914</u>	<u>-</u>	<u>-</u>	<u>2,160</u>	<u>125,320</u>
TOTAL LIABILITIES.....	<u>253,646</u>	<u>16,251</u>	<u>2,436</u>	<u>9,785</u>	<u>15,034</u>	<u>5,241</u>	<u>1,595</u>	<u>9,248</u>	<u>313,236</u>
Net Assets:									
Invested in capital assets, net of related debt.....	33,123	-	-	-	-	-	-	11,138	44,261
Restricted for:									
Transportation.....	-	-	-	-	-	33,227	-	-	33,227
Other purposes.....	25,256	123,722	121,182	66,813	40,280	-	7,318	18,956	403,527
TOTAL NET ASSETS.....	<u>\$ 58,379</u>	<u>\$ 123,722</u>	<u>\$ 121,182</u>	<u>\$ 66,813</u>	<u>\$ 40,280</u>	<u>\$ 33,227</u>	<u>\$ 7,318</u>	<u>\$ 30,094</u>	<u>\$ 481,015</u>

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS-NONMAJOR PROPRIETARY FUNDS

Enterprise Funds

For the Fiscal Year Ended June 30, 2004

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	State Stores (June 29, 2004)	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Sub. Insurance	PA Infrastructure Bank	Minority Business Development	Other Funds	Total
OPERATING REVENUES:									
Sales and services.....	\$ 1,121,853	\$ -	\$ 1	\$ 207	\$ 5,035	\$ 68	\$ 1,058	\$ 6,089	\$ 1,134,311
Investment income.....	-	2,218	313	1,472	2,003	986	222	154	7,368
Interest on loans.....	-	3,573	2,459	1,284	-	17	114	-	7,447
Other.....	-	6	-	4	-	500	1	790	1,301
OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTABLE ACCOUNTS.....	1,121,853	5,797	2,773	2,967	7,038	1,571	1,395	7,033	1,150,427
Provision for uncollectible accounts.....	(862)	(1,431)	(101)	200	-	-	-	-	(2,194)
NET OPERATING REVENUES.....	1,120,991	4,366	2,672	3,167	7,038	1,571	1,395	7,033	1,148,233
OPERATING EXPENSES:									
Cost of sales and services.....	1,020,230	1,137	(1)	212	3,607	86	63	6,190	1,031,524
Depreciation.....	3,183	-	-	-	-	-	-	1,348	4,531
TOTAL OPERATING EXPENSES.....	1,023,413	1,137	(1)	212	3,607	86	63	7,538	1,036,055
OPERATING INCOME (LOSS).....	97,578	3,229	2,673	2,955	3,431	1,485	1,332	(505)	112,178
NONOPERATING REVENUES (EXPENSES):									
Investment income.....	2,702	-	-	-	-	-	-	628	3,330
Other revenues.....	-	-	-	-	-	-	-	1,450	1,450
Other expenses.....	(90)	-	-	-	-	-	-	(6)	(96)
NONOPERATING REVENUES (EXPENSES), NET.....	2,612	-	-	-	-	-	-	2,072	4,684
INCOME BEFORE TRANSFERS.....	100,190	3,229	2,673	2,955	3,431	1,485	1,332	1,567	116,862
TRANSFERS:									
Transfers in.....	-	-	-	-	-	-	200	-	200
Transfers out.....	(51,986)	(1,000)	-	-	-	-	-	-	(52,986)
TOTAL TRANSFERS.....	(51,986)	(1,000)	-	-	-	-	200	-	(52,786)
CHANGE IN NET ASSETS.....	48,204	2,229	2,673	2,955	3,431	1,485	1,532	1,567	64,076
TOTAL NET ASSETS-JULY 1, 2003-Restated.....	10,175	121,493	118,509	63,858	36,849	31,742	5,786	28,527	416,939
TOTAL NET ASSETS-JUNE 30, 2004.....	\$ 58,379	\$ 123,722	\$ 121,182	\$ 66,813	\$ 40,280	\$ 33,227	\$ 7,318	\$ 30,094	\$ 481,015

COMBINING STATEMENT OF CASH FLOWS-NONMAJOR PROPRIETARY FUNDS
Enterprise Funds

For the Fiscal Year Ended June 30, 2004

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	State Stores (June 29, 2004)	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Insurance	PA Infrastructure Bank	Minority Business Development	Other Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES:									
Receipts from customers.....	\$ 1,122,972	\$ -	\$ -	\$ -	\$ 5,089	\$ -	\$ -	\$ -	\$ 1,128,061
Receipts from borrowers.....	-	(959)	1,205	4,514	-	-	1,420	6,457	12,637
Receipt of premiums.....	-	-	-	-	-	(722)	-	228	(494)
Payments to claimants.....	-	-	-	-	(3,720)	-	-	-	(3,720)
Payments to borrowers.....	-	(4,405)	-	-	-	-	-	-	(4,405)
Payments to suppliers.....	(1,059,374)	-	260	(203)	-	(2,796)	(64)	(5,342)	(1,067,519)
Other receipts (payments).....	(90)	6	-	4	-	-	1	710	631
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	63,508	(5,358)	1,465	4,315	1,369	(3,518)	1,357	2,053	65,191
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:									
Transfers in.....	-	-	-	-	-	-	200	-	200
Transfers out.....	(51,986)	(1,000)	-	-	-	-	-	-	(52,986)
Net borrowings under advances from other funds.....	(500)	3,000	-	-	-	-	-	-	2,500
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES.....	(52,486)	2,000	-	-	-	-	200	-	(50,286)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:									
Acquisition and construction of capital assets.....	(6,818)	-	-	-	-	-	-	(1,240)	(8,058)
Loss on disposition of capital assets.....	90	-	-	-	-	-	-	6	96
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....	(6,728)	-	-	-	-	-	-	(1,234)	(7,962)
CASH FLOWS FROM INVESTING ACTIVITIES:									
Purchase of investments.....	(658,185)	(19,606)	(13,713)	(15,375)	(8,658)	(6,498)	(2,658)	(23,364)	(748,057)
Sales and maturities of investments.....	644,399	18,524	11,212	6,800	2,951	8,679	301	20,738	713,604
Investment income.....	2,702	2,436	372	1,472	1,815	993	204	812	10,806
Change in securities lending obligations.....	6,965	1,908	733	2,845	2,525	344	639	963	16,922
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	(4,119)	3,262	(1,396)	(4,258)	(1,367)	3,518	(1,514)	(851)	(6,725)
NET INCREASE (DECREASE) IN CASH.....	175	(96)	69	57	2	-	43	(32)	218
CASH AT JULY 1, 2003.....	14,640	680	132	175	-	-	-	184	15,811
CASH AT JUNE 30, 2004.....	\$ 14,815	\$ 584	\$ 201	\$ 232	\$ 2	\$ -	\$ 43	\$ 152	\$ 16,029
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES									
Operating income (loss).....	\$ 97,578	\$ 3,228	\$ 2,673	\$ 2,955	\$ 3,431	\$ 1,485	\$ 1,331	\$ (506)	\$ 112,175
Depreciation and amortization.....	3,183	-	-	-	-	-	-	1,348	4,531
Provision for uncollectible accounts.....	862	1,431	101	(200)	-	-	-	-	2,194
Non-operating revenues (expenses).....	(90)	-	-	-	-	-	-	1,444	1,354
Reclassification of investment income.....	-	(2,218)	(313)	(1,472)	(2,003)	(986)	(222)	(154)	(7,368)
Change in assets and liabilities:									
Accounts receivable.....	291	(4,532)	(1,260)	3,023	(1)	(1,307)	248	147	(3,391)
Due from fiduciary funds.....	-	-	-	-	-	-	-	(8)	(8)
Inventory.....	(31,904)	-	-	-	-	-	-	78	(31,826)
Due from other funds.....	5	-	-	-	40	-	-	(1,124)	(1,079)
Due from component units.....	-	-	-	-	-	-	-	(24)	(24)
Due from other governments.....	-	-	-	-	-	-	-	5	5
Other current assets.....	822	-	-	-	-	-	-	-	822
Accounts payable and accrued liabilities.....	17,705	(3,263)	260	13	(341)	3	-	235	14,612
Due to other funds.....	(18,396)	(4)	(2)	(4)	-	(2,713)	-	796	(20,323)
Due to component units.....	-	-	-	-	26	-	-	-	26
Due to other governments.....	140	-	-	-	3	-	-	1	144
Deferred revenue.....	-	-	6	-	16	-	-	-	22
Insurance loss liability.....	-	-	-	-	114	-	-	-	114
Other liabilities.....	(6,688)	-	-	-	84	-	-	(185)	(6,789)
Total Adjustments.....	(34,070)	(8,586)	(1,208)	1,360	(2,062)	(5,003)	26	2,559	(46,984)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	\$ 63,508	\$ (5,358)	\$ 1,465	\$ 4,315	\$ 1,369	\$ (3,518)	\$ 1,357	\$ 2,053	\$ 65,191
Increase (decrease) in fair value of investments during the fiscal year.....	\$ 9	\$ (29)	\$ (38)	\$ 34	\$ 187	\$ (9)	\$ 16	\$ 11	\$ 181

There were no other material investing, capital or financing activities that did not result in cash receipts or cash payments during the fiscal year.

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Internal Service Funds



Mummer's Parade

Philadelphia

INTERNAL SERVICE FUNDS DESCRIPTION

Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the Commonwealth, or to other governmental units, on a cost-reimbursement basis.

Purchasing Fund — to account for the purchase of materials, supplies, motor vehicles and other equipment by the Department of General Services for the sale or lease to other Commonwealth departments, boards or commissions. Revenue is derived from reimbursements from Commonwealth agencies who use Fund services or products.

Manufacturing Fund — to account for the manufacture and sale of goods and services by inmates in the institutions of the Department of Corrections, government agencies and government-aided organizations.

There are a total of two individual internal service funds.

COMBINING STATEMENT OF NET ASSETS- NONMAJOR PROPRIETARY FUNDS

Internal Service Funds

June 30, 2004

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	<u>Purchasing Fund</u>	<u>Manufacturing Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Current assets:			
Cash	\$ 7,918	\$ 483	\$ 8,401
Temporary investments.....	8,280	39,773	48,053
Receivables:			
Accounts	14	-	14
Other	-	717	717
Due from other funds	7,092	5,739	12,831
Due from pension trust funds.....	26	-	26
Due from component units.....	771	6	777
Due from political subdivisions.....	6	125	131
Inventory.....	457	10,170	10,627
Total current assets	<u>24,564</u>	<u>57,013</u>	<u>81,577</u>
Noncurrent assets:			
Non-depreciable capital assets:			
Land.....	-	6	6
Depreciable capital assets:			
Land improvements.....	-	326	326
Buildings and building improvements.....	-	4,063	4,063
Machinery and equipment.....	67,503	23,964	91,467
Less: accumulated depreciation	(37,439)	(16,310)	(53,749)
Net depreciable capital assets.....	<u>30,064</u>	<u>12,043</u>	<u>42,107</u>
Other assets	-	59	59
Total noncurrent assets	<u>30,064</u>	<u>12,108</u>	<u>42,172</u>
TOTAL ASSETS	<u>54,628</u>	<u>69,121</u>	<u>123,749</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable and accrued liabilities.....	22,789	4,682	27,471
Securities lending obligations.....	1,749	8,395	10,144
Due to other funds.....	410	48	458
Due to pension trust funds.....	2	6	8
Due to other governments.....	8	21	29
Deferred revenue.....	-	8	8
Self insurance liabilities.....	65	187	252
Total current liabilities.....	<u>25,023</u>	<u>13,347</u>	<u>38,370</u>
Non-current liabilities:			
Advances from other funds.....	14,300	-	14,300
Self insurance.....	260	749	1,009
Total non-current liabilities.....	<u>14,560</u>	<u>749</u>	<u>15,309</u>
TOTAL LIABILITIES	<u>39,583</u>	<u>14,096</u>	<u>53,679</u>
NET ASSETS:			
Invested in capital assets, net of related debt.....	30,064	12,049	42,113
Restricted for:			
Other purposes.....	-	42,976	42,976
Unrestricted (deficit).....	(15,019)	-	(15,019)
TOTAL NET ASSETS	<u>\$ 15,045</u>	<u>\$ 55,025</u>	<u>\$ 70,070</u>

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET ASSETS-NONMAJOR PROPRIETARY FUNDS**

Internal Service Funds

For the Fiscal Year Ended June 30, 2004

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	<u>Purchasing Fund</u>	<u>Manufacturing Fund</u>	<u>Total</u>
OPERATING REVENUES:			
Sales and services.....	\$ 86,058	\$ 33,414	\$ 119,472
NET OPERATING REVENUES.....	<u>86,058</u>	<u>33,414</u>	<u>119,472</u>
OPERATING EXPENSES:			
Cost of sales and services.....	97,784	31,539	129,323
Depreciation.....	9,197	991	10,188
TOTAL OPERATING EXPENSES	<u>106,981</u>	<u>32,530</u>	<u>139,511</u>
OPERATING INCOME (LOSS).....	<u>(20,923)</u>	<u>884</u>	<u>(20,039)</u>
NONOPERATING REVENUES (EXPENSES):			
Investment income.....	862	1,831	2,693
Other revenues.....	2	-	2
Other expenses.....	(2,544)	-	(2,544)
TOTAL NONOPERATING REVENUES (EXPENSES), NET....	<u>(1,680)</u>	<u>1,831</u>	<u>151</u>
CHANGE IN NET ASSETS.....	<u>(22,603)</u>	<u>2,715</u>	<u>(19,888)</u>
TOTAL NET ASSETS, JULY 1, 2003.....	<u>37,648</u>	<u>52,310</u>	<u>89,958</u>
TOTAL NET ASSETS, JUNE 30, 2004.....	<u>\$ 15,045</u>	<u>\$ 55,025</u>	<u>\$ 70,070</u>

COMBINING STATEMENT OF CASH FLOWS-NONMAJOR PROPRIETARY FUNDS

Internal Service Funds

For the Fiscal Year Ended June 30, 2004

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Purchasing Fund	Manufacturing Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers.....	\$ 93,975	\$ 35,628	\$ 129,603
Payments to suppliers.....	(101,972)	(30,595)	(132,567)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	(7,997)	5,033	(2,964)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets.....	\$ (5,814)	\$ (1,486)	\$ (7,300)
Loss on disposition of capital assets.....	2,196	-	2,196
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....	(3,618)	(1,486)	(5,104)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments.....	(217,961)	(24,561)	(242,522)
Sales and maturities of investments.....	238,702	16,990	255,692
Investment income.....	547	1,448	1,995
Change in securities lending obligations.....	(3,197)	2,527	(670)
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	18,091	(3,596)	14,495
NET INCREASE (DECREASE) IN CASH.....	6,476	(49)	6,427
CASH AT JULY 1, 2003.....	1,442	532	1,974
CASH AT JUNE 30, 2004.....	\$ 7,918	\$ 483	\$ 8,401

RECONCILIATION OF OPERATING LOSS TO NET

CASH PROVIDED BY OPERATING ACTIVITIES

Operating income (loss).....	\$ (20,923)	\$ 884	\$ (20,039)
Depreciation and amortization.....	9,197	991	10,188
Non-operating revenues.....	(2,542)	-	(2,542)
Change in assets and liabilities:			
Accounts receivable.....	(9)	(65)	(74)
Inventory.....	736	(128)	608
Due from other funds.....	6,459	2,314	8,773
Due from component units.....	655	1	656
Due from political subdivisions.....	74	53	127
Other current assets.....	-	39	39
Accounts payable and accrued liabilities.....	(2,049)	29	(2,020)
Due to other funds.....	82	-	82
Due to other governments.....	-	(21)	(21)
Other liabilities.....	324	936	1,260
Due to component units.....	(1)	-	(1)
Total Adjustments.....	12,926	4,149	17,075
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	\$ (7,997)	\$ 5,033	\$ (2,964)

Increase (decrease) in fair value of investments during the fiscal year.....	\$ 315	\$ (72)	\$ 243
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There were no other material investing, capital or financing activities that did not result in cash receipts or cash payments during the fiscal year.

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Pension (and Other Employee Benefit) Trust Funds



National Road Festival, Farmington

Fayette County

**PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
DESCRIPTION**

Pension (and other employee benefit trust) funds account for assets that are required to be held in trust for the members and beneficiaries of defined benefit pension plans and other postemployment benefit plan and are held by the Commonwealth in a trustee capacity.

PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

State Employees' Retirement System — is a component unit organization and accounts for the payment of retirement, disability and death benefits to members of the State Employees' Retirement System and their beneficiaries.

Deferred Compensation Fund — is a pension trust fund that collects and administers amounts contributed by Commonwealth employees who are deferring a portion of their income until future years, in accordance with Internal Revenue Code Section 457.

Public School Employees' Retirement System — is a component unit organization that administers and provides pension benefits to public school employees in Pennsylvania.

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
Pension (and Other Employee Benefit) Trust Funds

June 30, 2004

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust			Total
	State Employees' Retirement System (December 31, 2003)	Deferred Compensation Fund (December 31, 2003)	Public School Employees' Retirement System	
ASSETS				
Cash.....	\$ -	\$ 2,463	\$ -	\$ 2,463
Temporary investments.....	778,027	31,287	7,834,062	8,643,376
Long-term investments.....	25,597,660	1,174,789	45,703,045	72,475,494
Receivables, net:				
Accrued interest.....	65,238	-	169,333	234,571
Pension contributions.....	-	7,031	343,919	350,950
Investment proceeds.....	80,379	88	568,987	649,454
Other.....	2,530	1	-	2,531
Due from other funds.....	1,226	-	2,850	4,076
Due from political subdivisions.....	1,029	-	-	1,029
Due from other governments.....	14,230	-	20	14,250
Capital assets.....	-	-	11,200	11,200
Less: accumulated depreciation.....	-	-	(9,686)	(9,686)
Net depreciable capital assets.....	-	-	1,514	1,514
TOTAL ASSETS.....	26,540,319	1,215,659	54,623,730	82,379,708
LIABILITIES				
Liabilities:				
Accounts payable and accrued liabilities.....	48,122	586	234,924	283,632
Investment purchases payable.....	388,457	-	1,345,125	1,733,582
Securities lending obligations.....	1,567,791	-	4,505,428	6,073,219
Due to other funds.....	-	-	1,154	1,154
Other liabilities.....	-	118	-	118
TOTAL LIABILITIES.....	2,004,370	704	6,086,631	8,091,705
NET ASSETS:				
Held in trust for:				
Pension and other employee benefits.....	24,535,949	-	48,339,649	72,875,598
Healthcare benefits.....	-	-	197,450	197,450
Employee salary deferrals.....	-	1,214,955	-	1,214,955
TOTAL NET ASSETS.....	\$ 24,535,949	\$ 1,214,955	\$ 48,537,099	\$ 74,288,003

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Pension (and Other Employee Benefit) Trust Funds

For the Fiscal Year Ended June 30, 2004

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust			Total
	State Employees'	Deferred	Public School	
	Retirement System (December 31, 2003)	Compensation Fund (December 31, 2003)	Employees' Retirement System	
ADDITIONS:				
Pension contributions:				
Employer.....	\$ 68,669	\$ -	\$ 406,722	\$ 475,391
Employee.....	308,014	129,997	944,422	1,382,433
Total contributions.....	<u>376,683</u>	<u>129,997</u>	<u>1,351,144</u>	<u>1,857,824</u>
Investment income:				
Net appreciation in				
fair value of investments.....	4,563,417	143,084	6,871,417	11,577,918
Interest income.....	237,786	19,642	654,594	912,022
Dividend income.....	113,634	-	556,984	670,618
Rental and other income.....	200,692	-	338,213	538,905
Total investment activity income.....	<u>5,115,529</u>	<u>162,726</u>	<u>8,421,208</u>	<u>13,699,463</u>
Less: investment expenses				
Investment activity expense.....	(187,139)	(1,248)	(191,300)	(379,687)
Net investment earnings.....	<u>4,928,390</u>	<u>161,478</u>	<u>8,229,908</u>	<u>13,319,776</u>
Securities lending activities:				
Income.....	16,163	-	46,075	62,238
Expenses.....	(8,854)	-	(31,379)	(40,233)
Total securities lending income.....	<u>7,309</u>	<u>-</u>	<u>14,696</u>	<u>22,005</u>
Total net investment income.....	<u>4,935,699</u>	<u>161,478</u>	<u>8,244,604</u>	<u>13,341,781</u>
TOTAL ADDITIONS.....	<u>5,312,382</u>	<u>291,475</u>	<u>9,595,748</u>	<u>15,199,605</u>
DEDUCTIONS:				
Benefit payments.....	1,627,231	33,027	3,466,283	5,126,541
Refunds of contributions.....	5,115	-	14,767	19,882
Administrative expenses.....	23,646	216	49,202	73,064
Other expenses.....	-	5,396	16,315	21,711
TOTAL DEDUCTIONS:.....	<u>1,655,992</u>	<u>38,639</u>	<u>3,546,567</u>	<u>5,241,198</u>
CHANGE IN PLAN NET ASSETS HELD IN TRUST FOR:				
Pension and other employee benefits.....	3,656,390	252,836	6,023,270	9,932,496
Healthcare benefits.....	-	-	25,911	25,911
Net assets, July 1, 2003.....	20,879,559	962,119	42,487,918	64,329,596
Net assets, June 30, 2004.....	<u>\$ 24,535,949</u>	<u>\$ 1,214,955</u>	<u>\$ 48,537,099</u>	<u>\$ 74,288,003</u>

Agency Funds



LeMoyne House, Underground Railroad National Historic Landmark

Washington County

AGENCY FUNDS DESCRIPTION

Agency funds account for assets held by the Commonwealth as an agent for individuals, private organizations, or other governmental units.

AGENCY FUNDS

Statutory Liquidator Fund — to convert the assets of insolvent insurance companies to cash for remittance to creditors, policyholders and stockholders.

Medical Care Availability and Reduction of Error Fund—to collect surcharges from health care providers and remit payments for judgments, awards, or settlements in medical malpractice claims which exceed basic limits of coverage provided in professional liability insurance policies. Succeeded the Medical Professional Liability Catastrophe Loss Fund effective October 1, 2002.

Medical Professional Liability Catastrophe Loss Fund — to collect surcharges from health care providers and remit payments for judgments, awards, or settlements in medical malpractice claims which exceed basic limits of coverage provided in professional liability insurance policies. Replaced by the successor Medical Care Availability and Reduction of Error Fund effective October 1, 2002.

Underground Storage Tank Indemnification Fund — to collect assessments and remit claim payments to owners and operators of underground storage tanks who incur a liability for taking corrective action, for bodily injury or for property damage caused by a release from underground storage tanks.

Municipal Pension Aid Fund — to collect foreign (out-of-state) casualty insurance company tax assessments, which are remitted to municipalities to help defray municipal police and fire pension fund costs.

Fire Insurance Tax Fund — to collect a two-percent premium tax received from foreign (out-of-state) fire insurance companies conducting business in the Commonwealth, which are remitted to local governments. The municipalities must pay these monies to the relief, pension or retirement fund of their recognized fire fighting organization.

Agency Custodial Accounts — to account for the assets of patients, residents, inmates and other non-Commonwealth funds for which the Commonwealth is the account custodian.

Other — to collect and administer funds from various sources for distribution to other state and local governments or the Federal Government. This other category is an aggregation of six individual agency funds.

Pennsylvania Life and Health Insurance Guaranty Association and ***Pennsylvania Property and Casualty Insurance Guaranty Association***—are component unit organizations which protect policy owners, insured persons/organizations and others from losses due to potential insurer failure due to the impairment or insolvency of member insurance carriers.

There are a total of fifteen individual agency funds.

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

Agency Funds

June 30, 2004

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Statutory Liquidator Fund	Medical Care Availability & Reduction of Error Fund	Medical Prof. Liability Catastrophe Loss Fund	Underground Storage Tank Indemnification Fund	Municipal Pension Aid Fund	Fire Insurance Fund	Agency Custodian Accounts	Other Funds	PA Life and Health Insurance Guaranty Association (December 31, 2003)	PA Property and Casualty Insurance Guaranty Association (December 31, 2003)	Total Agency Funds
ASSETS											
Cash.....	\$ -	\$ 31,457	\$ -	\$ 1,373	\$ -	\$ -	\$ 8,480	\$ 41	\$ 1,219	\$ 5,945	\$ 48,515
Cash with fiscal agents.....	46,013	-	-	-	-	-	-	-	-	-	46,013
Temporary investments.....	900,749	103,896	843	40,416	222,151	90,986	12,882	38,882	250,025	33,428	1,694,258
Long-term investments.....	905,069	-	-	92,736	-	-	-	-	-	17,053	1,014,858
Receivables, net:											
Taxes.....	-	-	-	-	-	-	-	14,663	-	-	14,663
Accounts.....	260,069	117,282	-	-	-	-	13,389	4,119	-	222	395,081
Accrued interest.....	233	-	-	169	181	74	1	27	-	-	685
Loans.....	-	-	-	3,676	-	-	-	-	-	-	3,676
Other.....	-	-	-	-	-	-	-	-	-	249,995	\$ 249,995
Advances to other funds.....	-	-	-	100,000	-	-	-	-	-	-	100,000
Other assets.....	619,334	-	-	-	-	-	5,016	-	-	288	624,638
TOTAL ASSETS.....	\$ 2,731,467	\$ 252,635	\$ 843	\$ 238,370	\$ 222,332	\$ 91,060	\$ 39,768	\$ 57,732	\$ 251,244	\$ 306,931	\$ 4,192,382
LIABILITIES											
Accounts payable and accrued liabilities.....	-	15,169	663	16,597	1	-	6,505	170	-	-	39,105
Securities lending obligations.....	46,800	22,096	179	27,105	38,818	15,899	-	6,904	-	-	157,801
Due to political subdivisions.....	-	-	-	190	183,513	75,161	-	48,139	-	-	307,003
Due to other governments.....	-	10	-	1	-	-	-	-	-	-	11
Advances from other funds.....	-	220,000	-	-	-	-	-	-	-	-	220,000
Self insurance liabilities.....	-	216	-	36	-	-	-	-	-	-	252
Other liabilities.....	2,684,667	(4,856)	1	194,441	-	-	33,263	2,519	251,244	306,931	3,468,210
TOTAL LIABILITIES.....	\$ 2,731,467	\$ 252,635	\$ 843	\$ 238,370	\$ 222,332	\$ 91,060	\$ 39,768	\$ 57,732	\$ 251,244	\$ 306,931	\$ 4,192,382

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Agency Funds

For the Fiscal Year Ended June 30, 2004

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
STATUTORY LIQUIDATOR FUND				
ASSETS				
Cash with fiscal agents.....	\$ 66,017	\$ 24,193	\$ 44,197	\$ 46,013
Temporary investments.....	660,157	1,035,040	794,448	900,749
Long-term investments.....	914,289	916,543	925,763	905,069
Receivables, net:				
Accounts.....	429,842	-	169,773	260,069
Accrued interest.....	223	10	-	233
Other assets.....	582,820	36,514	-	619,334
TOTAL ASSETS	<u>\$ 2,653,348</u>	<u>\$ 2,012,300</u>	<u>\$ 1,934,181</u>	<u>\$ 2,731,467</u>
LIABILITIES				
Securities lending obligations.....	\$ 17,762	\$ 46,800	\$ 17,762	\$ 46,800
Other liabilities.....	2,635,586	1,957,747	1,908,666	2,684,667
TOTAL LIABILITIES	<u>\$ 2,653,348</u>	<u>\$ 2,004,547</u>	<u>\$ 1,926,428</u>	<u>\$ 2,731,467</u>
UNDERGROUND STORAGE TANK INDEMNIFICATION FUND				
ASSETS				
Cash.....	\$ 280	\$ 5,088,431	\$ 5,087,338	\$ 1,373
Temporary investments.....	38,702	1,872,639	1,870,925	40,416
Long-term investments.....	89,656	698,584	695,504	92,736
Receivables, net:				
Accrued interest.....	595	339	765	169
Loans.....	4,909	36,150	37,383	3,676
Advances to other funds.....	100,000	-	-	100,000
TOTAL ASSETS	<u>\$ 234,142</u>	<u>\$ 7,696,143</u>	<u>\$ 7,691,915</u>	<u>\$ 238,370</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 13,713	\$ 160,706	\$ 157,822	\$ 16,597
Securities lending obligations.....	24,280	27,123	24,298	27,105
Due to other funds.....	-	75	75	-
Due to political subdivisions.....	257	1,111	1,178	190
Due to other governments.....	3	1	3	1
Self insurance liabilities.....	-	36	-	36
Other liabilities.....	195,889	274,788	276,236	194,441
TOTAL LIABILITIES	<u>\$ 234,142</u>	<u>\$ 463,840</u>	<u>\$ 459,612</u>	<u>\$ 238,370</u>
MEDICAL CARE AVAILABILITY AND REDUCTION OF ERROR FUND				
ASSETS				
Cash.....	\$ -	\$ 4,722,064	\$ 4,690,607	\$ 31,457
Temporary investments.....	32,479	3,117,556	3,046,139	103,896
Receivables, net:				
Accounts.....	-	148,740	31,458	117,282
Due from other funds.....	-	663	663	-
TOTAL ASSETS	<u>\$ 32,479</u>	<u>\$ 7,989,023</u>	<u>\$ 7,768,867</u>	<u>\$ 252,635</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 2,747	\$ 815,446	\$ 803,024	\$ 15,169
Securities lending obligations.....	5,959	22,261	6,124	22,096
Due to other funds.....	-	45	45	-
Due to political subdivisions.....	-	21	21	-
Due to other governments.....	14	10	14	10
Advances from other funds.....	-	220,000	-	220,000
Self insurance liabilities.....	-	216	-	216
Other liabilities.....	23,759	323,181	351,796	(4,856)
TOTAL LIABILITIES	<u>\$ 32,479</u>	<u>\$ 1,381,180</u>	<u>\$ 1,161,024</u>	<u>\$ 252,635</u>
MEDICAL PROFESSIONAL LIABILITY CATASTROPHE LOSS FUND				
ASSETS				
Cash.....	\$ -	\$ 187,358	\$ 187,358	\$ -
Temporary investments.....	789	558	504	843
TOTAL ASSETS	<u>\$ 789</u>	<u>\$ 187,916</u>	<u>\$ 187,862</u>	<u>\$ 843</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 1	\$ 667	\$ 5	\$ 663
Securities lending obligations.....	145	180	146	179
Due to other funds.....	-	663	663	-
Other liabilities.....	643	28	670	1
TOTAL LIABILITIES	<u>\$ 789</u>	<u>\$ 1,538</u>	<u>\$ 1,484</u>	<u>\$ 843</u>

(continued)

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Agency Funds (continued)

For the Fiscal Year Ended June 30, 2004

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
MUNICIPAL PENSION AID FUND				
ASSETS				
Cash.....	\$ -	\$ 5,452,422	\$ 5,452,422	\$ -
Temporary investments.....	195,557	2,734,704	2,708,110	222,151
Receivables, net:				
Accrued interest.....	-	181	-	181
TOTAL ASSETS	<u>\$ 195,557</u>	<u>\$ 8,187,307</u>	<u>\$ 8,160,532</u>	<u>\$ 222,332</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 43	\$ 1	\$ 43	\$ 1
Securities lending obligations.....	35,878	77,794	74,854	38,818
Due to political subdivisions.....	159,636	191,641	167,764	183,513
TOTAL LIABILITIES	<u>\$ 195,557</u>	<u>\$ 269,436</u>	<u>\$ 242,661</u>	<u>\$ 222,332</u>
FIRE INSURANCE TAX FUND				
ASSETS				
Cash.....	\$ -	\$ 1,232,071	\$ 1,232,071	\$ -
Temporary investments.....	85,223	248,760	242,997	90,986
Receivables, net:				
Accrued interest.....	-	74	-	74
TOTAL ASSETS	<u>\$ 85,223</u>	<u>\$ 1,480,905</u>	<u>\$ 1,475,068</u>	<u>\$ 91,060</u>
LIABILITIES				
Securities lending obligations.....	\$ 13,041	\$ 15,964	\$ 13,106	\$ 15,899
Due to political subdivisions.....	72,182	3,356	377	75,161
TOTAL LIABILITIES	<u>\$ 85,223</u>	<u>\$ 19,320</u>	<u>\$ 13,483</u>	<u>\$ 91,060</u>
AGENCY CUSTODIAL ACCOUNTS				
ASSETS				
Cash.....	\$ 6,858	\$ 38,827	\$ 37,205	\$ 8,480
Temporary investments.....	13,566	8,763	9,447	12,882
Receivables, net:				
Accounts.....	12,248	13,389	12,248	13,389
Accrued interest.....	1	1	1	1
Other assets.....	4,362	762	108	5,016
TOTAL ASSETS	<u>\$ 37,035</u>	<u>\$ 61,742</u>	<u>\$ 59,009</u>	<u>\$ 39,768</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 6,128	\$ 6,505	\$ 6,128	\$ 6,505
Other liabilities.....	30,907	33,263	30,907	33,263
TOTAL LIABILITIES	<u>\$ 37,035</u>	<u>\$ 39,768</u>	<u>\$ 37,035</u>	<u>\$ 39,768</u>

(continued)

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Agency Funds (continued)

For the Fiscal Year Ended June 30, 2004

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
OTHER FUNDS				
ASSETS				
Cash.....	\$ 93	\$ 8,821,988	\$ 8,822,040	\$ 41
Temporary investments.....	45,711	3,359,876	3,366,705	38,882
Receivables, net:				
Taxes.....	23,911	56,879	66,127	14,663
Accounts.....	2,809	4,120	2,810	4,119
Accrued interest.....	-	27	-	27
TOTAL ASSETS	\$ 72,524	\$ 12,242,890	\$ 12,257,682	\$ 57,732
LIABILITIES				
Accounts payable.....	\$ 166	\$ 40,752	\$ 40,748	\$ 170
Securities lending obligations.....	7,085	6,934	7,115	6,904
Due to other funds.....	-	972	972	-
Due to political subdivisions.....	62,882	18,919	33,662	48,139
Other liabilities.....	2,391	224	96	2,519
TOTAL LIABILITIES	\$ 72,524	\$ 67,801	\$ 82,593	\$ 57,732
PENNSYLVANIA LIFE AND HEALTH				
INSURANCE GUARANTY ASSOCIATION				
ASSETS				
Cash.....	\$ 1,760	\$ 8,255	\$ 8,796	\$ 1,219
Temporary investments.....	248,514	1,511	-	250,025
TOTAL ASSETS	\$ 250,274	\$ 9,766	\$ 8,796	\$ 251,244
LIABILITIES				
Other liabilities.....	\$ 250,274	\$ 970	\$ -	\$ 251,244
TOTAL LIABILITIES	\$ 250,274	\$ 970	\$ -	\$ 251,244
PENNSYLVANIA PROPERTY AND CASUALTY				
INSURANCE GUARANTY ASSOCIATION				
ASSETS				
Cash.....	\$ 241	\$ 92,728	\$ 87,024	\$ 5,945
Temporary investments.....	99,491	-	66,063	33,428
Long-term investments.....	38,181	-	21,128	17,053
Receivables, net:				
Accounts.....	1,745	-	1,523	222
Other.....	139,595	117,116	6,716	249,995
Other assets.....	304	15	31	288
TOTAL ASSETS	\$ 279,557	\$ 209,859	\$ 182,485	\$ 306,931
LIABILITIES				
Deferred revenues.....	\$ 1,149	\$ 1,206	\$ 2,355	\$ -
Other liabilities.....	278,408	218,985	190,462	306,931
TOTAL LIABILITIES	\$ 279,557	\$ 220,191	\$ 192,817	\$ 306,931

(continued)

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Agency Funds (continued)

For the Fiscal Year Ended June 30, 2004

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

TOTAL — AGENCY FUNDS

ASSETS

Cash.....	\$ 9,232	\$ 25,644,144	\$ 25,604,861	\$ 48,515
Cash with fiscal agents.....	66,017	24,193	44,197	46,013
Temporary investments.....	1,420,189	12,379,407	12,105,338	1,694,258
Long-term investments.....	1,042,126	1,615,127	1,642,395	1,014,858
Receivables, net:				
Taxes.....	23,911	56,879	66,127	14,663
Accounts.....	446,644	166,249	217,812	395,081
Accrued interest.....	819	632	766	685
Loans.....	4,909	36,150	37,383	3,676
Other.....	139,595	117,116	6,716	249,995
Due from other funds.....	-	663	663	-
Advances to other funds.....	100,000	-	-	100,000
Other assets.....	587,486	37,291	139	624,638
TOTAL ASSETS	\$ 3,840,928	\$ 40,077,851	\$ 39,726,397	\$ 4,192,382

LIABILITIES

Accounts payable and accrued liabilities.....	\$ 22,798	\$ 1,024,077	\$ 1,007,770	\$ 39,105
Securities lending obligations.....	104,150	197,056	143,405	157,801
Due to other funds.....	-	1,755	1,755	-
Due to political subdivisions.....	294,957	215,048	203,002	307,003
Due to other governments.....	17	11	17	11
Deferred revenue.....	1,149	1,206	2,355	-
Advances from other funds.....	-	220,000	-	220,000
Self insurance liabilities.....	-	252	-	252
Other liabilities.....	3,417,857	2,809,186	2,758,833	3,468,210
TOTAL LIABILITIES	\$ 3,840,928	\$ 4,468,591	\$ 4,117,137	\$ 4,192,382

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Statistical Section



Bushkill Falls

Pike County

REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES

TABLE 1
For the Last Ten Fiscal Years Ended June 30

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	1995	1996	1997	1998	1999	2000	2001	(Restated) 2002	2003	2004
REVENUES BY SOURCE										
Taxes.....	\$ 16,990,198	\$ 17,220,048	\$ 18,168,581	\$ 19,043,735	\$ 20,105,276	\$ 20,956,743	\$ 22,621,745	\$ 20,636,762	\$ 21,469,170	\$ 23,237,117
Licenses and fees.....	773,463	796,150	804,429	1,004,050	1,019,256	1,143,789	1,237,179	1,246,232	1,350,016	1,475,948
Intergovernmental.....	7,959,997	9,517,277	9,499,083	9,669,407	10,563,455	11,093,738	12,154,600	13,259,463	14,575,716	16,379,096
Charges for sales and services.....	894,852	1,311,375	1,516,527	1,697,933	2,057,375	2,489,196	2,388,536	2,535,775	2,019,842	2,068,019
Investment income.....	145,124	152,724	174,604	225,805	258,525	396,499	465,178	29,615	249,791	402,132
Lottery receipts	1,595,726	1,699,277	1,722,558	1,684,015	1,659,305	1,695,371	1,788,333	-	-	-
Other	167,452	228,931	187,592	178,042	214,254	656,086	647,322	755,226	837,918	957,494
TOTAL REVENUES	\$ 28,526,812	\$ 30,925,782	\$ 32,073,374	\$ 33,502,987	\$ 35,877,446	\$ 38,431,422	\$ 41,302,893	\$ 38,463,073	\$ 40,502,453	\$ 44,519,806
EXPENDITURES BY FUNCTION										
Direction and Supportive services	\$ 2,313,118	\$ 2,630,517	\$ 2,468,746	\$ 2,586,529	\$ 2,722,917	\$ 2,817,426	\$ 3,329,980	\$ 968,563	\$ 914,794	\$ 1,538,729
Protection of persons and property.....	1,927,228	2,345,462	2,462,026	2,613,021	2,785,269	2,933,612	3,072,205	3,876,449	3,882,843	3,886,666
Health and human services.....	12,249,729	13,651,317	13,907,167	14,341,539	15,320,410	16,486,542	19,204,847	18,990,802	20,510,849	21,689,392
Public education.....	7,006,744	7,417,504	7,397,274	7,714,443	7,842,732	8,283,144	8,677,284	8,814,273	10,198,076	10,529,504
Recreation and cultural enrichment.....	571,502	348,639	369,467	396,087	436,601	510,732	568,757	480,245	471,920	382,179
Economic development.....	338,377	285,092	300,310	338,984	469,005	539,068	745,143	1,245,292	1,507,584	1,334,071
Transportation.....	2,773,086	2,832,031	2,912,583	3,243,334	3,654,269	3,679,188	4,065,124	4,003,291	3,935,785	2,310,434
Capital outlay.....	264,464	319,195	253,758	360,238	582,863	586,801	655,248	694,219	407,080	2,008,141
Debt service:										
Principal retirement.....	516,705	447,790	437,880	435,090	443,675	479,350	477,001	479,395	998,396	455,890
Interest and fiscal charges.....	301,480	289,138	287,866	263,356	262,669	277,044	281,590	278,428	313,681	311,686
TOTAL EXPENDITURES	\$ 28,262,433	\$ 30,566,685	\$ 30,797,077	\$ 32,292,621	\$ 34,520,410	\$ 36,592,907	\$ 41,077,179	\$ 39,830,957	\$ 43,141,008	\$ 44,446,692

SOURCE: Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds

NET BONDED DEBT PER CAPITA

TABLE 2
For the Last Ten Fiscal Years

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)			
<u>At Fiscal Year Ended June 30</u>	<u>Net Bonded Debt</u>	<u>Population</u>	<u>Debt Per Capita</u>
1994	\$ 5,100,012	12,040	\$ 423
1995	5,040,662	12,044	418
1996	5,061,530	12,038	420
1997	4,841,729	12,015	403
1998	4,841,324	12,002	403
1999	5,253,614	11,994	438
2000	5,366,621	12,281	437
2001	5,545,081	12,287	451
2002	6,071,938	12,335	492
2003	6,800,841	12,365	550

SOURCE: Population Information -- U.S. Department of Commerce, Bureau of Census

**RATIO OF ANNUAL DEBT SERVICE REQUIREMENTS
FOR GENERAL OBLIGATION BONDED DEBT
TO TOTAL GENERAL FUND EXPENDITURES**

TABLE 3
For the Last Ten Fiscal Years

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)			
<u>For The Fiscal Year Ended June 30</u>	<u>Debt Service Requirements Funded by General Fund</u>	<u>Budgetary Basis General Fund Expenditures⁽¹⁾</u>	<u>%</u>
1995	\$ 525,889	\$ 22,467,672	2.34
1996	551,133	23,480,336	2.35
1997	649,759	23,384,414	2.78
1998	624,642	24,891,340	2.51
1999	761,572	26,624,901	2.86
2000	627,817	28,755,784	2.18
2001	382,924	29,717,425	1.29
2002	551,189	31,666,564	1.74
2003	608,323	34,350,113	1.77
2004	669,379	35,785,999	1.87

⁽¹⁾ Excludes encumbrances included in "Total Expenditures" in the Budgetary Comparison Schedules

COMPUTATION OF LEGAL DEBT MARGIN

TABLE 4

As of August 31, 2004

COMMONWEALTH OF PENNSYLVANIA

Average annual tax revenues deposited in the previous five fiscal years.....	\$ 25,091,013,830
Constitutional factor.....	<u>x 1.75</u>
Constitutional debt limit for debt incurred without the approval of the electors	43,909,274,203
Less outstanding net debt (non-electorate approved)	<u>6,230,365,064</u>
Legal debt margin.....	<u>\$ 37,678,909,139</u>

The formula for the legal debt limit is contained in Article VIII, Section 7(a) of the Pennsylvania Constitution, which provides:

No debt shall be incurred by or on behalf of the Commonwealth except by law and in accordance with the provisions of this section.

- (1) Debt may be incurred without limit to suppress insurrection, rehabilitate areas affected by man-made or natural disaster, or to implement unissued authority by the electors prior to the adoption of this article.
- (2) The Governor, State Treasurer and Auditor General, acting jointly, may (i) issue tax anticipation notes having a maturity within the fiscal year of issue and payable exclusively from revenues received in the same fiscal year, and (ii) incur debt for the purpose of refunding other debt, if such refunding debt matures within the term of the original debt.
- (3) Debt may be incurred without limit for purposes specifically itemized in the law authorizing such debt, if the question whether the debt shall be incurred has been submitted to the electors and approved by a majority of those voting on the question.
- (4) Debt may be incurred without the approval of the electors for capital projects specifically itemized in a capital budget if such debt will not cause the amount of all net debt outstanding to exceed one and three-quarters times the average of the annual tax revenues deposited in the previous five fiscal years as certified by the Auditor General. For the purposes of this subsection, debt outstanding shall not include debt incurred under clauses (1) and (2)(i), or debt incurred under clause (2)(ii) if the original debt would not be so considered, or debt incurred under subsection (3) unless the General Assembly shall so provide in the law authorizing such debt.

The figures above are abstracted from a certification of the Auditor General dated August 31, 2004.

SCHEDULE OF REVENUE BOND COVERAGE

TABLE 5
For the Last Ten Fiscal Years

COMMONWEALTH OF PENNSYLVANIA

Pennsylvania Turnpike Commission ^(b)							
(Expressed in Thousands)							
For the Fiscal Year Ended May 31	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1995	375,754	146,325	229,429	15,715	72,548	88,263	2.60
1996	389,774	162,150	227,624	23,900	75,644	99,544	2.29
1997	398,897	158,705	240,192	22,845	74,462	97,307	2.47
1998	410,266	165,763	244,503	28,240	72,274	100,514	2.43
1999	441,235	190,179	251,056	29,085	86,483	115,568	2.17
2000	458,728	180,671	278,057	36,775	90,784	127,559	2.18
2001	490,494	212,365	278,129	48,245	106,949	155,194	1.79
2002	530,363	216,077	314,286	274,200	122,209	396,409	0.79
2003	548,576	233,542	315,034	58,475	113,016	171,491	1.84
2004	549,981	237,385	312,596	56,960	128,199	185,159	1.69

Pennsylvania Industrial Development Authority ^(b)							
(Expressed in Thousands)							
For the Fiscal Year Ended June 30	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1995	30,806	2,864	27,942	4,335	20,123	24,458	1.14
1996	30,487	2,898	27,589	10,695	19,747	30,442	0.91
1997	32,963	2,865	30,098	12,955	22,314	35,269	0.85
1998	35,967	2,861	33,106	19,380	22,852	42,232	0.78
1999	30,227	3,187	27,040	20,660	21,845	42,505	0.64
2000	34,581	3,315	31,266	22,585	20,615	43,200	0.72
2001	38,807	3,102	35,705	23,005	19,487	42,492	0.84
2002	31,360	4,236	27,124	23,695	18,830	42,525	0.64
2003	34,559	3,447	31,112	18,815	30,217	49,032	0.63
2004	20,860	3,029	17,831	22,120	28,666	50,786	0.35

Pennsylvania Housing Finance Agency ^(b)							
(Expressed in Thousands)							
For the Fiscal Year Ended June 30	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest ^(a)	Total	
1995	196,023	16,095	179,928	51,406	139,621	191,027	0.94
1996	208,048	16,979	191,069	40,839	146,452	187,291	1.02
1997	222,736	16,748	205,988	39,463	157,989	197,452	1.04
1998	247,841	17,931	229,910	43,558	172,268	215,826	1.06
1999	237,346	19,544	217,802	54,438	175,337	229,775	0.95
2000	249,336	20,303	229,033	93,240	176,399	269,639	0.85
2001	260,049	24,398	235,651	62,582	174,349	236,931	0.99
2002	231,306	25,701	205,605	75,934	166,224	242,158	0.85
2003	196,179	25,408	170,771	74,092	169,225	243,317	0.70
2004	194,942	30,482	164,460	78,385	148,547	226,932	0.72

^(a) Excludes interest on notes payable.

^(b) Discretely Presented Component Unit.

**ANNUAL ESTIMATES OF THE RESIDENT POPULATION
PENNSYLVANIA COMPARED TO THE UNITED STATES**

TABLE 6
For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA

<u>Calendar Year</u>	(Expressed in Thousands)		<u>%</u>
	<u>United States</u>	<u>Pennsylvania</u>	
1994	260,289	12,040	4.63
1995	262,803	12,044	4.58
1996	265,228	12,038	4.54
1997	267,783	12,015	4.49
1998	270,248	12,002	4.44
1999	272,690	11,994	4.40
2000	282,178	12,285	4.35
2001	285,094	12,298	4.31
2002	287,974	12,328	4.28
2003	290,810	12,365	4.25

SOURCE: U.S. Department of Commerce, Bureau of Census

**STATE BANKING INSTITUTIONS
DEMAND DEPOSITS AND TIME AND SAVINGS DEPOSITS**

TABLE 7
For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA

<u>Calendar Year</u>	(Expressed in Thousands)	
	<u>Demand Deposits</u>	<u>Time and Savings Deposits</u>
1994	\$ 6,952,868	\$ 49,674,200
1995	7,124,441	51,766,777
1996	4,233,735	37,254,292
1997	4,764,449	40,036,785
1998	4,581,076	35,885,048
1999	4,469,669	38,497,993
2000	4,680,714	40,344,204
2001	7,203,956	50,123,973
2002	7,371,263	53,839,174
2003	8,496,642	59,370,232

SOURCE: Pennsylvania Department of Banking

**RESIDENT EMPLOYMENT, UNEMPLOYMENT AND UNEMPLOYMENT RATE
PENNSYLVANIA COMPARED TO THE UNITED STATES**

TABLE 8
For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands
Except Percents)

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
PENNSYLVANIA										
Civilian labor force.....	5,826	5,838	5,903	5,984	5,936	5,969	5,972	6,073	6,290	6,170
Employment.....	5,465	5,495	5,590	5,673	5,661	5,707	5,722	5,786	5,934	5,826
Unemployment.....	360	343	313	311	275	262	250	287	356	344
Rate %.....	6.2	5.9	5.3	5.2	4.6	4.4	4.2	4.7	5.7	5.6
UNITED STATES										
Civilian labor force.....	131,056	132,304	133,943	136,297	137,674	139,368	146,863	141,815	144,863	146,510
Employment.....	123,060	124,900	126,708	129,558	131,464	133,488	135,208	135,073	136,485	137,736
Unemployment.....	7,996	7,404	7,235	6,739	6,210	5,880	5,655	6,742	8,378	8,774
Rate %.....	6.1	5.6	5.4	4.9	4.5	4.2	4	4.8	5.8	6

SOURCE: Pennsylvania Department of Labor and Industry, Center for Workforce Information and Analysis

**TOTAL PERSONAL INCOME AND PER CAPITA PERSONAL INCOME
PENNSYLVANIA COMPARED TO THE UNITED STATES**

TABLE 9

For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA

Calendar Year	TOTAL PERSONAL INCOME (Millions of Dollars)			PER CAPITA PERSONAL INCOME (Dollars)		
	United States	Pennsylvania	%	United States	Pennsylvania	%
1994	\$ 5,741,050	\$ 269,002	4.70	\$ 22,056	\$ 22,343	101.30
1995	6,192,235	285,923	4.60	23,562	23,738	100.70
1996	6,538,103	299,001	4.60	24,270	24,467	100.81
1997	6,928,545	313,457	4.50	25,412	25,635	100.88
1998	7,418,497	330,733	4.46	26,893	27,008	100.43
1999	7,779,511	342,357	4.40	27,880	27,916	100.13
2000	8,398,811	365,626	4.35	29,760	29,759	100.00
2001	8,677,490	378,350	4.36	30,413	30,752	101.11
2002	8,922,320	391,354	4.39	30,941	31,727	102.54
2003	9,199,008	395,669	4.30	31,632	31,998	101.15

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis

THIRTY LARGEST NONGOVERNMENTAL EMPLOYERS

TABLE 10

For the Calendar Year 2003

COMMONWEALTH OF PENNSYLVANIA

EMPLOYER	RANK
Wal-Mart Store, Inc	1
University of Pennsylvania	2
Pennsylvania State University	3
United Parcel Service.....	4
Giant Food Stores.....	5
US Airways Inc.....	6
University of Pittsburgh.....	7
Merck & Co Inc.....	8
Weis Markets Inc.....	9
UPMC Presbyterian.....	10
KMART of Pennsylvania LP.....	11
Sears Roebuck & Co.....	12
PNC Bank, NA.....	13
Giant Eagle Inc.....	14
Tenet Health System Inc Philadelphia.....	15
The Home Depot USA Inc.....	16
Highmark Blue Cross/Blue Shield.....	17
Verizon Co Inc.....	18
Wachovia Bank.....	19
May Department Stores.....	20
Vanguard Group Inc	21
Heartland Employment.....	22
Mellon Bank, NA.....	23
Acme Markets Inc.....	24
GMR Restaurants of Pennsylvania.....	25
Hershey Foods Corporation	26
Temple University.....	27
J C Penney Company Inc.....	28
Eckerd Corporation.....	29
Eat 'n Park Hospitality Group	30

SOURCE: Pennsylvania Department of Labor and Industry, Office of Employment Security

**LIST OF MAJOR CORPORATIONS THAT MAINTAIN
THEIR CORPORATE HEADQUARTERS IN THE COMMONWEALTH**

TABLE 11

COMMONWEALTH OF PENNSYLVANIA

Adelphia Communications Corp.	JLG Industries, Inc.
Agere Systems, Inc.	Jones Apparel Group, Inc.
Air Products and Chemicals, Inc.	Kennametal, Inc.
Airgas, Inc.	Mine Safety Appliances Co.
Alcoa, Inc.	Mylan Laboratories, Inc.
Allegheny Technologies, Inc.	NCO Group, Inc.
American Eagle Outfitters, Inc.	P. H. Glatfelter Company
Amerisource Bergen Corp.	Pegasus Communications Corp.
AMETEK Inc.	Penn National Gaming Inc.
Amkor Technology, Inc.	Pep Boys – Manny, Moe and Jack
ARAMARK Corporation	PPG Industries, Inc.
Blair Corporation	Rent-Way Inc.
Black Box Corporation	Rite Aid Corporation
Bon-Ton Stores Inc.	Rohm and Haas Company
Brandywine Realty Trust	Safeguard Scientifics, Inc.
Cable Design Technology Corporation	SEI Investments Co.
Carpenter Technology Corporation	Select Medical Corp.
CDI Corporation	SPS Technologies, Inc.
Charming Shoppes, Inc.	SunGard Data Systems, Inc.
Comcast Corporation	Sunoco, Inc.
DENTSPLY International, Inc.	Teleflex, Inc.
Dick’s Sporting Goods, Inc.	Toll Brothers, Inc.
Electronic Boutique Holding Corporation	Triumph Group Inc.
Federated Investors, Inc.	UNISYS Corporation
FMC Corporation	United States Steel
Foamex International, Inc.	Universal Health Services, Inc.
Genesis Health Services, Inc.	Vishay Intertechnology, Inc.
H. J. Heinz Company	Wabtech Corp.
Harsco Corporation	Weis Markets, Inc.
Hershey Foods Corporation	WESCO International Inc.
IKON Office Solutions	York International Corporation

SOURCE: *Ward’s Business Directory 2003*

June 30, 2004

COMMONWEALTH OF PENNSYLVANIA

Date of Ratification of U.S. Constitution	December 12, 1787
Form of Government	Legislative-Executive-Judicial
Miles of State Highway	39,893
Land Area – in square miles	45,000
State Police Protection:	
Number of Stations	90
Number of State Police	4,180
Higher Education (Universities, Colleges and Community Colleges):	
Number of campuses in state	239
Number of educators	24,723
Number of students	698,882
Recreation:	
Number of State Parks	116
Area of State Parks	281,589 Acres
Area of State Forests	2,008,590 Acres

SOURCE: Pennsylvania Department of Transportation, Bureau of Strategic Planning
 Pennsylvania State Police, Bureau of Research and Development
 Pennsylvania Department of Education, Division of Data Services
 Pennsylvania Department of Conservation and Natural Resources, Bureau of Forestry