

COMMONWEALTH OF PENNSYLVANIA



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2011

Tom Corbett
Governor



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Commonwealth of Pennsylvania

Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2011

Tom Corbett, Governor



Prepared By:

Charles B. Zogby, Secretary
Office of the Budget

Peter J. Tartline, Executive Deputy Secretary
Office of the Budget

Anna Maria Kiehl, CPA
Chief Accounting Officer

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**Commonwealth of Pennsylvania
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2011**

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COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

CHARLES B. ZOGBY
SECRETARY
OFFICE OF THE BUDGET

December 12, 2011

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, 2011. The Office of the Budget, Office of Comptroller Operations, prepared this report, which includes the Basic Financial Statements, 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 Basic Financial Statements 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 and 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. 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, Office of Comptroller Operations. The Commonwealth relies on its comprehensive framework of internal control in the preparation of basic financial statements. The Commonwealth has established a cost-effective system of internal controls that is however, subject to inherent limitations. As is in any system of internal controls, there is reasonable, but not absolute, assurance as to the effectiveness of the internal control system.

The Commonwealth's June 30, 2011 Basic Financial Statements have been jointly audited by the Department of the Auditor General and KPMG 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 Basic Financial Statements.

Management's Discussion and Analysis (MD&A), which precedes the June 30, 2011 Basic Financial Statements, provides an overview of the Commonwealth's financial position and activities thus helping readers to understand the government-wide statements. This section immediately follows the auditors' opinion. In addition to the MD&A and Basic Financial Statements, this CAFR includes: budgetary comparison schedules; combining fund financial statements; supporting schedules; certain narrative information describing individual funds; and statistical tables presenting financial trends, revenue capacity, debt capacity, demographic and economic information, capital asset and operating information about the Commonwealth.

PROFILE OF THE GOVERNMENT

Pennsylvania, also known as the Keystone State, is one of only four Commonwealths in the United States. Pennsylvania earns the title of Commonwealth as a result of its organization by the common consent of the people during colonial times.

The Commonwealth of Pennsylvania provides a wide range of services to enhance the quality of life for its 12.7 million citizens. The Commonwealth divides these essential services into seven broad program categories, consisting of direction and supportive services, protection of persons and property, health and human services, public education, economic development, transportation, and recreation and cultural enrichment. This programmatic approach enables Pennsylvania to effectively serve its citizens.

The Commonwealth of Pennsylvania, aside from the defined primary state government, is also accountable for a number of legally-separate component unit organizations. The major component units in Pennsylvania include the Pennsylvania Turnpike Commission, the Pennsylvania Housing Finance Agency, the Pennsylvania Higher Education Assistance Agency, the Pennsylvania Infrastructure Investment Authority, and the State System of Higher Education. Although the Commonwealth does not directly control or operate these component unit organizations, it is still accountable for them, and therefore includes them in the Commonwealth's financial reporting entity and reports them separately within its government-wide financial statements.

Pennsylvania government has three distinct branches: the legislative branch, the judicial branch, and the executive branch. The legislative branch, comprised of the Senate and House of Representatives, develops and passes the Commonwealth's laws. The judicial branch, made up of the Pennsylvania Supreme Court as well as other specialized courts, serves the Commonwealth by interpreting the laws put in place by the legislative branch. The executive branch, consisting of the elected Governor, Auditor General, Attorney General, State Treasurer, and other appointed entities, works to enforce the laws established by the legislative branch. With these three branches of the Pennsylvania state government, an effective system of checks and balances is created. The Commonwealth's principal leadership and organization charts at June 30, 2011 are incorporated immediately following this letter.

**GENERAL FUND
BUDGETARY BASIS**

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, 2011. 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 86.3 percent of the non-Federal General Fund budgetary basis revenues. General Fund expenditures are reported in the following functional assignments, along with the related percentage of non-Federal expenditures: direction and supportive services (3.62), protection of persons and property (12.81), health and human services (38.63), public education (39.18), recreation and cultural enrichment (.86), economic development (1.42), transportation (.01) and transfers to debt service funds (3.47) for all obligations except those incurred for highway or other special revenue fund purposes.

**BUDGET ADOPTION AND LEGAL COMPLIANCE
BUDGETARY COMPARISON SCHEDULE**

A discussion of the Commonwealth's annual budget process is included as Required Supplementary Information (RSI) immediately following the Notes to the Financial Statements. The legally adopted budget provides statutory control over spending. Under Commonwealth law, expenditures cannot exceed amounts appropriated. Budgetary control is exercised by specific, line-item appropriations. The Budgetary Comparison Schedule, included as RSI, provides original budget, final budget and actual budgetary results for the fiscal year ended June 30, 2011.

**BUDGETARY BASIS FUND BALANCE INCREASE/(DECREASE)
FIVE MOST RECENT FISCAL YEARS**

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

**General Fund-Budgetary Basis
Unreserved/Undesignated Balance
Increase/(Decrease) Last Five Fiscal Years at June 30**

<u>Fiscal Year</u>	<u>Balance/(Deficit)</u>	<u>% Increase/(Decrease)</u>
2011	\$ 1,072.9	1,366.8
2010 (revised)	(293.9)	1,731.5
2009 (revised)	(2,025.4)	(2,610.7)
2008 (revised)	585.3	54.4
2007	530.9	8.7

During the fiscal year ended June 30, 2011, total General Fund revenues and other sources exceeded expenditures and other uses by \$1,366.8 and, at June 30, 2011, the Commonwealth reported an unreserved/undesignated balance (budgetary basis) of \$1,072.9 in the General Fund. This compares to a budgetary basis balance of \$(293.9) (revised) at June 30, 2010. The budgetary basis results for the fiscal year ended June 30, 2011 include revenue collections totaling \$53,993.6, less appropriation authorizations totaling \$52,720.5, plus other net financing sources totaling \$93.7. Included in the \$52,720.5 appropriation authorizations are \$25.1 of state supplemental appropriation reductions and \$603.6 in Federal supplemental appropriation additions authorized during the fiscal year ended June 30, 2011 (amounts in millions).

ECONOMIC CONDITION

The Commonwealth's economic performance is largely dependent upon job growth. Heavy job losses that occurred during 2009 and 2010 have abated and the Commonwealth economy generated approximately 54,000 net new non-agricultural jobs during fiscal year ended June 30, 2011. Pennsylvania's unemployment rate has traditionally been equal to or below the national average following the diversification of the Commonwealth economy in the 1980's and 1990's and during the most recent fiscal year, the Commonwealth unemployment rate was 7.6 percent while the national unemployment rate was 9.2 percent. The Commonwealth's year-over-year rate of growth in employment averaged 1.1 percent while the broader U.S. economy was just 0.6 percent. Larger sectors adding jobs in Pennsylvania included: health care, wholesale trade and administrative services, manufacturing and mining. Significant job losses were experienced in the governmental sector. Pennsylvania has weathered the bursting of the housing bubble better than most other states. The Commonwealth ranks 29th in the country in loans in foreclosure and 40th in the nation in terms of new loan foreclosures initiated in 2010. Further, while home prices had been failing dramatically throughout the nation, home price appreciation in Pennsylvania has essentially stalled from 2007 to 2010.

Pennsylvania based energy and mining firms historically led the nation during much of the past two centuries before falling on hard times in the 1980s. Escalating oil and natural gas prices have contributed to increased exploration for new energy reserves. While mining activity has declined significantly within the Commonwealth, the emergence of the Marcellus Shale natural gas reserves under much of Pennsylvania is leading to a resurgence in the industry. The Marcellus Shale natural gas field could be the second-largest natural gas field in the world and producers are spending billions in the Commonwealth to increase production. Over 1,000 drilling permits have been granted in Pennsylvania in 2010, more than double the rate approved in 2008. Estimated job creation tied to the expanded natural gas industry is forecast to add upwards of 200,000 jobs and more than \$18 billion in output to the state economy by the end of the decade.

LONG TERM FINANCIAL PLANNING

Each year, the Governor's Executive Budget includes estimates of total revenues, available balances carried forward and expenditures for all Commonwealth funds for one budget year and four subsequent fiscal years. These multi-year projections illustrate expected revenue and spending changes, which inform the state's policy makers about the status of the Commonwealth's budget. Based on the enacted budget for the 2011-2012 fiscal year, the Commonwealth expects to receive General Fund revenues and transfers of \$27.336 billion and to spend \$27.331 billion from the Commonwealth's General Fund. The chart on the next page presents a five year summary of projected revenue and expenditures for the General Fund.

GENERAL FUND
(Amounts in thousands)

	2011-12	2012-13	2013-14	2014-15	2015-16
Beginning balance	\$ 586,087	\$ 3,694	\$ 2,683	\$ 4,877	\$ 3,367
Revenues.....	27,945,058	29,127,281	29,811,182	30,450,329	31,200,578
Adjustments*.....	(1,195,000)	(1,215,000)	(1,235,000)	(1,255,000)	(1,275,000)
Funds available.....	27,336,145	27,915,975	28,578,865	29,200,206	29,928,945
Total state expenditures.....	27,331,219	27,915,398	28,572,362	29,195,716	29,924,469
Preliminary balance.....	4,926	3,577	6,503	4,490	4,476
Less transfer to Budget Stabilization Reserve Fund.....	(1,232)	(894)	(1,626)	(1,123)	(1,119)
Ending balance.....	\$ 3,694	\$ 2,683	\$ 4,877	\$ 3,367	\$ 3,357

*Includes refunds, lapses and adjustments to beginning balances.

CERTIFICATE OF ACHIEVEMENT

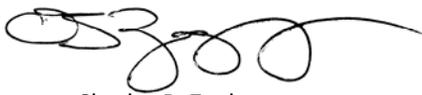
The CAFR will be submitted to the Government Finance Officers Association of the United States and Canada (GFOA) to determine its eligibility for the GFOA's Certificate of Achievement for Excellence in Financial Reporting. The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth of Pennsylvania for its Comprehensive Annual Financial Report as of and for the fiscal year ended June 30, 2010. This represents the twenty-fifth 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, 2011 conforms to the GFOA's award criteria.

ACKNOWLEDGMENTS

We wish to express our appreciation to the staff of the Office of the Budget, Office of Comptroller Operations and 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,



Charles B. Zogby
Secretary
Office of the Budget

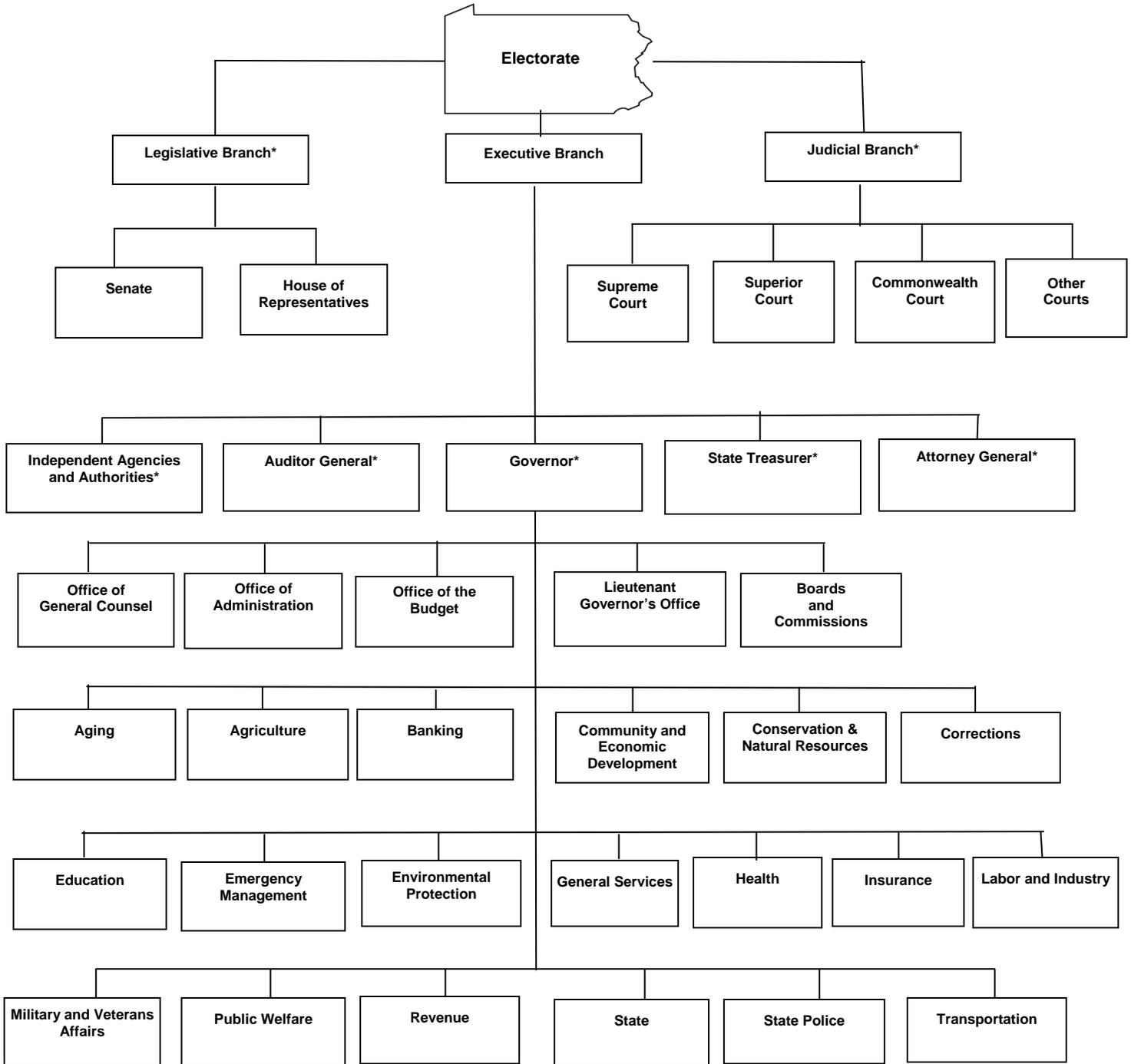


Peter J. Tartline
Executive Deputy Secretary
Office of the Budget



Anna Maria Kiehl, CPA
Chief Accounting Officer
Office of the Budget

**COMMONWEALTH OF PENNSYLVANIA
ORGANIZATION CHART
June 30, 2011**



* Independently Elected



Principal Leadership

Commonwealth Elected and Selected Appointed Officials as of June 30, 2011

Tom Corbett, Governor

Jim Cawley, Lieutenant Governor

Rob McCord, Treasurer

Jack Wagner, Auditor General

Linda Kelly, Attorney General

Charles Zogby, Secretary of the Budget

Kelly Powell Logan, Secretary of Administration

Joseph Scarnati – President pro Tempore, Senate

Samuel Smith, Speaker of the House

Ronald Castile – Chief Justice State Supreme Court

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, 2010

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



Linda C. Davison

President

Jeffrey R. Emer

Executive Director



Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2011

Financial Section





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



KPMG LLP
Suite 1000
30 North Third Street
PO Box 1190
Harrisburg, PA 17108-1190

Report of Independent Auditors

The Honorable Tom Corbett, 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 (the Commonwealth), as of and for the year ended June 30, 2011, 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 the Tobacco Settlement Fund, a major Special Revenue Fund, the Tuition Payment Fund, a major Enterprise Fund, and certain discretely presented component units, which represent 99 percent of total assets, 99 percent of total net assets and 99 percent of total revenues of the aggregate discretely presented component units. We also did not jointly audit 99 percent of the total assets, 99 percent of total net assets and 96 percent of the total additions of the Pension and Other Employee Benefit Trust Funds and 100 percent of the total assets, 100 percent of the total net assets, and 100 percent of the total additions of the Private Purpose Trust Fund, which, in total comprises 86 percent of total assets, 96 percent of total net assets and 73 percent of total additions/revenues of the aggregate remaining fund information opinion unit. The financial statements of the Tobacco Settlement Fund, Tuition Payment Fund, the discretely presented component units, and the Pension and Other Employee Benefit and Private Purpose Trust Funds were audited by other auditors, including KPMG LLP and the Department of the Auditor General acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Tobacco Settlement Fund, Tuition Payment Fund, the discretely presented component units, and the Pension and Other Employee Benefit and Private Purpose Trust Funds, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

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

As discussed in Note N to the financial statements, the Pennsylvania Turnpike Commission, a discretely presented component unit, has committed to making significant payments under a Lease and Funding Agreement as required under the terms of Act 44 of 2007. The Pennsylvania Turnpike Commission's ability to make such payments is dependent on its continuing ability to issue bonds to fund such payments and ultimately to raise tolls sufficient to repay its bonded debt.

As disclosed in Notes A and B to the financial statements, the Commonwealth adopted the provisions of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," effective July 1, 2010.

Management's discussion and analysis, schedules of funding progress and employer contributions of other postemployment benefit plans, and budgetary comparison information on pages 18 through 41 and 154 through 160 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We 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.

The Honorable Tom Corbett

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 and component unit financial statements, budgetary comparison schedules for budgeted non-major special revenue 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 and component unit financial statements and budgetary comparison schedules for budgeted non-major special revenue 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.



December 12, 2011



Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2011

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) of the Commonwealth of Pennsylvania's Comprehensive Annual Financial Report (CAFR) is presented as Required Supplementary Information and provides a review and analysis of the Commonwealth's financial statements for the fiscal year ended June 30, 2011 and a comparison to the prior fiscal year. The MD&A should be reviewed in conjunction with the Letter of Transmittal, which begins on page 6 of this report, and with the Commonwealth's financial statements, which follow.

Executive Summary

Government-wide Financial Statements at-a-glance

Net Assets – Governmental activities net assets totaled \$24.3 billion at June 30, 2011, compared to \$23.5 billion at June 30, 2010. This represents a year over year increase of \$0.8 billion during the fiscal year ended June 30, 2011, following a prior fiscal year over year increase in net assets of \$0.3 billion. For business-type activities, overall net assets were negative \$1.5 billion at June 30, 2011, representing a year over year decrease of \$0.3 billion during the fiscal year ended June 30, 2011, compared to negative net assets of \$1.2 billion at June 30, 2010. On a combined basis, Total Net Assets for Governmental Activities and Business-Type Activities were \$22.8 billion at June 30, 2011, representing an increase of \$0.5 billion during the fiscal year ended June 30, 2011.

General Obligation Bonds – During the fiscal year ended June 30, 2011, total general obligation bond indebtedness decreased by nearly \$56 million (\$667 million in additions and \$723 million in reductions) from \$10.5 billion at June 30, 2010 to \$10.4 billion at June 30, 2011. Total governmental activities liabilities, including the aforementioned decrease in general obligation bond indebtedness of nearly \$56 million, decreased by \$0.7 billion during the fiscal year ended June 30, 2011.

Fund Financial Statements at-a-glance

Governmental Funds – Total Fund Balances – Were \$5.992 billion at June 30, 2011 compared to \$6.351 billion at June 30, 2010, for a year over year decrease of \$0.359 billion. The Commonwealth implemented the Governmental Accounting Standards Board's Statement No. 54 (GASB 54) effective July 1, 2010. Total fund balances for all governmental fund types previously reported at June 30, 2010 did not change; however, fund balance totals *by fund type* did change, in offsetting amounts, as of July 1, 2010 as further disclosed in Note B to the Financial Statements.

General Fund – Fund Balance – Was \$284.8 million as previously reported at June 30, 2010, was increased by \$280.4 million as a result of implementing the aforementioned GASB 54, for increased and restated fund balance of \$565.2 million as of July 1, 2010. At June 30, 2011, total reported fund balance for the General Fund amounted to \$1,621.4 million compared to \$565.2 million, as restated as of July 1, 2010, for a year-over-year increase of \$1,056.2 million.

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, Combining Financial Statements, and Statistical Section. 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, 2011 and its aggregate revenues and expenses (Statement of Activities) for the fiscal year ended June 30, 2011. 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 – Summary of Significant

Accounting Policies, Financial Reporting Entity. Audited financial statements for component units are available through the Commonwealth Chief Accounting Officer.

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 is 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 categories is in Note A – Summary of Significant Accounting Policies – to the financial statements. Fund financial statements differ from government-wide financial statements in a few 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, and for aggregated, non-major fund information.
- 2) Unlike the aggregated columns for governmental and business-type activities in government-wide statements, the fund statements report individual funds which are established by state law and 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 and employees to pay for unemployment compensation benefits to unemployed workers.
- 3) The government-wide statements use the full accrual basis of accounting. In the fund statements, 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 measurement focus.

Government-wide financial statement analysis

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

	Governmental Activities			Business-Type Activities			Total		
	2011	2010	Change	2011	2010	Change	2011	2010	Change
Assets:									
Cash and investments.....	\$ 10.1	\$ 10.7	\$ (0.6)	\$ 5.2	\$ 4.6	\$ 0.6	\$ 15.3	\$ 15.3	\$ -
Capital assets (net).....	30.3	28.6	1.7	0.1	0.1	-	30.4	28.7	1.7
All other assets.....	6.9	7.9	(1.0)	1.5	1.6	(0.1)	8.4	9.5	(1.1)
Total assets.....	47.3	47.2	0.1	6.8	6.3	0.5	54.1	53.5	0.6
Liabilities:									
Accounts payable.....	5.6	5.9	(0.3)	0.8	0.9	(0.1)	6.4	6.8	(0.4)
All other current liabilities....	3.5	4.2	(0.7)	4.9	4.1	0.8	8.4	8.3	0.1
Total current liabilities.....	9.1	10.1	(1.0)	5.7	5.0	0.7	14.8	15.1	(0.3)
Bonds payable.....	9.7	9.8	(0.1)	-	-	-	9.7	9.8	(0.1)
All other long-term liabilities	4.2	3.8	0.4	2.6	2.5	0.1	6.8	6.3	0.5
Total long-term liabilities.....	13.9	13.6	0.3	2.6	2.5	0.1	16.5	16.1	0.4
Total Liabilities.....	23.0	23.7	(0.7)	8.3	7.5	0.8	31.3	31.2	0.1
Net assets:									
Invested in capital assets, net of related debt.....	25.4	24.1	1.3	0.1	0.1	-	25.5	24.2	1.3
Restricted.....	3.3	4.3	(1.0)	0.7	0.6	0.1	4.0	4.9	(0.9)
Deficit.....	(4.4)	(4.9)	0.5	(2.3)	(1.9)	(0.4)	(6.7)	(6.8)	0.1
Total net assets.....	\$ 24.3	\$ 23.5	\$ 0.8	\$ (1.5)	\$ (1.2)	\$ (0.3)	\$ 22.8	\$ 22.3	\$ 0.5

Changes in assets and liabilities

During the fiscal year ended June 30, 2011, total governmental activities cash and investments decreased by over \$611 million, including the effects of a smaller Treasury Department securities lending program (a nearly \$218 million decrease in securities lending obligations). The current fiscal year cash and investments decrease follows a \$340 million increase during the prior fiscal year. Total investments for the governmental and business type activities, excluding the State Employees' Retirement System, the Public School Employees' Retirement System and all other fiduciary funds, which are not included in the government wide Statement of Net Assets, amounted to \$13.9 billion and total cash balances were over \$1.3 billion at June 30, 2011. Reported investments decreased by \$257 million in comparison to prior fiscal year balances (\$14.2 billion); the year over year change in reported investments was nearly flat when the year over year decrease in the Treasury Department's securities lending program (a \$218 million decrease in securities lending obligations is included). Reported cash balances increased to \$1.3 billion, by over \$227 million, from \$1.1 billion reported at June 30, 2010; almost all of this increase is primarily attributable to the reported \$330 million increase in cash by the Unemployment Compensation Fund, offset by a \$96 million decrease in the General Fund and a \$17 million decrease in all nonmajor funds. The net capital assets increase of nearly \$1.7 billion follows a \$1.9 billion increase in the prior fiscal year. The current fiscal year increase in capital assets, net, consists of: 1) an expansion of, and improvements to, the Commonwealth's reported highway and bridge infrastructure assets during the fiscal year ended June 30, 2011 (additions of over \$2,307 million), an increase in buildings (additions of over \$199 million) and increases in other depreciable/amortizable general capital assets (additions of \$222 million), amounting to \$2,729 million; 2) net additions of land, highway right of way, and projects 'in process' of \$67 million; less 3) asset retirements (\$71 million) and less 4) net current fiscal year depreciation/amortization expense of \$1,313 million.

Governmental activities accounts payable and accrued liabilities balances decreased by \$0.3 billion primarily due to lower reported accounts payable balances within the General Fund (a \$250 million decrease) and other funds (\$200 million), partially offset by increases in other funds. All other governmental activities current liabilities decreased by \$0.7 billion, primarily due to a \$218 million decrease in securities lending obligations, due to a smaller year over year Treasury Department securities lending program, a \$174 million decrease in amounts due to the Federal government (following a \$176 million increase in the prior fiscal year), lower year over year General Fund and nonmajor funds amounts due to political subdivisions for a variety of agencies (\$122 million and \$35 million, respectively), a \$133 million decrease in tax refunds payable, a \$12 million decrease in year over year 'other' liabilities, partially offset by a \$65 million increase in year over year unearned revenues and a \$33 million increase in year over year compensated absences liability.

Governmental activities noncurrent liabilities increased by \$0.3 billion, due primarily to a \$392 million increase in other postemployment benefit obligations and a \$91 million increase in self insurance liabilities, and a \$32 million increase in 'other' liabilities, partially offset by a \$59 million decrease in general obligation bonds payable, a \$53 million decrease in compensated absences liability, and a \$33 million decrease in pollution remediation obligations.

Year over year changes in business-type activities assets (\$0.5 billion increase) and liabilities (\$0.8 billion increase) resulted in a net decrease in net assets of \$0.3 billion. Total assets increased because reported cash and investments increased by \$581 million year over year primarily due to a \$340 million increase in the Unemployment Compensation Trust Fund cash balance (offset by a \$9 million decrease in other Unemployment Compensation cash balances), a \$161 million increase in Tuition Payment Fund cash and investments and a net increase of \$91 million in other funds. Among other reported assets, the Unemployment Compensation Fund reported lower accounts receivable balances (a \$77 million decrease), the State Stores Fund reported lower inventory balances (a \$39 million decrease) and total reported loans receivable balances decreased by \$39 million, partially offset by a reported unemployment taxes receivable increase of \$39 million. Total liabilities increased primarily because of a higher amount advanced from the Federal government to the Unemployment Compensation Fund (a \$825 million increase year over year) and a higher year over year tuition benefits liability reported by the Tuition Payment Fund (a \$71 million increase), partially offset by lower year over year securities lending obligations, due to the relatively smaller Treasury Department securities lending program (a \$61 million decrease), and a smaller year over year State Workers Insurance Fund insurance loss liability (a \$44 million decrease).

Overall changes in net assets

During the fiscal year ended June 30, 2011, the overall financial position (net assets) of the Commonwealth, including both governmental and business-type activities, increased \$0.5 billion, or 2.24 percent of total beginning net assets of \$22.3 billion. For governmental activities, the net increase in net assets was \$0.8 billion or 3.40 percent of beginning net assets of

\$23.5 billion. The current fiscal year increase in governmental activities net assets (\$0.8 billion) represents a \$0.5 billion increase from the prior fiscal year increase of \$0.3 billion. The current fiscal year increase in Governmental Activities net assets represents an improvement in the Commonwealth's overall financial position when compared to the prior fiscal year ended June 30, 2010.

The current fiscal year \$0.3 billion decrease in total net assets for business-type activities follows a \$1.8 billion decrease during the prior fiscal year. The current fiscal year decrease is almost entirely attributable to a net assets decrease of \$537 million in the Unemployment Compensation Fund, partially offset by a \$128 million increase in the Tuition Payment Fund and a \$47 million increase in the State Lottery Fund.

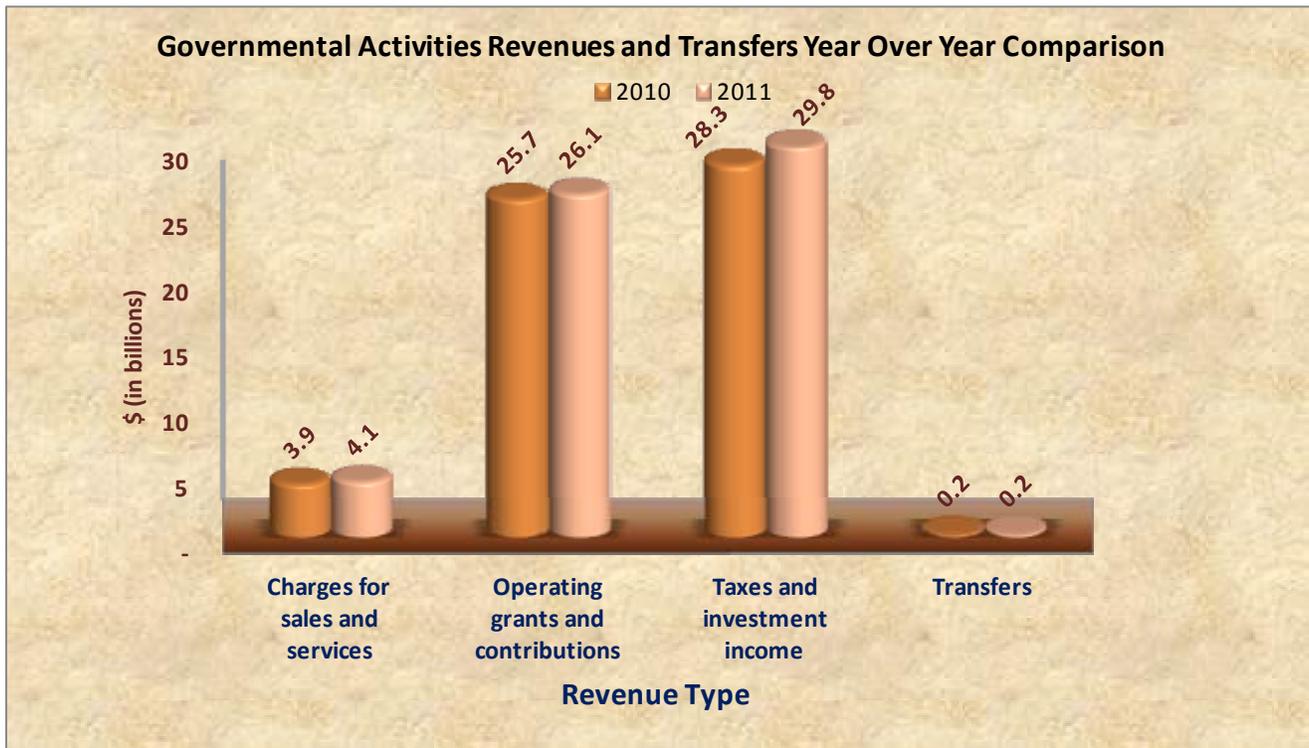
The following presents condensed, financial statement information from the Statement of Activities (amounts in billions):

	Governmental Activities			Business-Type Activities			Total		
	2011	2010	Change	2011	2010	Change	2011	2010	Change
Revenues:									
Program revenues:									
Charges for sales and services.....	\$ 4.1	\$ 3.9	\$ 0.2	\$ 7.8	\$ 7.3	\$ 0.5	\$ 11.9	\$ 11.2	\$ 0.7
Operating grants and contributions	26.1	25.7	0.4	4.8	4.9	(0.1)	30.9	30.6	0.3
Capital grants and contributions.....	0.2	-	0.2	-	-	-	0.2	-	0.2
Total program revenues.....	30.4	29.6	0.8	12.6	12.2	0.4	43.0	41.8	1.2
General revenues:									
Taxes and investment income.....	29.8	28.3	1.5	-	-	-	29.8	28.3	1.5
Total general revenues.....	29.8	28.3	1.5	-	-	-	29.8	28.3	1.5
Total revenues.....	60.2	57.9	2.3	12.6	12.2	0.4	72.8	70.1	2.7
Expenses:									
Governmental activities:									
Direction and supportive services...	2.1	2.0	0.1	-	-	-	2.1	2.0	0.1
Protection of persons and property.	5.4	5.6	(0.2)	-	-	-	5.4	5.6	(0.2)
Public education.....	14.8	14.4	0.4	-	-	-	14.8	14.4	0.4
Health and human services.....	30.3	28.2	2.1	-	-	-	30.3	28.2	2.1
Economic development.....	1.6	1.6	-	-	-	-	1.6	1.6	-
Transportation.....	4.5	5.0	(0.5)	-	-	-	4.5	5.0	(0.5)
Recreation and cultural enrichment	0.5	0.6	(0.1)	-	-	-	0.5	0.6	(0.1)
Interest.....	0.4	0.4	-	-	-	-	0.4	0.4	-
Business-type activities:									
State lottery.....	-	-	-	3.2	3.1	0.1	3.2	3.1	0.1
Unemployment compensation.....	-	-	-	7.4	8.7	(1.3)	7.4	8.7	(1.3)
Liquor control.....	-	-	-	1.5	1.5	-	1.5	1.5	-
Workers' compensation.....	-	-	-	0.3	0.3	-	0.3	0.3	-
Tuition payment.....	-	-	-	0.3	0.2	0.1	0.3	0.2	0.1
Total expenses.....	59.6	57.8	1.8	12.7	13.8	(1.1)	72.3	71.6	0.7
Excess/(deficiency) before transfers.....	0.6	0.1	0.5	(0.1)	(1.6)	1.5	0.5	(1.5)	2.0
Transfers.....	0.2	0.2	-	(0.2)	(0.2)	-	-	-	-
Increase (decrease) in net assets.....	0.8	0.3	\$ 0.5	(0.3)	(1.8)	\$ 1.5	0.5	(1.5)	\$ 2.0
Net assets, beginning.....	23.5	23.2		(1.2)	0.6		22.3	23.8	
Net assets, ending.....	\$24.3	\$23.5		\$ (1.5)	\$ (1.2)		\$ 22.8	\$ 22.3	

In the above table, the previously-reported amounts for Business-Type Activities during the fiscal year ended June 30, 2010 for 'Charges for sales and services' revenues and 'Unemployment compensation' expenses have each been reduced by \$3 billion, from \$10.3 billion and \$11.7 billion, respectively, to \$7.3 billion and \$8.7 billion due to a reclassification to conform with current fiscal year reported amounts.

Changes in revenues and expenses for governmental activities

The following chart provides a year over year comparison of governmental activities revenues and transfers:

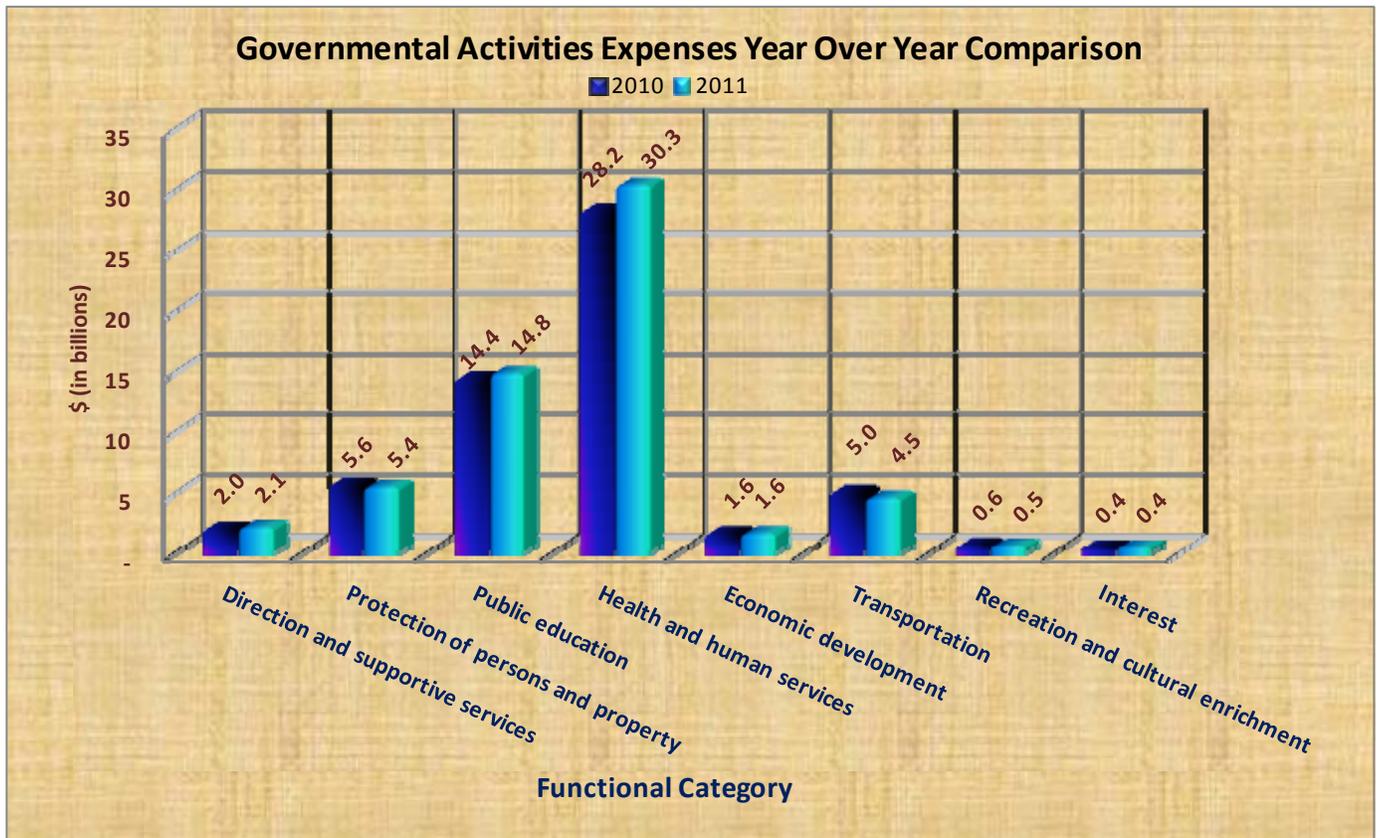


For governmental activities, general revenues – taxes – increased by over \$1,418 million, net, during the fiscal year, largely as a result of increases in reported General Fund tax revenues of over \$1,239 million, an increase in gaming tax revenues (\$108 million), and an increase in Motor License Fund tax revenues (\$47 million). General revenues – investment income – amounted to \$52 million during the current fiscal year, representing a year over year increase in investment income of over \$37 million, even though year over year investment balances were nearly flat.

General Fund tax revenues increased as follows: personal income (\$356 million), corporation (\$325 million), sales and use (\$275 million), public utility realty and Medical managed care gross receipts (\$127 million, combined), inheritance (\$85 million), table games (\$68 million), partially offset by a decrease in realty transfer taxes (\$14 million). Almost all of the increases resulted from higher overall economic activity during the fiscal year ended June 30, 2011 in comparison to the prior fiscal year.

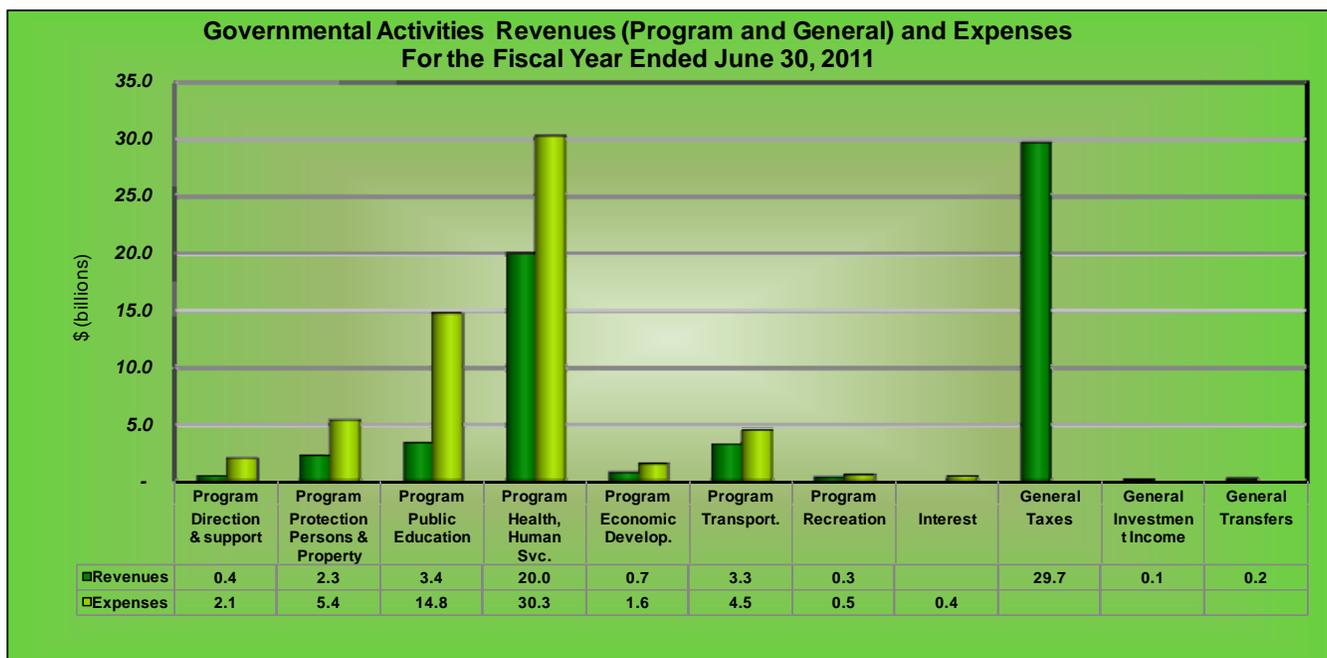
Operating grants and contributions, which largely represents Federal participation in specific General Fund and other programs, increased by over \$450 million, net, during the fiscal year primarily because of higher year over year Federal revenues (\$1,370 million) associated with expenditures for Medical Assistance and other types of health and human services expenditures and higher Federal revenues for education expenditures (\$421 million), partially offset by significantly lower Federal revenues (over \$550 million) for transportation expenditures and lower Federal revenues (\$312 million) for protection of persons and property expenditures. Revenues from the Federal American Recovery and Reinvestment Act of 2009 (ARRA) amounted to \$4.3 billion; representing a year over year increase in ARRA revenues of \$0.4 billion (amount for prior fiscal year was \$3.9 billion). Also, revenues from the Pennsylvania Turnpike Commission (PTC), a discretely presented component unit, decreased by \$450 million (from \$900 million during the prior fiscal year to \$450 million during the current fiscal year). These revenues were received under the provisions of Act 44 of 2007 and the related Lease and Funding Agreement between the PTC and Commonwealth primary government (primarily the Department of Transportation).

The following chart provides a year over year comparison of governmental activities expenses:



For governmental activities, total expenses increased by \$1.8 billion (2.97 percent) largely due to significant increases in expenses for health and human services (\$2,067 million), education (\$343 million), direction and supportive services (\$102 million), and interest (\$45 million), partially offset by decreases in expenses for transportation (\$485 million), protection of persons and property (\$298 million) and recreation and cultural enrichment (\$68 million)

The following chart presents governmental activities revenues compared to expenses for the fiscal year ended June 30, 2011:



Changes in revenues and expenses for business-type activities

During the current fiscal year, total business-type activities expenses exceeded total revenues by nearly \$116 million. Including net transfers to other funds of \$240 million (\$166 million transferred from other funds and \$406 million transferred to other funds), the net decrease in net assets was \$356 million during the fiscal year ended June 30, 2011. During the prior fiscal year, total expenses were \$1.6 billion higher than revenues. Including the effects of prior fiscal year net transfers to other funds of over \$218 million, business-type activities net assets decreased by \$1.8 billion during the prior fiscal year. The primary reasons for the overall year over year difference in the net decrease in net assets of \$1,469 million were: a \$1,288 million smaller decrease in reported net assets of the Unemployment Compensation Fund and a \$62 million larger increase in reported net assets of the Tuition Payment Fund and a \$69 million improvement in reported net assets of the State Lottery Fund.

Operating grants and contributions for business-type activities decreased year over year by nearly \$564 million due almost entirely to a \$566 million decrease in Federal revenues (\$4,351 million during the current fiscal year and \$4,917 million during the prior fiscal year) for extended and other benefits in the Unemployment Compensation Fund, partially offset by a \$128 million year over year increase in investment income.

Overall, expenses for business-type activities decreased by nearly \$1.1 billion, based on decreased expenses of nearly \$1.3 billion for extended and other benefits in the Unemployment Compensation Fund, partially offset by net increases/decreases (net increase of \$0.2 billion) among other business-type activities expenses during the current fiscal year.

General Fund – economic factors during the fiscal year ended June 30, 2011

During the fiscal year ended June 30, 2011, the rate of growth for both the national and state economies was considerably more subdued than originally projected. Real gross domestic product for the national economy was projected to be 2.8 percent for the fiscal year at the time of enactment for the fiscal year 2011 budget. Final figures for real gross domestic product for the national economy resulted in 1.8 percent growth for the full fiscal year. Unemployment rates remained at elevated levels both nationally and within Pennsylvania as the Commonwealth economy added 54,000 net new jobs during the fiscal year. Despite the subdued nature of the economic recovery, the Commonwealth's revenues and receipts benefitted from the mild uptick in the national economy experienced during a portion of fiscal year 2011. General Fund revenues of the Commonwealth were above the certified estimate by \$785.5 million or 2.9 percent during fiscal year 2011, the first time that revenues exceeded the certified estimate since fiscal year 2008.

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, 2011 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 2010-11 supplemental appropriations passed on June 30, 2011 by Act 1-A.

Final budgeted Federal Program revenues and expenditures were \$618 million higher than the original budget, primarily due to increases of \$445 million in public education and \$157 million in health and human services. The public education increase is attributable to \$387 million in new Education Jobs Funds and an increase of \$55 million in Elementary and Secondary Education Act Title 1 funds. The health and human service increase is the result of higher medical assistance earnings.

General Fund – budgetary basis – comparison between final budgeted and actual results

Actual budgetary State Program revenues were \$811 million more than the final budgeted State Program revenues. The \$811 million increase is primarily due to higher taxes, net of refunds, of \$774 million. The \$774 million increase in tax revenue is attributable to an additional \$245 million in total corporation taxes, \$253 million in sales and use taxes and \$311 million in personal income taxes offset by slight reductions in other tax categories. Actual Federal revenues and corresponding expenditures were \$1,102 million lower than budgeted due to the expiration of \$815 million of expected, appropriated American Recovery and Reinvestment Act (ARRA) funds which the Federal government never awarded to state agencies along with additional reductions for the following agencies: Public Welfare, \$84 million; Health, \$61 million; Community and

Economic Development, \$43 million; Emergency Management Agency, \$37 million; Education, \$27 million; and all other affected agencies, \$35 million.

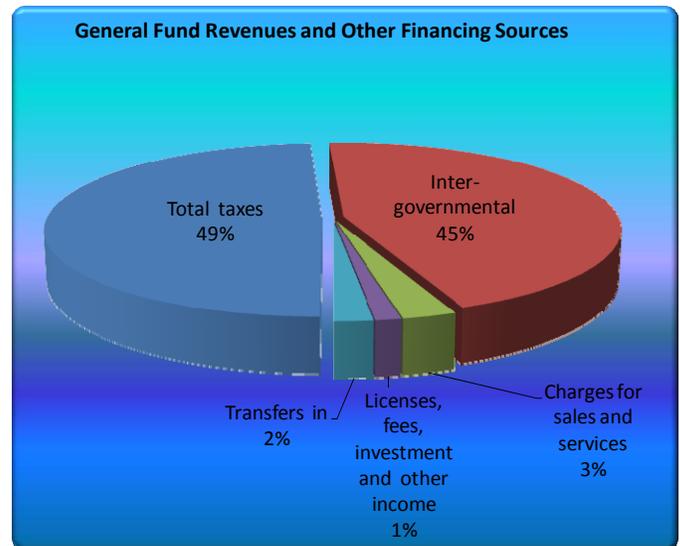
Measurement focus and basis of accounting – governmental funds

The General Fund and special revenue, debt service and capital projects fund types 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 for these fund types present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, governmental funds recognize revenue in the fiscal 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 and available. 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.

Discussion of individual funds, balances and transactions

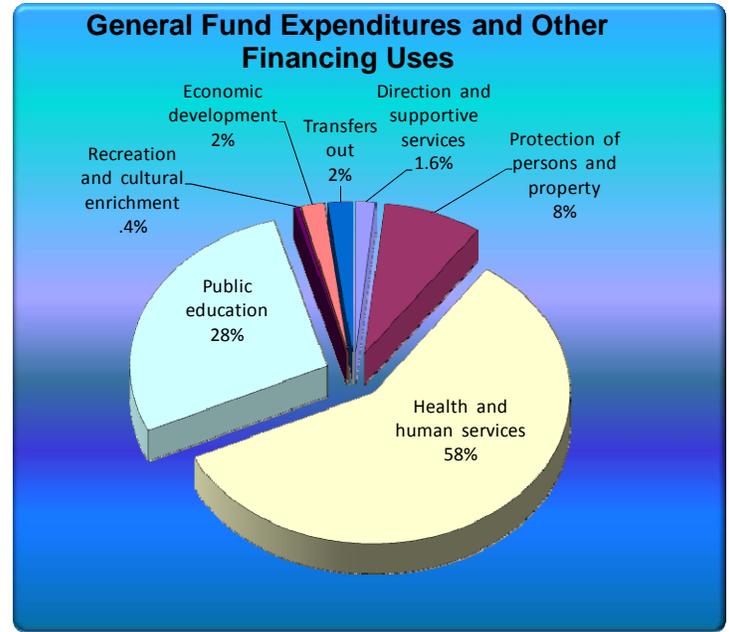
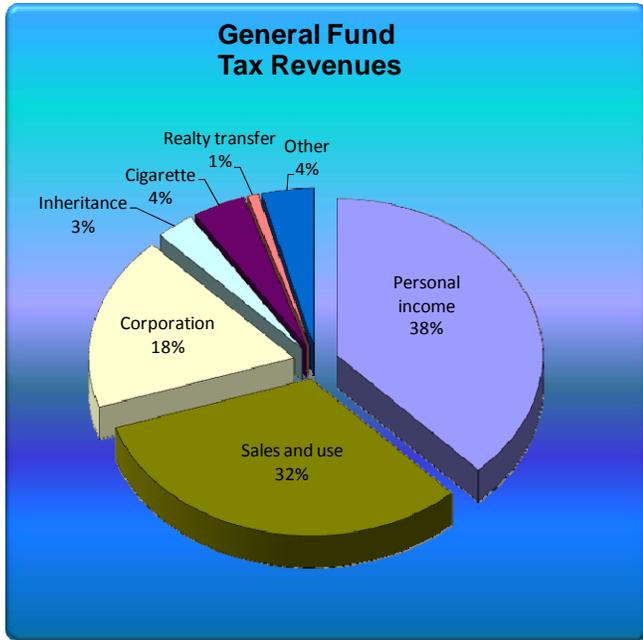
General Fund

The General Fund, the Commonwealth's largest fund, accounts for over 85 percent of the total governmental fund type revenues and other financial sources and nearly 82 percent of the total governmental fund type expenditures and other financing uses. The General Fund collects over 86 percent of the total tax revenues and is the primary funding source for most Commonwealth agencies. The charts depicted on this page present a comparison of the major types of revenues and expenditures reported in the General Fund. Taxes and intergovernmental revenues represent the largest sources of revenue, while health and human services and education represent the largest outflows or expenditures.



General Fund Tax Revenues

The largest significant source of tax revenues -- net of refunds -- (\$25,884 in total) is Personal Income Tax (PIT). Reported PIT (\$9,802) accounts for nearly 38 percent of all tax revenues reported. Sales tax, which represents a tax on various items purchased by consumers, is the second largest category. Reported sales tax (\$8,248) accounts for nearly 32 percent of all tax revenues reported. Corporation taxes, which represent different taxes (including the Corporate Net Income Tax and the Capital Stock/Foreign Franchise Tax) on various corporations, is the third largest category. Reported corporation taxes (\$4,628) accounts for nearly 18 percent of all tax revenues reported. These three tax categories represent the Commonwealth's largest own-source revenues. Although not available for the current fiscal year, prior fiscal year statistical information for these three tax categories is presented in the Revenue Capacity portion of the Statistical Section (amounts in millions).



General Fund Expenditures

The General Fund reported total expenditures of \$50,598 and total other financing uses of \$1,023 during the fiscal year ended June 30, 2011. Expenditures for health and human services (\$29,861) accounted for 59 percent of all General Fund expenditures. The second largest category, public education, accounts for 28 percent (\$14,198) of the reported expenditures. Of the public education expenditures, over 93 percent (\$13,245) are reported by the Department of Education. The chart shown on the right, above, reports the percentages expended in each category (amounts in millions).

Comparative Financial Statements for the General Fund

Condensed comparative General Fund balance sheets at June 30, 2011 and 2010 are as follows (amounts in millions):

	2011	2010	Increase (Decrease)	
			Amount	Percent
Assets:				
Cash and investments.....	\$ 4,841	\$ 3,221	\$ 1,620	50%
Receivables, net.....	3,770	3,493	277	8%
Due from other funds/governments/advances/other.....	2,228	3,123	(895)	-29%
Total assets.....	\$ 10,839	\$ 9,837	\$ 1,002	10%
Liabilities:				
Accounts payable and tax refunds payable.....	\$ 4,956	\$ 5,348	\$ (392)	-7%
Securities lending obligations.....	10	23	(13)	-57%
Due to other funds/governments/advances/other.....	1,973	1,992	(19)	-1%
Unearned revenue.....	2,279	2,189	90	4%
Total liabilities.....	9,218	9,552	(334)	-3%
Fund Balance:				
Total fund balance.....	1,621	285	1,336	469%
Total liabilities and fund balance.....	\$ 10,839	\$ 9,837	\$ 1,002	

In accordance with new fund type definitions, per GASB 54, effective July 1, 2010, the following amounts that represent the balances of those funds that were previously considered Special Revenue funds are included as part of the General Fund amounts provided above as of June 30, 2011:

Assets:	2011
Cash and investments.....	\$ 330
Receivables, net.....	13
Due from other funds/governments/advances/other...	66
Total assets.....	\$ 409
Liabilities:	
Accounts payable.....	\$ 76
Securities lending obligations.....	10
Due to other funds/governments/advances/other.....	6
Total liabilities.....	92
Fund Balance:	
Total fund balance.....	317
Total liabilities and fund balance.....	\$ 409

During the fiscal year ended June 30, 2011, cash and investments increased by \$1,620 million (50 percent) compared to the prior fiscal year; a significant portion of this increase was caused by an excess of revenues and other financing sources over expenditures and other financing uses, amounting to \$1,056 million, during the fiscal year ended June 30, 2011. In addition, \$330 million of the year over year increase was caused by the aforementioned implementation of GASB 54 as of July 1, 2010.

Net receivables increased by \$277 million due primarily to an increase in accounts receivable for: 1) \$643 million for the Department of Public Welfare (DPW) which was almost entirely offset by \$632 million for: a \$329 million decrease in amounts due from the Federal government (representing its participation in the higher amounts receivable) and a \$302 million increase in unearned (unavailable) revenues. Therefore, the \$632 million portion of the \$643 million increase in accounts receivable was completely offset by either a reduction in other assets or increased liabilities and had no net effect on reported revenues, expenditures or fund balance. The \$643 million increase (which provided a net \$11 million decrease in expenditures) consists primarily of amounts receivable from third parties (third party liability)(\$288 million), Medicaid Drug Rebates (\$281 million), amounts due from individuals (\$19 million), amounts due from nursing homes (\$17 million), first-time amounts owed by pharmacists (\$14 million), amounts owed to DPW facilities (\$13 million), Supplemental Drug Rebates (\$7 million) and first-time quality care assessments (\$4 million); 2) \$72 million for a new item which reduced expenditures for active employee healthcare benefits; and 3) \$13 million for amounts related to former separate funds newly reported as part of the General Fund as of June 30, 2011. The combined year over year increase in accounts receivable of \$728 million was partially offset by decreases in taxes receivable of over \$455 million.

Amounts due from other funds/governments and advances decreased by \$895 million, net, due primarily to 1) a \$917 million net decrease in amounts due from the Federal government. Of the \$917 million decrease, \$743 million of the decrease is attributable to DPW as follows: 1) the aforementioned \$329 million decrease (the Federal portion of accounts receivable) which was more than offset by \$353 million of higher year over year drawdowns/amounts receivable from the Federal government and lower year over year accrued Federal revenues of \$767 million as of June 30, 2011. Other state agencies reported lower amounts due from the Federal government as follows: Education (\$59 million), Military and Veterans Affairs (\$54 million), Community and Economic Development (\$40 million), Labor and Industry (\$10 million), Environmental Protection (\$6 million) and Emergency Management (\$4 million); 2) reported advances decreased due to the repayment, during the fiscal year ended June 30, 2011, of a \$14 million advance the General Fund to another funds and the elimination of an \$8.3 million advance because of the newer parts of the General Fund; and 3) amounts due from other funds decreased by over \$10 million from the prior fiscal year. Partially offsetting the aggregate \$949 million decrease is a net increase in amounts due from the Federal government related to the administration of the unemployment compensation benefits program (\$56 million).

Year over year accounts payable decreased by over \$257 million and tax refunds payable decreased by \$135 million (total year over year decrease of \$392 million). Amounts due to political subdivisions decreased by \$122 million while the unclaimed property liability increased by nearly \$70 million and amounts due to other funds/component units/pension trust

funds increased by over \$28 million. Unearned revenues increased by \$90 million, as unavailable revenues increased by \$33 million and unearned revenues increased by \$57 million.

Total reported fund balance of \$1,621 million at June 30, 2011 includes amounts which were formerly reported as part of Special Revenue funds, amounting to \$280 million at June 30, 2010 and \$317 million at June 30, 2011. The previously reported General Fund fund balance included fund balance reservations of \$1,719 million and an unreserved/undesignated deficit of \$1,434 million at June 30, 2010. No fund balance designations were reported at June 30, 2010. At June 30, 2011, the General Fund fund balance is reported using the newer, prescribed categories as follows: Nonspendable: \$123 million, Spendable, Restricted: \$756 million and Spendable, Committed: \$1,063 million and Unassigned deficit: \$321 million. No fund balance assignments were reported at June 30, 2011.

Condensed, comparative, General Fund change statements for the fiscal years ended June 30, 2011 and 2010 follow (amounts in millions):

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>	
			<u>Amount</u>	<u>Percent</u>
Revenues:				
Taxes, net of refunds				
Personal income.....	\$ 9,802	\$ 9,241	\$ 561	6%
Sales and use.....	8,248	7,946	302	4%
Corporation.....	4,628	4,135	493	12%
Inheritance.....	777	733	44	6%
Cigarette.....	1,084	1,068	16	1%
Realty transfer.....	280	294	(14)	-5%
Gaming.....	69	-	69	100%
Other.....	996	868	128	15%
Total taxes, net of refunds.....	25,884	24,285	1,599	7%
Intergovernmental.....	23,598	21,847	1,751	8%
Charges for sales and services.....	1,438	985	453	46%
Licenses/fees/investment and other income.....	694	829	(135)	-16%
Total revenues.....	51,614	47,946	3,668	8%
Expenditures:				
Direction and supportive services.....	837	1,033	(196)	-19%
Protection of persons and property.....	4,162	4,126	36	1%
Health and human services.....	29,861	27,447	2,414	9%
Public education.....	14,198	13,814	384	3%
Recreation and cultural enrichment.....	244	291	(47)	-16%
Economic development.....	962	1,025	(63)	-6%
Transportation.....	48	59	(11)	-19%
Capital outlay.....	286	70	216	309%
Other expenditures.....	-	1	(1)	-100%
Total expenditures.....	50,598	47,866	2,732	6%
Revenues over expenditures.....	1,016	80	936	-1170%
Other financing sources (uses):				
Transfers in.....	1,063	739	324	44%
Transfers out.....	(1,023)	(1,049)	26	-2%
Net other financing uses.....	40	(310)	350	113%
Net change in fund balance.....	1,056	(230)	1,286	
Fund balance, beginning.....	285	515	(230)	
Net effect of newer fund type definitions.....	280	-	280	
Fund balance, ending.....	\$ 1,621	\$ 285	\$ 1,336	

In accordance with new fund type definitions effective July 1, 2010, the following amounts are included as part of the General Fund amounts provided above as of June 30, 2011:

	<u>2011</u>
Revenues:	
Intergovernmental.....	\$ 343
Licenses/fees/investment and other income.....	34
Total revenues.....	<u>377</u>
Expenditures:	
Protection of persons and property.....	13
Health and human services.....	539
Economic development.....	22
Total expenditures.....	<u>574</u>
Revenues under expenditures.....	<u>(197)</u>
Other financing sources (uses):	
Transfers in.....	234
Net change in fund balance.....	<u>37</u>
Fund balance, beginning.....	<u>280</u>
Fund balance, ending.....	<u>\$ 317</u>

Total reported General Fund revenues increased by \$3,668 million (7.65 percent) during the fiscal year ended June 30, 2011.

General Fund tax revenues increased overall by \$1,599 million (6.58 percent) during the fiscal year ended June 30, 2011. This overall increase is attributable to all tax types except Realty Transfer taxes, which decreased by \$14 million when compared to the fiscal year ended June 30, 2010. Personal Income Taxes (PIT) increased due to higher taxable income for individuals. Tax collections during the fiscal year, before adding net tax accrual and subtracting tax refunds/credits, increased as follows: employer PIT amounts withheld and remitted increased by 2 percent, quarterly (estimated) remittances increased 16 percent and annual (accompanying tax returns filed) remittances increased by over 11 percent. Corporation taxes increased by \$493 million, an increase of 11.92 percent, due primarily to increasing corporation profits and due to one-time revenues of \$176 million; both of these factors increased year over year reported Corporate Net Income taxes. Reported Sales and Use Tax revenues increased by \$302 million when compared to the prior fiscal year due to increases in taxable purchases as well as changes which accelerated remittances of Sales taxes withheld. Reported 'Other' taxes increased by \$128 million, net, over the prior fiscal year due primarily to increases in the Department of Revenue's Enhanced Revenue Collection program (\$79 million), increased liquor taxes (\$11 million), partially offset by decreases due to the end of the Tax Amnesty Program (\$15 million). Also, 'Other' taxes increased by \$23 million due to a year over year increase in Medicaid Managed Care Gross Receipts Tax. Finally, 'Other' taxes increased by \$30 million due to a current fiscal year reclassification.

Intergovernmental revenues increased by \$1.7 billion, net, resulting primarily from non-ARRA Federal participation (\$1,376 million) as follows: a \$1,264 million increase related to significantly higher year over year expenditures (\$2,414 million higher) for Department of Public Welfare medical assistance and other types of health and human services expenditures; a \$337 million increase for Education programs; partially offset by \$80 million decreases in such non-ARRA Federal participation for both Department of Community and Economic Development and Department of Environmental Protection and a \$65 million decrease for Department of Military and Veterans Affairs. For ARRA Federal participation (\$267 million): a \$145 million increase for Department of Public Welfare medical Assistance and other types of health and human services expenditures, an \$111 million increase for Education programs, a \$35 million increase for the Department of Environmental Protection and a \$17 million increase for the Department of Military and Veterans Affairs; partially offset by a \$27 million decrease for higher education and a \$14 million decrease for the Department of Community and Economic Development.

Charges for sales and services revenues increased by \$453 million, net, from the prior fiscal year due primarily to: Department of Public Welfare (\$418 million increase, net) for first-year quality care assessments (\$538 million), accrued revenues (\$64 million), intergovernmental transfer (\$30 million) and SPBP (\$12 million), partially offset by lower capitation managed care assessments (\$170 million), lower net nursing home assessments (\$52 million) and lower net hospital assessments (\$4 million); \$152 million related to prior year active employee healthcare expenditures; \$42 million of recurring

payroll-related revenues and \$17 million of sales of state property. These net increases (\$629 million) were partially offset by lower revenue accruals as of June 30, 2011 (\$166 million) and lower lease payments (\$10 million) for the current fiscal year.

Combined licenses/fees/investment and other revenues decreased by \$135 million, net, primarily due to: 1) prior fiscal year one-time licenses/fees revenues for Table Game Authorization Fees, amounting to \$165 million, partially offset by current fiscal year net increases of \$22 million; 2) an increase for investment income of \$8 million; and 3) net decreases for 'other' revenues of \$33 million. These net decreases (\$168 million) were partially offset by amounts newly reported as part of the General Fund of \$34 million.

Total General Fund expenditures increased by 5.7 percent during the fiscal year ended June 30, 2011, by over \$2.7 billion.

Reported expenditures for health and human services expenditures increased by \$2,414 million, due primarily to higher aggregate need for medical assistance, and income and/or cash grant assistance to individuals (\$3,279 million). Of this increase, expenditures for Food Stamps increased by \$308 million. The \$3,279 million increase was partially offset by a \$889 million decrease in year over year accrued expenditures. Expenditures for the Pharmaceutical Assistance Contract for the Elderly (PACE) program, which are newly reported as part of the General Fund, amounted to \$243 million. Expenditures for the administration of the unemployment compensation benefits program increased by \$41 million. Labor and Industry expenditures decreased by \$209 million, primarily due to a current fiscal year reclassification from this category to capital outlay.

Public education expenditures increased by \$384 million, net, due primarily to new Federally-funded (non-ARRA) basic education expenditures of \$387 million, partially offset by a reduction in state-funded basic education expenditures of \$140 million for a net year over year increase in basic education subsidies of \$247 million; increased ARRA Federally-funded expenditures of \$129 million; increased public school employee retirement (employer share) of \$57 million; and increased expenditures for food and nutrition programs of \$23 million. These increases (\$456 million) were partially offset by a net decrease in accrued expenditures (\$109 million) as of June 30 and net expenditure increases in a variety of programs (\$81 million). In addition, higher education subsidies decreased by nearly \$44 million.

Capital outlay expenditures increased by \$216 million, based on year over year capital asset acquisition increases at state agencies as follows: Labor and Industry (\$224 million), Pennsylvania Judiciary (\$26 million), Public Welfare (\$16 million) and Revenue (\$10 million). These increases were partially offset by decreases in numerous other state agencies amounting to \$60 million.

Direction and supportive services expenditures decreased by \$196 million, on a net basis, due primarily to a \$158 million increase in expenditures for active employee healthcare in the prior fiscal year did not recur during the current fiscal year, a separate current fiscal year expenditure decrease of \$72 million for active employee healthcare. These two decreases were partially offset a \$25 million increase in expenditures related to annuitant healthcare during the current fiscal year.

Protection of persons and property expenditures increased by \$36 million, on a net basis, primarily because of higher expenditures for state agencies as follows: Corrections -- personnel (\$50 million), contracted services (\$50 million) and other net increases (\$9 million); Environmental Protection -- increases in grants and subsidies (\$48 million), and net increases in personnel and other expenditures (\$7 million), partially offset by lower accrued expenditures (\$10 million); Emergency Management--increases in grants and subsidies (\$31 million); Insurance -- net increases for contracted services (\$10 million), increases for accrued expenditures (\$10 million) and net increases for grants and subsidies (\$6 million); amounts newly reported as part of the General Fund (\$13 million); Executive Offices -- higher accrued expenditures (\$27 million), partially offset by decreases in grants and subsidies (\$14 million); and an other increase of \$8 million. These net increases (\$245 million) were partially offset by expenditure decreases for the Department of Military and Veterans Affairs -- lower accrued expenditures (over \$111 million), Labor and Industry -- lower accrued expenditures (\$28 million) and lower grants and subsidies (\$11 million); the Pennsylvania Judiciary (over \$35 million); and Department of State -- a net decrease in accrued expenditures (\$18 million) and net decreases in grants and subsidies (\$5 million).

Reported Transfers to the General Fund increased by \$324 million primarily because of a \$244 million increase in Transfers from the Tobacco Settlement Fund, a \$200 million increase from the State Lottery Fund to the PACE program (now financially reported as part of the General Fund), a \$6 million transfer from the Unemployment Compensation Fund, a \$5 million transfer from the Emergency Medical Services Operating Fund, and a \$4 million transfer from the Small Business First Fund, offset by a \$102.4 million decrease from the MCARE Fund, a \$10.1 million decrease from the Keystone Recreation, Park and

Conservation Fund, a \$9.7 million decrease from the Gaming Fund, a \$17.7 million decrease from the Oil and Gas Lease Fund and a net \$4.9 million increase from several other funds during the fiscal year ended June 30, 2011.

Reported Transfers from the General Fund decreased by \$26 million, net, primarily because of a \$46.4 million decrease to the Community College Capital Fund, a \$6 million decrease to the Educational Assistance Program Fund, a \$2.8 million decrease to the Vocational Rehabilitation Fund, a \$5.2 million decrease to the Motor License Fund, partially offset by a \$42.3 million increase to debt service funds, and a net \$7.9 million decrease to several other funds during the fiscal year ended June 30, 2011.

The overall increase in fund balance, over \$1 billion during the fiscal year ended June 30, 2011, represents a significant year over-year improvement, when compared to the prior fiscal year decrease in total fund balance of \$230 million.

Motor License Fund

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

Description	2011		2010		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and investments.....	\$ 1,830	79%	\$ 2,253	\$ (423)	-19%	
Other assets.....	482	21%	526	(44)	-8%	
Total assets.....	\$ 2,312	100%	\$ 2,779	\$ (467)	-17%	
Accounts payable.....	\$ 596	74%	\$ 664	\$ (68)	-10%	
Securities lending obligations.....	68	8%	147	(79)	-54%	
Other liabilities.....	145	18%	307	(162)	-53%	
Total liabilities.....	809	100%	1,118	(309)	-28%	
Total fund balance.....	1,503	100%	1,661	(158)	-10%	
Total liabilities and fund balance.....	\$ 2,312	100%	\$ 2,779	\$ (467)	-17%	
Tax revenues.....	\$ 2,093	42%	\$ 2,046	\$ 47	2%	
Licenses and fees.....	899	18%	851	48	6%	
Intergovernmental.....	1,791	36%	2,650	(859)	-32%	
Other revenues.....	235	5%	241	(6)	-2%	
Total revenues.....	5,018	100%	5,788	(770)	-13%	
Direction and supportive services.....	51	1%	62	(11)	-18%	
Protection of persons and property.....	669	13%	648	21	3%	
Transportation.....	1,840	36%	2,373	(533)	-22%	
Capital outlay.....	2,549	50%	2,503	46	2%	
Other expenditures.....	4	0%	4	-	0%	
Total expenditures.....	5,113	100%	5,590	(477)	-9%	
Net transfers out.....	(63)	100%	(47)	(16)	34%	
Net change in fund balances.....	\$ (158)		\$ 151	\$ (309)		

Overall, total revenues decreased by \$770 million during the fiscal year ended June 30, 2011; this represents a 13 percent decrease from the prior fiscal year. The most significant factor was an \$859 million decrease in intergovernmental revenues, where current fiscal year payments received from the Pennsylvania Turnpike Commission (PTC) under Act 44 of 2007 decreased by \$300 million. Federal revenues (and Transportation expenditures) decreased by \$191 million due to the current fiscal year elimination of previously-reported (in prior fiscal years) Federal pass-through grant amounts to political subdivisions. In addition, Federal revenues (and Transportation expenditures) decreased by the return of \$176 million in Federal revenues received on projects that did not result in construction and were subsequently converted to state-only projects during the current fiscal year. Since the amount returned was paid from the Highway and Safety Improvements appropriation, other construction projects were reduced by \$108 million to maintain a positive appropriation balance. In addition, Federal reimbursement for work performed under the Federal American Recovery and Reinvestment Act of 2009 (ARRA) decreased by \$30 million as the ARRA program is ending. Partially offsetting the intergovernmental revenues decrease are increases in tax revenues and licenses and fees. The \$47 million increase in tax revenues resulted from higher gasoline and diesel fuel consumption. The \$48 million increase in licenses and fees revenues reflects an increase that has not occurred since the fiscal year ended June 30, 2005. The increase is comprised of \$32 million for vehicle registrations, \$5

million from the Apportioned Registration Program (related to certain large vehicles involved in interstate transportation) and \$6 million in special hauling permits and reimbursements attributable to Marcellus Shale activity during the current fiscal year.

Overall, total expenditures decreased by \$477 million during the fiscal year ended June 30, 2011; this represents a 9 percent decrease from the prior fiscal year. The combination of year over year changes in capital outlay (\$46 million increase) and transportation (\$533 million decrease) expenditures accounts for nearly all of the decrease in expenditures. Transportation expenditures decreased due to the aforementioned elimination of \$191 million of previously-reported (in prior fiscal years) Federal pass-through grant amounts to political subdivisions and the aforementioned return of \$176 million in Federal revenues reimbursements. Other decreases in construction expenditures (\$174 million) were the combined result of projects finishing work under the ARRA program and of the financial limitation on continuing projects in the Highway Construction appropriation, which was heavily affected by the return of Federal reimbursements. Also, lower current fiscal year reimbursements from the Bridge Project Bonds in the Capital Facilities Fund decreased expenditures by \$78 million as projects slated for this money slowed down. These decreases were partially offset by a \$133 million increase in the Expanded Maintenance Highway and Bridge appropriation expenditures (which are funded by the payments from PTC under Act 44 of 2007) and a \$63 million increase in maintenance expenditures funded by increased tax revenues received in the year fiscal year. The increase of \$21 million in protection of persons and property expenditures is a combination of an \$11 million increase in reimbursements to State Police General Government Operations in the General Fund for higher personnel costs and a \$9 million increase in costs for safety administration and reimbursements to other states under the Apportionment Renewal Program. The decrease of \$11 million in direction and supportive services expenditures was due to the discontinued participation in the New York Clearinghouse for International Fuel Tax Agreement funding.

Net transfers to other Funds increased by \$16 million due primarily to the increase in Capital Bridge Debt Service payments of \$10 million for the additional bridge bond issuance during the current fiscal year under the Capital Bridge Act of 2008-2009. Also, a one-time transfer in of \$5.1 million for interest earned on a short-term loan made to the General Fund was reported during the prior fiscal year and did not recur during the current fiscal year.

The \$423 million decrease in cash and investments is a result of several factors. First, amounts previously accumulating from PTC payments received were spent (\$319 million) Also, total expenditures exceeded total revenues (before transfers) during the current fiscal year by \$95 million; securities valuation slightly declined since June 30, 2010, by \$19.7 million; and Other assets decreased by \$44 million because receivables for ARRA and other Federally-reimbursable projects decreased. Accounts payable decreased by \$68 million, primarily as a result of decreases in expenditures for ARRA-qualifying projects (\$65 million). The \$162 million decrease in other liabilities is mainly a result of \$176 million being returned during the fiscal year ended June 30, 2011, to the Federal government for Federal reimbursements; a similar return for the prior fiscal year was only \$1 million. This was offset by \$14 million in other liabilities, a combination of an increase in vehicle sales tax collections due to the General Fund (Department of Revenue) and an increase in payables due to political subdivisions.

Tobacco Settlement Fund

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

Description	2011		2010		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and investments.....	\$ 572	73%	\$ 1,026	\$ (454)	-44%	
Other assets.....	213	27%	288	(75)	-26%	
Total assets.....	\$ 785	100%	\$ 1,314	\$ (529)	-40%	
Accounts payable.....	\$ 152	45%	\$ 239	\$ (87)	-36%	
Securities lending obligations.....	12	4%	30	(18)	-60%	
Other liabilities.....	169	51%	218	(49)	-22%	
Total liabilities.....	333	100%	487	(154)	-32%	
Total fund balance.....	452	100%	827	(375)	-45%	
Total liabilities and fund balance.....	\$ 785	100%	\$ 1,314	\$ (529)	-40%	
Intergovernmental.....	\$ 170	28%	\$ 192	\$ (22)	-11%	
Investment income.....	29	5%	82	(53)	65%	
Other revenues.....	418	67%	434	(16)	-4%	
Total revenues.....	617	100%	708	(91)	-13%	
Protection of persons and property.....	103	18%	157	(54)	-34%	
Health and human services.....	474	81%	549	(75)	-14%	
Economic development.....	3	1%	3	-	0%	
Total expenditures.....	580	100%	709	(129)	-18%	
Net transfers out.....	(412)	100%	(199)	(213)	107%	
Net change in fund balances.....	\$ (375)		\$ (200)	\$ (175)		

The year over year decrease in cash and investments of \$454 million is due primarily to a statutory transfer of \$121 million from the Health Endowment Account for Long Term Hope within the Tobacco Settlement Fund to the General Fund, statutory transfers totaling \$265 million from the Tobacco Settlement Account within the Tobacco Settlement Fund and additional transfers of \$26 million to the General Fund, and a \$18 million year over year decrease in the size of the Treasury Department's securities lending program. Other assets decreased by \$75 million primarily due to 1) the discontinuation of the Adult Basic health insurance program formerly financed by the Community Health Reinvestment program, decreasing amounts receivable (and related unearned revenues) (\$37 million decrease), 2) a decrease in investment sales proceeds receivable of \$12 million, and 3) changes in disputed payments from the tobacco product manufacturers participating in the Master Settlement Agreement (MSA) resulting in a decrease of \$7 million in the MSA receivable (and related unearned revenues) as of June 30, 2011. The accounts payable year over year decrease of \$87 million is largely due to a decrease in accrued program expenditures related to a reduction in amounts appropriated during the fiscal year ended June 30, 2011. Year over year securities lending obligations decreased by \$18 million due to the decrease in the Treasury Department's securities lending program. Other liabilities decreased by \$49 million due primarily to the aforementioned decreases in unearned revenues of \$37 million and \$7 million as of June 30, 2011.

During the current fiscal year, intergovernmental revenues decreased \$22 million due to a reduction in accrued Federal revenues for the Medical Assistance Uncompensated Care program. Investment income decreased by \$53 million due largely to lower amounts invested in and earnings of the Health Endowment Account for Long Term Hope and the Tobacco Settlement Account as of and during the fiscal year ended June 30, 2011. Other revenues decreased by \$15 million largely due to the reduction in revenues received from the MSA agreement. Year over year expenditures decreased by \$128 million primarily due to the aforementioned decrease in amounts appropriated during the fiscal year ended June 30, 2011. Transfers out to the General Fund increased by \$213 million due primarily to current fiscal year statutory transfers (Act 46) requiring the Tobacco Settlement Fund to transfer \$387 million to the General Fund in comparison to \$167 million transferred during the prior fiscal year based on Act 50 of 2009.

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 fund types 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 most revenues as operating revenues; non-operating revenues are reported for other programs and include grant revenues and all investment income. Four enterprise funds are reported as major funds and are discussed.

Unemployment Compensation Fund

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

Description	2011		2010		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and investments.....	\$ 1,178	59%	\$ 849	\$ 329	39%	
Unemployment assessments receivable..	587	29%	548	39	7%	
Other assets.....	232	12%	323	(91)	-28%	
Total assets.....	1,997	100%	1,720	277	16%	
Accounts payable.....	169	4%	180	(11)	-6%	
Other liabilities.....	3,848	96%	3,023	825	27%	
Total liabilities.....	4,017	100%	3,203	814	25%	
Total net assets.....	\$ (2,020)	100%	\$ (1,483)	\$ (537)	36%	
Sales and services.....	\$ 2,569	100%	\$ 2,002	\$ 567	28%	
Other revenues.....	10	0%	1	9	900%	
Total operating revenues.....	2,579	100%	2,003	576	29%	
Cost of sales and services.....	7,461	100%	8,741	(1,280)	-15%	
Total operating expenses.....	7,461	100%	8,741	(1,280)	-15%	
Operating loss.....	(4,882)		(6,738)	1,856	-28%	
Nonoperating revenues.....	4,351		4,917	(566)	-12%	
Loss before transfers.....	(531)		(1,821)	1,290	-71%	
Transfers.....	(6)		(4)	(2)	50%	
Decrease in net assets.....	\$ (537)		\$ (1,825)	\$ 1,288		

During the fiscal year ended June 30, 2011, total assets increased by \$277 million, primarily due to a \$329 million increase in funds available in the Pennsylvania Unemployment Compensation Trust Fund (UC Trust Fund). Amounts due from employers increased by \$39 million and several other amounts receivable decreased by a net amount of \$91 million as of June 30, 2011. The advance from the Federal government increased by \$826 million during the fiscal year ended June 30, 2011.

Year over year reported Charges for Sales and Services increased by \$567 million primarily as revenues from taxes increased by \$513 million. The January 1, 2010 employer/employee rate increases are reported for the full fiscal year ended June 30, 2011. (The employee withholding tax rate increased on January 1, 2010, to 0.08 percent, from 0.06 percent. Also, the additional contributions factor (part of the employer contribution tax rate) increased as well on January 1, 2010, to 0.65 percent, from 0.25 percent (as of January 2009)). Year over year reported Nonoperating Revenues, primarily Federal funding, decreased by \$566 million, primarily as Federal Additional UC (additional 25 dollars in weekly benefits) ended in December, 2010 (\$808 million decrease) and Extended UC Federal funding decreased by \$133 million, partially offset by increases in Federal funding for Extended Benefits (\$283 million) during the fiscal year ended June 30, 2011 and a net increase in accrued Federal revenues (\$80 million) as of June 30, 2011.

Year over year reported Cost of Sales and Services expenses decreased by \$1,280 million, as UC benefits (Commonwealth-financed) decreased by \$777 million, ARRA Federal Additional UC benefits decreased by \$405 million, Extended UC (Federally-funded) decreased by \$218 million and a combination of other benefits decreased by \$250 million, partially offset as ARRA Extended Benefits increased by \$142 million, Extended benefits (combination of Commonwealth and Federally-funded) increased by \$137 million, ARRA Extended UC benefits increased by \$91 million.

State Workers' Insurance Fund (December 31, 2010)

Condensed, comparative, financial statement information for the State Workers' Insurance Fund (SWIF) is as follows (amounts in millions):

Description	2010		2009		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and short-term investments.....	\$ 287	16%	\$ 261	\$ 26	10%	
Long-term investments.....	1,440	80%	1,500	(60)	-4%	
Other assets.....	69	4%	75	(6)	-8%	
Total assets.....	1,796	100%	1,836	(40)	-2%	
Securities lending obligations.....	193	11%	174	19	11%	
Unearned revenue.....	68	4%	80	(12)	-15%	
Insurance loss liability.....	1,510	82%	1,554	(44)	-3%	
Other liabilities.....	60	3%	61	(1)	-2%	
Total liabilities.....	1,831	100%	1,869	(38)	-2%	
Net assets.....	\$ (35)	100%	\$ (33)	\$ (2)	-6%	
Sales and services.....	\$ 174	106%	\$ 223	\$ (49)	-22%	
Provision for uncollectible accounts.....	(10)	-6%	(19)	9	47%	
Total operating revenues.....	164	100%	205	(41)	-20%	
Cost of sales and services.....	285	100%	314	(29)	-9%	
Total operating expenses.....	285	100%	314	(29)	-9%	
Operating loss.....	(121)		(109)	(12)	11%	
Investment income.....	131		91	40	44%	
(Investment expense).....	(12)		(5)	(7)	140%	
Net nonoperating revenue.....	119		86	33	38%	
Decrease in net assets.....	\$ (2)		\$ (23)	\$ 21		

During calendar year 2010, reported year over year insurance premium revenues (sales and services) decreased from \$223 million to \$174 million, as private insurance carriers continue to increase their share of the workers compensation market. During 2010 new applications decreased by 8 percent from 2009 (6,885 vs. 7,523) and renewal applications decreased 12 percent (22,927 vs. 25,947). Applications for SWIF coverage are expected to continue to decrease. Cash and short-term investments increased by 10 percent as the Treasury Department's securities lending program similarly increased between 2009 and 2010. Long-term investments decreased by \$60 million as a result of investment sales in excess of investment purchases to finance operations. Other assets include decreases in receivables that resulted from the decline in revenues. During 2010, SWIF continued to recognize significant reductions in insurance loss liability/reserves as a result of the Compromise and Release Initiative, which enabled SWIF to identify claims that meet requirements for settlement. The settled claims decreased from 1,304 in 2009 to 1,129 in 2010. The loss reserves associated with these settled claims helped reduce the insurance loss liability by \$44 million in 2010 and \$81 million in 2009. Net nonoperating revenue increased by \$33 million primarily due to increases in both investment income earned during 2010 and investment valuations as of December 31, 2010.

State Lottery Fund

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

Description	2011		2010		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and short-term investments.....	\$ 251	81%	\$ 225	\$ 26	12%	
Long-term investments.....	12	4%	3	9	300%	
Other assets.....	48	15%	42	6	14%	
Total assets.....	311	100%	270	41	15%	
Accounts payable.....	398	93%	405	(7)	-2%	
Securities lending obligations.....	3	1%	5	(2)	-40%	
Other liabilities.....	28	6%	26	2	8%	
Total liabilities.....	429	100%	436	(7)	-2%	
Net assets.....	\$ (118)	100%	\$ (166)	\$ 48	29%	
Sales and services.....	\$ 3,207	100%	\$ 3,053	\$ 154	5%	
Total operating revenues.....	3,207	100%	3,053	154	5%	
Cost of sales and services.....	3,037	96%	2,960	77	3%	
Other expenses.....	119	4%	119	-	0%	
Total operating expenses.....	3,156	100%	3,079	77	3%	
Operating income (loss).....	51		(26)	77	296%	
Nonoperating revenues.....	119		115	4	3%	
Income before transfers.....	170		89	81	91%	
Transfers in.....	166		177	(11)	-6%	
Transfers out.....	(288)		(287)	(1)	0%	
Transfers, net.....	(122)		(110)	(12)	-11%	
Increase (decrease) in net assets.....	\$ 48		\$ (21)	\$ 69		

During the fiscal year ended June 30, 2011, the net year over year increase in overall gross sales (\$154 million) was primarily attributable to increased Instant Game sales of (\$173 million) and increased certain online sales (\$138 million). The increases in online sales were the result of Mega Millions/Megaplier drawings (\$85 million) and Match 6 drawings (\$53 million). The increase in sales was a result of the Lottery increasing the retailer network, increasing the amount and size of the sales equipment within retailers. Those sales increases (\$311 million) were partially offset by decreases in online sales of Powerball/Powerplay drawings (\$99 million) because of smaller jackpots caused by players winning Powerball jackpots more frequently and the retirement of Super 7 drawings (\$42 million) during June 2010.

The \$9 million increase in long-term Investments was the result of purchasing annuities from several insurance companies in 1999 and 2000 and subsequently receiving stocks when the insurance companies converted from a mutual form of ownership to a stock insurance corporation.

Reported current fiscal year cost of sales expenses include: Lottery prize payments of \$1,915 million, program benefits for older Pennsylvanians of \$915 million and Lottery administration expenses of \$207 million. Reported prior fiscal year cost of sales expenses include: Lottery prize payments of \$1,836 million, program benefits of \$903 million and Lottery administration expenses of \$221 million. Year over year changes in expenses are: prize payments increased by \$79 million, program benefits increased by \$12 million and administration expenses decreased by \$14 million.

Reported transfers to the State Lottery Fund decreased by \$11 million because of decreased transfers from the Gaming Fund. Reported transfers from the State Lottery Fund increased by \$1 million as transfers to the Public Transportation Trust Fund increased (\$88 million during the current fiscal year vs. \$87 million during the prior fiscal year) and transfers to the Pharmaceutical Assistance Contract for the Elderly (PACE) program remained the same year over year. (\$200 million in both the current and prior fiscal years).

Tuition Payment Fund

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

Description	2011		2010		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and short-term investments.....	\$ 294	19%	\$ 323	\$ (29)	-9%	
Long-term investments.....	1,224	80%	1,034	190	18%	
Other assets.....	15	1%	4	11	275%	
Total assets.....	1,533	100%	1,361	172	13%	
Securities lending obligations.....	136	8%	184	(48)	-26%	
Tuition benefits payable.....	1,401	90%	1,330	71	5%	
Other liabilities.....	27	2%	6	21	350%	
Total liabilities.....	1,564	100%	1,520	44	3%	
Net assets.....	\$ (31)	100%	\$ (159)	\$ 128	81%	
Sales and services.....	\$ 165	100%	\$ 157	\$ 8	5%	
Total operating revenues.....	165	100%	157	8	5%	
Cost of sales and services.....	252	100%	232	20	9%	
Total operating expenses.....	252	100%	232	20	9%	
Operating loss.....	(87)		(75)	(12)	16%	
Nonoperating revenues.....	215		140	75	54%	
Increase in net assets.....	\$ 128		\$ 65	\$ 63		

Total operating revenues of the PA 529 Guaranteed Savings Plan (GSP) during the fiscal year ended 2011 were \$7.8 million more than the total operating revenues during the prior fiscal year. Greater GSP enrollment produced increases in program fees of \$1.9 million and increased tuition credit purchases of \$5.8 million accounted for the year over year change in operating revenues.

The total operating expenses of the PA 529 GSP during the fiscal year ended June 30, 2011 were \$20 million more than the total operating expenses during the prior fiscal year due to an increase in Tuition Benefits expense as more participants used accounts during the current fiscal year. Tuition benefit expense increased to \$235.9 million during the current fiscal year from \$214.8 million during the prior fiscal year. Withdrawals to pay for higher education expenses increased to \$164.9 million (qualified withdrawals) during the current fiscal year from \$153.6 million during the prior fiscal year as 15,120 beneficiaries used 339,647 credits during the current fiscal year compared to 14,462 beneficiaries using 332,989 credits during the prior fiscal year.

During the fiscal year ended June 30, 2011 nonoperating revenues were \$214.9 million, which were \$74.9 million more than the prior fiscal year. This increase is primarily attributable to a year over year increase in investment income of \$77.7 million. The increase in investment income resulted from improved economic conditions and the allocation changes of investments over the prior fiscal year.

Capital asset activity during the fiscal year ended June 30, 2011

Throughout the fiscal year, Commonwealth agencies acquire or construct capital assets. In governmental fund financial 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 governmental fund 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, 2011 amounted to \$0.8 and \$2.8 billion, respectively. Authorized but unissued general obligation bonds at June 30, 2011 totaled \$87.2 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 proprietary fund financial statements

and in government-wide financial statements. Fiduciary fund capital assets are reported in fiduciary fund financial statements; fiduciary funds are not included in government-wide statements. General capital assets as of June 30, 2011 amounted to \$30.3 billion at actual or estimated historical cost, net of accumulated depreciation of \$17.2 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 ‘current expenditures’ by governmental fund types. Highway and bridge infrastructure assets are typically funded with Motor License Fund taxes, license and registration fees and Federal revenues. The Motor License Fund reports transportation and capital outlay expenditures in its financial statements; a portion of such expenditures is reported as additions to capital assets in government-wide financial 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 the government-wide financial statements. Note E to the financial statements provides more information on capital asset activities during the fiscal year ended June 30, 2011.

Long-term debt activity during the fiscal year ended June 30, 2011

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, 2011 was \$58.16 billion. Outstanding capital project debt at August 31, 2011 amounted to \$8.52 billion, for a remaining legal debt margin of \$49.64 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, water facilities restoration, and certain environmental initiatives; and for special purposes approved by the General Assembly, such as disaster relief.

Total general obligation bond indebtedness outstanding at June 30, 2011 was \$10.443 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, 2011 amounted to \$974.9 million and \$59.3 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>
2004	\$ 7.225
2005	7.151
2006	7.658
2007	8.246
2008	8.632
2009	9.150
2010	10.499
2011	10.443

Note K to the financial statements provides more specific details on long-term debt balances and activity during the fiscal year ended June 30, 2011.

Debt administration – fiscal year ending June 30, 2012

During the fiscal year ending June 30, 2012, the Office of the Budget currently plans general obligation bond issuances, excluding refundings, amounting to \$1,214 million, an increase of \$564 million when compared to actual bond issuances of \$650 million, which did not include any refunding issuances, during the fiscal year ended June 30, 2011. This plan reflects the need to make continued investments in the Commonwealth’s capital infrastructure, local capital projects and mass transportation infrastructure. Additionally, a significant portion of the projected issuances for the 2012 fiscal year is attributable to the construction of three new prisons, each containing 2,000 plus beds, as well as the construction of the new Family Court Building in Philadelphia. Debt principal retirements of \$702.2 million are currently planned for the fiscal year

ending June 30, 2012. As disclosed in Note R to the financial statements, the Commonwealth issued \$811.6 million of general obligation bonds during October 2011.

The Commonwealth continues to evaluate refunding opportunities for its outstanding bonds to reduce interest costs. The aforementioned October 2011 bond issuance refunded \$161.6 million of outstanding bonds and will produce \$20.2 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 fiscal 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 any such notes through November 2011 and does not intend to issue any such notes for the General Fund during the fiscal year ending June 30, 2012.

In October 2011, in connection with the Commonwealth's issuance of its First Series of 2011 and First Refunding Series of 2011 General Obligation Bonds, Moody's Investors Service affirmed the Commonwealth's bond rating of Aa1 with a 'negative' outlook. Similarly, Fitch Ratings affirmed the Commonwealth's bond rating of AA+ with a 'negative' outlook and Standard and Poors also affirmed the Commonwealth's bond rating of AA with a 'stable' outlook. There were no debt limitations, restrictions or commitments during the fiscal year ended June 30, 2011 that may affect the Commonwealth's plans during the fiscal year ending June 30, 2012.

American Recovery and Reinvestment Act of 2009 (ARRA)

In February 2009, the Federal American Recovery and Reinvestment Act of 2009 (ARRA) was passed and signed into law. Among other things, the ARRA increased Federal participation in specific, targeted programs to increase economic growth and create new jobs. Through June 30, 2011, cumulatively, the ARRA, also known as the 'Recovery Act' or 'Federal Stimulus', financed over \$15.4 billion of qualifying Commonwealth program costs since the enactment date of February 17, 2009. Of the \$7.1 billion in ARRA funding during the fiscal year ended June 30, 2011, a variety of General Fund programs participated in ARRA funding (\$3.9 billion), the Unemployment Compensation Fund participated in over \$2.6 billion of ARRA funding, the Motor License Fund participated in \$442 million and four other individual funds participated in \$19.6 million in ARRA funding during the fiscal year ended June 30, 2011. Also, the Pennsylvania Infrastructure Investment Authority, included in the Commonwealth's financial reporting entity as a legally-separate, discretely presented component unit, participated in \$104 million of ARRA funding during the fiscal year ended June 30, 2011. ARRA funding during the fiscal years ended June 30, 2010 and 2009, respectively, amounted to \$6.9 billion and \$1.3 billion.

General Fund fiscal year 2011-2012 budget

The enacted 2011-2012 General Fund budget is \$27.1 billion, an increase of \$1.89 billion or 7.5 percent. However, after accounting for the nearly \$3.1 billion in non-recurring 2010-2011 ARRA State Fiscal Stabilization and Enhanced Medical Assistance Percentage funds, the General Fund budget is decreased from \$28.3 billion to \$27.1 billion, a reduction of \$1.17 billion or 4.1 percent. The 2011-2012 budget does not raise taxes. The 2011-2012 budget restarts the multi-year phase-out of the Capital Stock and Franchise Tax which was suspended in 2009-2010, providing more than \$70 million in tax relief. This phase-out continues until the tax is eliminated in 2014. The 2011-2012 budget continues the redirection to the General Fund of \$44 million in moving violation surcharges authorized under the Catastrophic Loss Benefits Fund which had been deposited in the Medical Care Availability Reduction of Error Fund. This redirection also occurred in 2009-2010 and 2010-2011.

The 2011-2012 General Fund budget eliminates 66 appropriation line items cutting \$822 million in annual spending and reducing funding for an additional 226 appropriations. Administrative spending is reduced by 4 percent and about 1,000 positions are eliminated. In addition, the Basic Education Funding subsidy is reset to nearly the 2008-2009 level, the last fiscal year before federal stimulus funds were available. This results in an average annual increase of 3 percent in Basic Education funding over the last 10 fiscal years. Although there are many reductions in the enacted 2011-2012 budget, total funding increases for the Department of Corrections and the Board of Probation and Parole and provides funding to maintain State Police trooper strength on highways and in the community.

General Fund fiscal year 2011-2012 revenue collections

During the four months ended October 31, 2011 General Fund revenue collections amounted to \$7.655 billion, which were \$282 million, or 3.6 percent, below the Official Revenue Estimate. Fiscal year to date revenue collections were \$84 million more than prior fiscal year revenues collected during the same period (\$7.571 billion), an increase of 1.1 percent. The Pennsylvania Revenue Department's October 2011 Monthly Revenue Report is publicly available, on a monthly basis, at: http://www.portal.state.pa.us/portal/server.pt/community/monthly_revenue_reports

Accounting and Financial Reporting for Pensions

In June 2011 the Governmental Accounting Standards Board (GASB) issued a proposed accounting and financial reporting standard for pensions in an Exposure Draft entitled "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27".

In its current form as an Exposure Draft, the GASB's proposal would require pension obligation reporting on the commonwealth's financial statements and result in the recording of the employer's proportionate share of any unfunded pension obligations and/or assets on the Commonwealth's entity-wide, Statement of Net Assets. Additionally, the proposal in its current form would result in the Commonwealth recognizing pension expense based on specific actuarial parameters. As currently presented, the Exposure Draft would impact the Commonwealth's financial reporting no sooner than the Fiscal

Year ending June 30, 2014. The Commonwealth plans to continue providing feedback to GASB, as requested, and will analyze the potential financial reporting impact on the Commonwealth entity.

As described in Note I of the accompanying basic financial statements of the Commonwealth, Pennsylvania's two largest public employee pension plans are the State Employees Retirement System (SERS) and the Public School Employees Retirement System (PSERS). Note I in this report includes a description of the current plan and funding policy for each of the retirement plans along with the actual contribution rates for the past three years.

Both the SERS and the PSERS include a considerable amount of actuarial data within the Actuarial Sections of their Comprehensive Annual Financial Reports (CAFR). For further information, see the following reports:

The SERS CAFR is available at <http://www.sers.state.pa.us/publications/general/cafr.htm>.

The PSERS CAFR is available at <http://www.psers.state.pa.us/publications/general/cafr.htm>.

Pennsylvania Turnpike Commission Lease and Funding Agreement Obligations

As further described in Note N to the Basic Financial Statements, the Pennsylvania Turnpike Commission (PTC), a discretely presented component unit, is required to remit specified amounts to the PA Department of Transportation (DOT) based on the terms of a 2007 Lease and Funding Agreement between the PTC and certain Commonwealth state agencies, including DOT. The PTC has remitted all indicated payments to DOT; such payments are deposited in the Motor License Fund and the Public Transportation Trust Fund. Through June 30, 2011, the PTC has remitted payments amounting to \$1.65 billion to the Motor License Fund and has remitted payments amounting to \$1.30 billion to the Public Transportation Trust Fund, for total payments of \$2.95 billion from the PTC to the Commonwealth through June 30, 2011. Scheduled annual PTC payments to DOT amount to \$450 million through 2057, when the Lease and Funding Agreement terminates.

In its separately-issued and publicly-available financial statements as of and for the fiscal year ended May 31, 2011, the PTC's Management's Discussion and Analysis provides that it has made all indicated Lease and Funding Agreement payments and plans to continue to do so for the foreseeable future. The PTC has financed its payments to date through a combination of increased toll rates and increased borrowing, in accordance with the Lease and Funding Agreement. The PTC's Note 6 to its financial statements ('Debt') provides extensive disclosure of its borrowings, including borrowings made to finance PTC remittances to DOT. The PTC's audited financial statements as of May 31, 2011 are available within the PTC Comprehensive Annual Financial Report at: <http://www.paturndpike.com/geninfo/comprehensivereport.aspx>. The PTC uses May 31 as its fiscal year end.

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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Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2011

Basic Financial Statements

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Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2011

Government-Wide Financial Statements

Commonwealth of Pennsylvania

Statement of Net Assets

June 30, 2011

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash—Note D.....	\$ 155,305	\$ 24,507	\$ 179,812	\$ 2,185,418
Cash with fiscal agents.....	-	1,171,682	1,171,682	-
Temporary investments—Note D.....	9,136,620	1,314,156	10,450,776	2,472,605
Receivables (net):				
Taxes—Note G.....	1,917,160	-	1,917,160	-
Unemployment assessments.....	-	587,172	587,172	-
Accounts.....	956,305	143,499	1,099,804	200,223
Investment income.....	6,530	14,407	20,937	8,914
Interest on notes and loans.....	-	22,807	22,807	121,581
Loans—Note G.....	7,117	52,910	60,027	1,378,219
Lease rentals—Note G.....	427	-	427	953
Investment sale proceeds.....	5,353	10,877	16,230	-
Other.....	111,554	-	111,554	61,162
Due from pension trust funds—Note H.....	7,898	10	7,908	-
Due from primary government—Note H.....	-	-	-	8,046
Due from component units—Note H.....	10,472	801	11,273	62
Due from Federal government.....	2,379,568	88,580	2,468,148	37,684
Due from political subdivisions.....	16,069	15,529	31,598	-
Due from other governments.....	615	30,719	31,334	-
Inventory.....	104,694	265,864	370,558	36,106
Prepaid and deferred expenses.....	-	2,336	2,336	16,840
Other assets.....	9,019	21,362	30,381	183,833
Total current assets.....	<u>14,824,706</u>	<u>3,767,218</u>	<u>18,591,924</u>	<u>6,711,646</u>
Noncurrent assets:				
Long-term investments—Note D.....	803,008	2,676,351	3,479,359	2,454,641
Receivables (net):				
Taxes—Note G.....	1,205,778	-	1,205,778	-
Interest on notes and loans.....	-	-	-	16,433
Loans—Note G.....	74,524	239,438	313,962	14,996,654
Due from component units—Note H.....	74,663	-	74,663	-
Non-depreciable capital assets—Note E:				
Land.....	2,513,630	323	2,513,953	380,211
Construction in progress.....	3,537,141	2,886	3,540,027	1,444,762
Depreciable or amortizable capital assets—Note E:				
Land improvements.....	657,335	-	657,335	364,340
Buildings and building improvements.....	6,524,800	48,096	6,572,896	4,415,452
Machinery and equipment.....	1,026,423	141,233	1,167,656	1,187,192
Turnpike infrastructure.....	-	-	-	6,041,749
Highway infrastructure.....	22,801,439	-	22,801,439	-
Bridge infrastructure.....	10,137,372	-	10,137,372	-
Waterway infrastructure.....	23,158	-	23,158	-
Infrastructure-other.....	179,184	-	179,184	-
Library books.....	-	-	-	84,330
Other capital assets.....	-	-	-	337
Intangible assets.....	113,109	12,688	125,797	34,791
Less: accumulated depreciation and amortization.....	<u>(17,231,871)</u>	<u>(121,161)</u>	<u>(17,353,032)</u>	<u>(5,832,776)</u>
Net depreciable or amortizable capital assets.....	<u>24,230,949</u>	<u>80,856</u>	<u>24,311,805</u>	<u>6,295,415</u>
Other assets.....	-	-	-	603,642
Total non-current assets.....	<u>32,439,693</u>	<u>2,999,854</u>	<u>35,439,547</u>	<u>26,191,758</u>
TOTAL ASSETS.....	<u>\$ 47,264,399</u>	<u>\$ 6,767,072</u>	<u>\$ 54,031,471</u>	<u>\$ 32,903,404</u>

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

Commonwealth of Pennsylvania

Statement of Net Assets

June 30, 2011

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities.....	\$ 5,474,940	\$ 841,872	\$ 6,316,812	\$ 544,069
Investment purchases payable.....	24,196	23,407	47,603	-
Tax refunds payable.....	624,166	-	624,166	-
Tuition benefits payable—Note F.....	-	189,878	189,878	-
Securities lending obligations.....	183,811	346,231	530,042	26,134
Internal balances—Note H.....	(108,644)	108,989	345	-
Due to pension trust funds—Note H.....	28,450	655	29,105	-
Due to primary government—Note H.....	-	-	-	11,204
Due to component units—Note H.....	10,636	-	10,636	62
Due to political subdivisions.....	1,276,534	8,113	1,284,647	2,268
Due to other governments.....	30,168	3,849,773	3,879,941	17
Interest payable.....	172,367	-	172,367	221,936
Unearned revenue.....	116,845	78,217	195,062	96,420
Notes payable—Note J.....	-	-	-	220,988
General obligation bonds payable—Note K.....	702,145	-	702,145	-
Bonds payable—Note K.....	-	-	-	41,260
Revenue bonds payable—Note K.....	-	-	-	562,096
Capital lease/installment purchase obligations—Note K.....	-	-	-	3,441
Self insurance liabilities—Note M.....	147,222	5,021	152,243	4,900
Compensated absence liability—Notes F, K.....	160,997	7,357	168,354	12,166
Insurance loss liability—Note F.....	-	253,964	253,964	-
Other financing obligations—Note J.....	-	-	-	1,965
Other postemployment benefit obligations—Note J.....	-	-	-	52,762
Pollution remediation obligations—Note K.....	15,905	-	15,905	-
Other liabilities—Note K.....	161,219	41,186	202,405	325,212
Total current liabilities.....	<u>9,020,957</u>	<u>5,754,663</u>	<u>14,775,620</u>	<u>2,126,900</u>
Noncurrent liabilities:				
Tuition benefits payable—Note F.....	-	1,211,044	1,211,044	-
Due to primary government—Note H.....	-	-	-	74,663
Unearned revenue.....	-	-	-	5,075
Student loan auction rate security bonds payable—Note J.....	-	-	-	6,052,338
Insurance loss liability—Note F.....	-	1,256,161	1,256,161	-
Notes payable—Note J.....	-	-	-	2,790,551
General obligation bonds payable—Note K.....	9,741,045	-	9,741,045	-
Bonds payable—Note K.....	-	-	-	844,030
Revenue bonds payable—Note K.....	-	-	-	14,245,304
Capital lease/installment purchase obligations—Note K.....	26,907	-	26,907	60,727
Other financing obligations—Note J.....	67,500	-	67,500	125,717
Compensated absence liability—Note F, K.....	588,111	27,775	615,886	114,021
Self insurance liabilities—Note M.....	825,682	34,074	859,756	39,026
Other postemployment benefit obligations—Note I.....	1,336,829	47,782	1,384,611	744,889
Pollution remediation obligations—Note K.....	219,926	-	219,926	-
Other liabilities—Note K.....	1,184,142	-	1,184,142	896,353
Total non-current liabilities.....	<u>13,990,142</u>	<u>2,576,836</u>	<u>16,566,978</u>	<u>25,992,694</u>
TOTAL LIABILITIES.....	<u>23,011,099</u>	<u>8,331,499</u>	<u>31,342,598</u>	<u>28,119,594</u>
NET ASSETS—Note C				
Invested in capital assets, net of related debt.....	25,352,588	84,065	25,436,653	2,058,824
Restricted for:				
General government operations.....	672,834	-	672,834	-
Health-related programs.....	61,785	2,323	64,108	5,663
Transportation.....	1,000,129	118,938	1,119,067	-
Capital projects.....	-	-	-	2,959,267
Debt service.....	-	-	-	442,631
Unemployment/worker's compensation.....	367,006	-	367,006	-
Environmental and conservation programs.....	331,102	-	331,102	-
Economic development.....	-	304,767	304,767	62,597
Gaming licensing/regulation.....	720,578	-	720,578	-
Correctional industries and procurement.....	62,868	-	62,868	-
Emergency support.....	51,926	144,834	196,760	-
Higher education.....	-	-	-	802,106
Other purposes.....	40,078	94,985	135,063	652,528
Deficit.....	(4,407,594)	(2,314,339)	(6,721,933)	(2,199,806)
TOTAL NET ASSETS.....	<u>\$ 24,253,300</u>	<u>\$ (1,564,427)</u>	<u>\$ 22,688,873</u>	<u>\$ 4,783,810</u>

Commonwealth of Pennsylvania
Statement of Activities
For the Fiscal Year Ended June 30, 2011
(Amounts 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.....	\$ 2,052,743	\$ 252,572	\$ 70,870	\$ -	\$ (1,729,301)	\$ -	\$ (1,729,301)	\$ -	
Protection of persons and property.....	5,384,710	1,034,481	1,219,493	100,787	(3,029,949)	-	(3,029,949)	-	
Public education.....	14,864,360	14,928	3,373,079	-	(11,476,353)	-	(11,476,353)	-	
Health and human services.....	30,388,529	1,597,599	18,448,325	4,609	(10,337,996)	-	(10,337,996)	-	
Economic development.....	1,598,596	11,812	698,642	-	(888,142)	-	(888,142)	-	
Transportation.....	4,465,639	976,705	2,202,896	115,799	(1,170,239)	-	(1,170,239)	-	
Recreation and cultural enrichment.....	491,082	181,373	57,807	-	(251,902)	-	(251,902)	-	
Interest.....	440,428	-	-	-	(440,428)	-	(440,428)	-	
Total governmental activities.....	59,686,087	4,069,470	26,071,112	221,195	(29,324,310)	-	(29,324,310)	-	
Business-type activities:									
State lottery.....	3,155,903	3,206,933	118,922	-	-	169,952	169,952	-	
State workers' insurance.....	306,318	173,571	131,159	-	-	(1,588)	(1,588)	-	
Tuition payment.....	259,069	165,157	221,969	-	-	128,057	128,057	-	
Unemployment compensation.....	7,460,707	2,579,252	4,350,769	-	-	(530,686)	(530,686)	-	
Liquor control.....	1,504,517	1,586,394	259	-	-	82,136	82,136	-	
Economic development and other.....	23,635	24,449	35,398	-	-	36,212	36,212	-	
Total business-type activities.....	12,710,149	7,735,756	4,858,476	-	-	(115,917)	(115,917)	-	
Total primary government.....	\$ 72,396,236	\$ 11,805,226	\$ 30,929,588	\$ 221,195	(29,324,310)	(115,917)	(29,440,227)	-	
Component units:									
Total component units.....	\$ 5,793,893	\$ 2,974,617	\$ 2,362,999	\$ 364,990	-	-	-	(91,287)	
		General revenues:							
		Taxes:							
					Personal income.....	9,771,269	-	9,771,269	-
					Sales and use.....	8,610,603	-	8,610,603	-
					Corporation.....	4,469,094	-	4,469,094	-
					Liquid fuels and motor carriers.....	2,092,645	-	2,092,645	-
					Gaming.....	1,409,388	-	1,409,388	-
					Inheritance.....	783,824	-	783,824	-
					Cigarette.....	1,104,355	-	1,104,355	-
					Realty transfer.....	328,997	-	328,997	-
					Other.....	1,167,804	-	1,167,804	-
					Total taxes.....	29,737,979	-	29,737,979	-
					Investment income.....	52,129	-	52,129	-
					Total general revenues.....	29,790,108	-	29,790,108	-
					Transfers—Note H.....	239,925	(239,925)	-	-
					Net general revenues and transfers.....	30,030,033	(239,925)	29,790,108	-
					Change in net assets.....	705,723	(355,842)	349,881	(91,287)
					Net assets, July 1, 2010 (restated)—Note B.....	23,547,577	(1,208,585)	22,338,992	4,875,097
					Net assets, June 30, 2011—Note C.....	\$ 24,253,300	\$ (1,564,427)	\$ 22,688,873	\$ 4,783,810

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



Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2011

Fund

Financial Statements

Commonwealth of Pennsylvania

Balance Sheet

Governmental Funds

June 30, 2011

(Amounts in thousands)

	General Fund	Motor License Fund	Tobacco Settlement Fund	Nonmajor Funds	Total
ASSETS					
Assets:					
Cash—Note D.....	\$ 115,643	\$ 6,576	\$ -	\$ 24,384	\$ 146,603
Temporary investments—Note D.....	4,725,406	1,823,371	351,579	2,177,865	9,078,221
Long-term investments—Note D.....	-	-	220,375	582,633	803,008
Receivables, net:					
Taxes—Note G.....	2,923,217	179,721	-	20,000	3,122,938
Accounts.....	754,372	24,877	162,923	9,809	951,981
Investment income.....	730	65	1,090	4,637	6,522
Loans—Note G.....	20,566	-	-	61,075	81,641
Lease rentals—Note G.....	-	-	-	427	427
Investment sale proceeds.....	-	-	630	4,723	5,353
Other.....	72,400	13,904	-	25,250	111,554
Due from other funds—Note H.....	44,749	17,996	-	107,073	169,818
Due from pension trust funds—Note H.....	480	288	-	-	768
Due from component units—Note H.....	1,007	7	-	4,635	5,649
Due from Federal government.....	2,052,213	242,278	47,926	28,945	2,371,362
Due from political subdivisions.....	11,712	3,163	-	1,193	16,068
Due from other governments.....	-	599	-	-	599
Advances to other funds—Note H.....	114,475	-	-	4,500	118,975
Other assets.....	3,000	-	-	-	3,000
TOTAL ASSETS.....	\$ 10,839,970	\$ 2,312,845	\$ 784,523	\$ 3,057,149	\$ 16,994,487
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities.....	\$ 4,334,118	\$ 593,933	\$ 148,939	\$ 358,279	\$ 5,435,269
Investment purchases payable.....	-	-	2,603	21,593	24,196
Tax refunds payable.....	621,910	2,256	-	-	624,166
Securities lending obligations.....	10,488	67,980	11,774	92,768	183,010
Due to other funds—Note H.....	121,048	45,412	333	30,879	197,672
Due to component units—Note H.....	1,741	8,851	-	27	10,619
Due to pension trust funds—Note H.....	16,616	11,089	1	673	28,379
Due to political subdivisions.....	1,121,070	60,079	5,549	89,748	1,276,446
Due to other governments.....	15,567	13,646	1	888	30,102
Unearned revenue.....	2,279,483	2,541	162,923	47,120	2,492,067
Advances from other funds—Note H.....	69,000	3,575	-	-	72,575
Other liabilities.....	627,494	-	-	-	627,494
TOTAL LIABILITIES.....	9,218,535	809,362	332,123	641,975	11,001,995
Fund balances:					
Nonspendable.....	123,156	-	-	-	123,156
Restricted.....	756,141	1,503,483	44,261	2,164,250	4,468,135
Committed.....	1,063,613	-	408,139	274,472	1,746,224
Unassigned deficit.....	(321,475)	-	-	(23,548)	(345,023)
TOTAL FUND BALANCES.....	1,621,435	1,503,483	452,400	2,415,174	5,992,492
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 10,839,970	\$ 2,312,845	\$ 784,523	\$ 3,057,149	\$ 16,994,487

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

Commonwealth of Pennsylvania
Reconciliation of the Balance Sheet
Governmental Funds to the Statement of Net Assets
June 30, 2011

(Amounts 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..... \$ 5,992,492

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.....	\$ 2,513,630	
Land improvements.....	656,324	
Buildings and building improvements.....	6,517,338	
Machinery and equipment.....	933,088	
Infrastructure.....	33,141,153	
Intangible.....	113,109	
Construction in progress.....	3,537,141	
Accumulated depreciation.....	<u>(17,156,318)</u>	
Net general capital assets.....		30,255,465

Certain revenues are earned but not available at fiscal year-end and therefore are reported as unearned revenues in the governmental funds balance sheet 2,375,222

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..... 93,424

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 88,726

The Statement of Net Assets includes inventories that are not reported in the governmental funds balance sheet because they are not current financial resources..... 93,712

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.....	\$ (10,443,190)	
Accrued bond interest payable.....	(172,367)	
Capital lease and installment purchase obligations.....	(26,510)	
Compensated absence liability.....	(746,756)	
Self-insurance liabilities.....	(969,974)	
Other post employment benefits.....	(1,333,238)	
Other liabilities.....	<u>(953,706)</u>	
		<u>(14,645,741)</u>

Total Net Assets--Governmental Activities..... \$ 24,253,300

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

Commonwealth of Pennsylvania
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2011

(Amounts in thousands)

	General Fund	Motor License Fund	Tobacco Settlement Fund	Nonmajor Funds	Total
REVENUES:					
Taxes, net of refunds.....	\$ 25,883,652	\$ 2,092,645	\$ -	\$ 2,031,158	\$ 30,007,455
Licenses and fees.....	466,089	899,208	-	441,454	1,806,751
Intergovernmental.....	23,597,695	1,791,466	169,618	470,511	26,029,290
Charges for sales and services.....	1,438,536	97,276	-	152,637	1,688,449
Investment income.....	50,283	134,442	28,662	112,634	326,021
Lease rental principal and interest.....	-	-	-	44	44
Interest on notes and loans.....	372	-	-	1,292	1,664
Other.....	177,424	3,127	418,586	31,825	630,962
TOTAL REVENUES	51,614,051	5,018,164	616,866	3,241,555	60,490,636
EXPENDITURES:					
Current:					
Direction and supportive services.....	837,264	50,624	-	734,486	1,622,374
Protection of persons and property.....	4,161,954	669,213	102,380	373,651	5,307,198
Health and human services.....	29,861,234	-	474,151	100,125	30,435,510
Public education.....	14,197,883	689	-	638,086	14,836,658
Recreation and cultural enrichment.....	243,606	3,421	-	216,474	463,501
Economic development.....	962,010	-	3,263	631,275	1,596,548
Transportation.....	48,003	1,840,867	-	1,240,436	3,129,306
Capital outlay.....	285,910	2,548,674	-	413,590	3,248,174
Debt service:					
Principal retirement.....	-	-	-	697,510	697,510
Interest and fiscal charges.....	-	-	-	477,751	477,751
TOTAL EXPENDITURES	50,597,864	5,113,488	579,794	5,523,384	61,814,530
EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER) EXPENDITURES	1,016,187	(95,324)	37,072	(2,281,829)	(1,323,894)
OTHER FINANCING SOURCES (USES):					
Bonds issued.....	-	-	-	650,000	650,000
Premium on bonds/refunding bonds/TANS.....	-	-	-	37,739	37,739
Discount on bonds issued.....	-	-	-	(4,724)	(4,724)
Transfers in—Note H.....	1,063,293	-	-	1,281,503	2,344,796
Transfers out—Note H.....	(1,023,268)	(62,725)	(411,856)	(564,561)	(2,062,410)
Capital lease and installment purchase obligations.....	-	111	-	-	111
NET OTHER FINANCING SOURCES (USES)	40,025	(62,614)	(411,856)	1,399,957	965,512
NET CHANGE IN FUND BALANCES	1,056,212	(157,938)	(374,784)	(881,872)	(358,382)
FUND BALANCES, JULY 1, 2010 (Restated)—Note B.....	565,223	1,661,421	827,184	3,297,046	6,350,874
FUND BALANCES, JUNE 30, 2011.....	\$ 1,621,435	\$ 1,503,483	\$ 452,400	\$ 2,415,174	\$ 5,992,492

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

Commonwealth of Pennsylvania

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

For the Fiscal Year Ended June 30, 2011

(Amounts 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 resources 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, 2011. 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..... \$ (358,382)

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	\$ 3,239,798	
Depreciation expense and losses on retirement or sale of assets.....	(1,331,180)	
Capital lease, installment purchase and related payments.....	<u>5,161</u>	
Net excess of capital asset additions/installment purchase payments over depreciation expense.....		1,913,779

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 \$17,434.....	(667,434)
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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.....	697,510
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Internal service funds charge the costs of certain goods and services to individual funds. The net income of the internal service funds is reported as part of governmental activities expenses.....	6,482
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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.....	(388,508)
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Certain expense adjustments are reported in the statement of activities because they are not due and payable and are funded with future economic resources rather than current available financial resources.....	<u>(497,724)</u>
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Net change in governmental net assets in the statement of activities..... \$ 705,723

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

Commonwealth of Pennsylvania

Statement of Net Assets

Proprietary Funds

June 30, 2011

(Amounts in thousands)

	Enterprise Funds						Internal Service Funds
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2010)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	
ASSETS							
Current assets:							
Cash-Note D.....	\$ 209	\$ 5,090	\$ 1,635	\$ 363	\$ 17,210	\$ 24,507	\$ 8,702
Cash with fiscal agents.....	1,171,682	-	-	-	-	1,171,682	-
Temporary investments—Note D.....	5,920	281,517	249,107	293,407	484,205	1,314,156	58,398
Receivables (net):							
Unemployment assessments.....	587,172	-	-	-	-	587,172	-
Accounts.....	72,818	53,161	16,122	-	1,398	143,499	4,325
Investment income.....	1	10,423	25	3,938	20	14,407	8
Interest on loans.....	22,022	-	-	-	785	22,807	-
Loans—Note G.....	-	-	-	-	52,910	52,910	-
Investment sale proceeds.....	-	-	-	10,877	-	10,877	-
Due from other funds—Note H.....	6,234	-	38	-	7,396	13,668	26,486
Due from pension trust funds-Note H.....	10	-	-	-	-	10	7,130
Due from component units—Note H.....	801	-	-	-	-	801	278
Due from Federal government.....	83,978	-	4,270	-	332	88,580	-
Due from political subdivisions.....	15,529	-	-	-	-	15,529	1
Due from other governments.....	30,719	-	-	-	-	30,719	16
Advances to other funds-Note H.....	-	-	-	-	1,400	1,400	-
Inventory.....	-	-	-	-	265,864	265,864	10,982
Prepaid expenses.....	-	-	-	-	2,336	2,336	-
Other assets.....	-	5,361	16,001	-	-	21,362	9
Total current assets.....	1,997,095	355,552	287,198	308,585	833,856	3,782,286	116,335
Noncurrent assets:							
Long-term investments-Note D.....	-	1,440,187	12,158	1,224,006	-	2,676,351	-
Receivables (net):							
Loans—Note G.....	-	-	-	-	239,438	239,438	-
Non-depreciable capital assets—Note E:							
Land.....	-	-	-	-	323	323	-
Construction in progress.....	-	-	-	-	2,886	2,886	-
Depreciable or amortizable capital assets—Note E:							
Land improvements.....	-	-	-	-	-	-	1,011
Buildings and building improvements.....	-	-	-	-	48,096	48,096	7,462
Machinery and equipment.....	-	1,512	56,842	-	82,879	141,233	93,335
Intangible assets.....	-	-	-	-	12,688	12,688	-
Less: accumulated depreciation and amortization.....	-	(1,512)	(45,093)	-	(74,556)	(121,161)	(75,553)
Net depreciable or amortizable capital assets.....	-	-	11,749	-	69,107	80,856	26,255
Total noncurrent assets.....	-	1,440,187	23,907	1,224,006	311,754	2,999,854	26,255
TOTAL ASSETS.....	\$ 1,997,095	\$ 1,795,739	\$ 311,105	\$ 1,532,591	\$ 1,145,610	\$ 6,782,140	\$ 142,590

Commonwealth of Pennsylvania

Statement of Net Assets

Proprietary Funds

June 30, 2011

(Amounts in thousands)

	Enterprise Funds						Internal Service Funds
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2010)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	
LIABILITIES							
Current liabilities:							
Accounts payable and accrued liabilities.....	\$ 168,292	\$ 7,197	\$ 398,207	\$ 3,030	\$ 265,146	\$ 841,872	\$ 39,661
Investment purchases payable.....	-	-	-	23,407	-	23,407	-
Tuition benefits payable—Note F.....	-	-	-	189,878	-	189,878	-
Securities lending obligations.....	-	193,386	3,448	135,778	13,619	346,231	801
Due to other funds—Note H.....	71	-	515	7	8,284	8,877	3,888
Due to pension trust funds—Note H.....	-	-	66	-	589	655	73
Due to component units—Note H.....	-	-	-	-	-	-	17
Due to political subdivisions.....	-	-	8,096	-	17	8,113	88
Due to other governments.....	3,848,309	-	804	-	660	3,849,773	66
Unearned revenue.....	-	67,667	8,200	-	2,350	78,217	-
Self insurance liabilities—Note M.....	-	341	360	-	4,320	5,021	376
Compensated absences—Note F.....	-	586	609	-	6,162	7,357	494
Insurance loss liability—Note F.....	-	253,964	-	-	-	253,964	-
Advances from other funds—Note H.....	-	2,180	-	-	113,000	115,180	-
Other liabilities.....	-	41,186	-	-	-	41,186	-
Total current liabilities.....	4,016,672	566,507	420,305	352,100	414,147	5,769,731	45,464
Noncurrent liabilities:							
Tuition benefits payable—Note F.....	-	-	-	1,211,044	-	1,211,044	-
Insurance loss liability—Note F.....	-	1,255,850	-	-	311	1,256,161	-
Installment purchase obligation—Note K.....	-	-	-	-	-	-	397
Compensated absences—Note F.....	-	2,204	2,293	98	23,180	27,775	1,858
Self insurance liabilities—Note M.....	-	2,314	2,440	-	29,320	34,074	2,554
Other postemployment benefit obligations—Note I.....	-	3,810	4,652	-	39,320	47,782	3,591
Total noncurrent liabilities.....	-	1,264,178	9,385	1,211,142	92,131	2,576,836	8,400
TOTAL LIABILITIES.....	4,016,672	1,830,685	429,690	1,563,242	506,278	8,346,567	53,864
NET ASSETS							
Invested in capital assets, net of related debt.....	-	-	11,749	-	72,316	84,065	25,858
Restricted for:							
Health-related programs.....	-	-	-	-	2,323	2,323	-
Transportation.....	-	-	-	-	118,938	118,938	-
Economic development.....	-	-	-	-	304,767	304,767	-
Correctional industries and procurement.....	-	-	-	-	-	-	62,868
Emergency support.....	-	-	-	-	144,834	144,834	-
Higher Education.....	-	-	-	-	-	-	-
Other purposes—Note C.....	-	-	-	-	94,985	94,985	-
Deficit.....	(2,019,577)	(34,946)	(130,334)	(30,651)	(98,831)	(2,314,339)	-
TOTAL NET ASSETS.....	\$ (2,019,577)	\$ (34,946)	\$ (118,585)	\$ (30,651)	\$ 639,332	\$ (1,564,427)	\$ 88,726

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

Commonwealth of Pennsylvania
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30 2011

(Amounts in thousands)

	Enterprise Funds						Internal Service Funds
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2010)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	
OPERATING REVENUES:							
Sales and services.....	\$ 2,568,799	\$ 173,571	\$ 3,206,588	\$ 165,157	\$ 1,598,364	\$ 7,712,479	\$ 85,882
Interest on loans.....	-	-	-	-	9,916	9,916	-
Other.....	10,453	-	345	-	523	11,321	1
OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTIBLE ACCOUNTS.....	2,579,252	173,571	3,206,933	165,157	1,608,803	7,733,716	85,883
Provision for uncollectible accounts.....	-	(9,568)	-	-	(5,439)	(15,007)	-
NET OPERATING REVENUES.....	2,579,252	164,003	3,206,933	165,157	1,603,364	7,718,709	85,883
OPERATING EXPENSES:							
Cost of sales and services.....	7,460,707	284,155	3,036,434	252,062	1,508,648	12,542,006	72,172
Depreciation and amortization.....	-	125	2,568	-	14,061	16,754	9,029
Other.....	-	-	116,891	-	-	116,891	-
TOTAL OPERATING EXPENSES.....	7,460,707	284,280	3,155,893	252,062	1,522,709	12,675,651	81,201
OPERATING INCOME (LOSS).....	(4,881,455)	(120,277)	51,040	(86,905)	80,655	(4,956,942)	4,682
NONOPERATING REVENUES (EXPENSES):							
Investment income.....	112	131,159	4,681	221,969	35,657	393,578	2,642
Investment expense.....	-	(12,470)	-	(7,007)	-	(19,477)	-
Grants and other revenues.....	4,350,657	-	114,241	-	2,040	4,466,938	-
Other expenses.....	-	-	(10)	-	(4)	(14)	(842)
NONOPERATING REVENUES (EXPENSES), NET.....	4,350,769	118,689	118,912	214,962	37,693	4,841,025	1,800
INCOME (LOSS) BEFORE CONTRIBUTIONS							
INCOME (LOSS) BEFORE TRANSFERS.....	(530,686)	(1,588)	169,952	128,057	118,348	(115,917)	6,482
TRANSFERS:							
Transfers in—Note H.....	-	-	165,900	-	48	165,948	-
Transfers out—Note H.....	(6,000)	-	(288,199)	-	(111,674)	(405,873)	-
TRANSFERS, NET.....	(6,000)	-	(122,299)	-	(111,626)	(239,925)	-
INCREASE/(DECREASE) IN NET ASSETS.....	(536,686)	(1,588)	47,653	128,057	6,722	(355,842)	6,482
TOTAL NET ASSETS, JULY 1, 2010.....	(1,482,891)	(33,358)	(166,238)	(158,708)	632,610	(1,208,585)	82,244
TOTAL NET ASSETS, JUNE 30, 2011.....	\$ (2,019,577)	\$ (34,946)	\$ (118,585)	\$ (30,651)	\$ 639,332	\$ (1,564,427)	\$ 88,726

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

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

	Enterprise Funds						Internal Service Funds
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2010)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from employers.....	\$ 2,515,899	\$ 156,623	\$ -	\$ -	\$ -	\$ 2,672,522	\$ -
Receipts from customers.....	-	-	3,204,073	-	1,607,171	4,811,244	80,073
Receipts from borrowers.....	-	-	-	-	92,375	92,375	-
Receipts from participants.....	-	-	-	165,157	-	165,157	-
Receipt of premiums.....	-	-	-	-	4,773	4,773	-
Payments to programs for the elderly.....	-	-	(898,424)	-	-	(898,424)	-
Payments to prize winners.....	-	-	(1,953,633)	-	-	(1,953,633)	-
Payments to participants.....	-	-	-	(175,056)	-	(175,056)	-
Payments to claimants.....	(7,286,517)	(255,000)	-	-	(676)	(7,542,193)	-
Payments to borrowers.....	-	-	-	-	(50,152)	(50,152)	-
Payments for vendors, employees and other costs.....	-	(75,946)	(317,674)	(5,308)	(1,438,419)	(1,837,347)	(68,898)
Other receipts (payments).....	753,220	-	345	-	259	753,824	1
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	(4,017,398)	(174,323)	34,687	(15,207)	215,331	(3,956,910)	11,176
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES							
Net borrowings under advances from other funds.....	-	119	-	-	-	119	(14,300)
Transfers in.....	-	-	165,900	-	-	165,900	-
Transfers out.....	(6,000)	-	(288,199)	-	(111,050)	(405,249)	-
Grants and other revenues.....	4,352,688	-	115,020	-	1,812	4,469,520	-
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES.....	4,346,688	119	(7,279)	-	(109,238)	4,230,290	(14,300)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Acquisition and construction of capital assets.....	-	-	(5,751)	-	(20,204)	(25,955)	(2,952)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....	-	-	(5,751)	-	(20,204)	(25,955)	(2,952)
CASH FLOWS FROM INVESTING ACTIVITIES:							
Purchase of investments.....	(6,612)	(1,419,418)	(1,262,614)	(1,428,463)	(1,489,189)	(5,606,296)	(393,264)
Sales and maturities of investments.....	7,079	1,568,213	1,235,354	1,417,136	1,372,333	5,600,115	401,270
Investment income.....	175	39,240	5,655	33,827	36,326	115,223	3,627
Investment expense.....	-	(12,470)	-	(7,007)	-	(19,477)	-
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	642	175,565	(21,605)	15,493	(80,530)	89,565	11,633
NET INCREASE IN CASH.....	329,932	1,361	52	286	5,359	336,990	5,557
CASH AT JULY 1, 2010.....	841,959	3,729	1,583	77	11,851	859,199	3,145
CASH AT JUNE 30, 2011.....	\$ 1,171,891	\$ 5,090	\$ 1,635	\$ 363	\$ 17,210	\$ 1,196,189	\$ 8,702

Commonwealth of Pennsylvania
Statement of Cash Flows
 Proprietary Funds
 For the Fiscal Year Ended June 30, 2011

(Amounts in thousands)

	Enterprise Funds						Internal Service Funds
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2010)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES							
Operating income (loss).....	\$ (4,881,455)	\$ (120,277)	\$ 51,040	\$ (86,905)	\$ 80,655	\$ (4,956,942)	\$ 4,682
Depreciation and amortization.....	-	125	2,568	-	14,061	16,754	9,029
Investment demutualization.....	-	-	(12,157)	-	-	(12,157)	-
Provision for uncollectible accounts.....	-	9,568	-	-	5,439	15,007	-
Non-operating revenues (expenses).....	-	-	-	-	19	19	-
Changes in assets and liabilities:							
Unemployment assessments receivable.....	(38,725)	-	-	-	-	(38,725)	-
Accounts receivable.....	68,552	179	(2,812)	-	1,639	67,558	(2,815)
Interest on loans receivable.....	18,218	-	-	-	(71)	18,147	-
Loans receivable.....	-	-	-	-	34,266	34,266	-
Other receivables.....	-	-	-	-	-	-	-
Due from other funds.....	(1,255)	-	(37)	-	(3,007)	(4,299)	(962)
Due from pension trust funds.....	(7)	-	-	-	-	(7)	(4,374)
Due from component units.....	105	-	-	-	-	105	18
Due from political subdivisions.....	(2,697)	-	-	-	-	(2,697)	-
Due from other governments.....	5,872	-	-	-	-	5,872	70
Inventory.....	-	-	-	-	38,959	38,959	550
Prepaid expenses.....	-	-	-	-	2,094	2,094	-
Other current assets.....	-	(4,725)	(1,344)	-	-	(6,069)	3
Accounts payable and accrued liabilities.....	(11,941)	(8,421)	(5,089)	697	22,200	(2,554)	544
Tuition benefits payable.....	-	-	-	71,031	-	71,031	-
Due to other funds.....	(54)	-	404	1	4,277	4,628	2,456
Due to pension trust funds.....	-	-	29	-	219	248	32
Due to component units.....	(3)	-	-	-	-	(3)	17
Due to political subdivisions.....	-	-	1,240	-	10	1,250	88
Due to other governments.....	825,992	-	(627)	-	13	825,378	7
Unearned revenue.....	-	(12,402)	297	-	(207)	(12,312)	-
Self insurance liabilities.....	-	268	(33)	-	3,948	4,183	651
Compensated absences.....	-	230	(212)	(31)	(1,830)	(1,843)	95
Insurance loss liability.....	-	(44,322)	-	-	(23)	(44,345)	-
Other postemployment benefit obligations.....	-	1,129	1,420	-	12,670	15,219	1,085
Other liabilities.....	-	4,325	-	-	-	4,325	-
Total Adjustments.....	864,057	(54,046)	(16,353)	71,698	134,676	1,000,032	6,494
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	\$ (4,017,398)	\$ (174,323)	\$ 34,687	\$ (15,207)	\$ 215,331	\$ (3,956,910)	\$ 11,176
Increase (decrease) in fair value of investments during the fiscal year.....	\$ (63)	\$ (38,850)	\$ (956)	\$ 249,155	\$ 12,425	\$ 221,711	\$ (2,567)

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. -

Commonwealth of Pennsylvania
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

(Amounts in thousands)

		Investment Trust Fund	Private Purpose Trust Fund	
	Pension (and Other Employee Benefit) Trust Funds	INVEST Program for Local Governments (December 31, 2010)	Tuition Account Investment Program	Agency Funds
ASSETS				
Cash—Note D.....	\$ 210,948	\$ -	\$ 1,020	\$ 22,405
Cash with fiscal agents.....	-	-	-	21,611
Temporary investments—Note D.....	78,736	595,387	-	1,303,588
Long-term investments—Note D.....	176,004	-	974,419	3,056,986
Short-term funds—Note D.....	5,673,256	-	-	-
Corporate obligations—Note D.....	2,696,630	-	-	-
Collective trust funds—Note D.....	14,445,972	-	-	-
Real estate—Note D.....	7,625,179	-	-	-
Alternative—Note D.....	22,848,272	-	-	-
Securities lending collateral—Note D.....	1,086,096	-	-	-
Asset-backed securities—Note D.....	1,009,690	-	-	-
Certificates of deposit—Note D.....	68,200	-	-	-
Commercial paper—Note D.....	20,432	-	-	-
Derivatives—Note D.....	193,820	-	-	-
Domestic equities—Note D.....	6,847,778	-	-	-
International equities—Note D.....	8,065,889	-	-	-
International private debt securities—Note D.....	793,644	-	-	-
International public debt securities—Note D.....	1,229,184	-	-	-
Mortgage-backed securities—Note D.....	2,985,587	-	-	-
Private placements—Note D.....	535,782	-	-	-
Repurchase agreements—Note D.....	74,094	-	-	-
State and municipal obligations—Note D.....	11,853	-	-	-
U.S. Treasury obligations—Note D.....	3,444,867	-	-	-
U.S. government agency debt securities—Note D.....	569,193	-	-	-
Receivables, net:				
Taxes—Note G.....	-	-	-	26,562
Accounts.....	34	-	190	49,485
Investment income.....	361,814	-	-	11,610
Interest on notes and loans.....	-	6	-	-
Pension contributions.....	529,423	-	-	-
Investment sale proceeds.....	776,342	10,002	-	101,884
Other.....	14,901	-	-	141,729
Due from other funds—Note H.....	5,376	-	-	-
Due from pension trust funds—Note H.....	10,051	-	-	-
Due from component units—Note H.....	5,654	-	-	-
Due from political subdivisions.....	5,093	-	-	-
Due from other governments.....	6,639	-	-	-
Advances to other funds—Note H.....	-	-	-	67,500
Depreciable or amortizable capital assets:				
Machinery and equipment.....	12,319	-	-	-
Intangible assets.....	26,918	-	-	-
Less: accumulated depreciation and amortization.....	(18,208)	-	-	-
Net depreciable or amortizable capital assets.....	21,029	-	-	-
Other assets.....	-	-	-	3,831,866
TOTAL ASSETS.....	82,427,462	605,395	975,629	8,635,226
LIABILITIES				
Accounts payable and accrued liabilities.....	159,037	57	654	33,537
Investment purchases payable.....	875,111	10,021	200	238,359
Securities lending obligations.....	1,174,384	-	-	18,529
Due to other funds—Note H.....	932	-	-	-
Due to pension trust funds—Note H.....	10,079	-	-	-
Due to political subdivisions.....	-	-	-	565,678
Due to other governments.....	-	-	-	14
Interest payable.....	-	116	-	13
Compensated absence liability.....	-	-	-	457
Self insurance liabilities—Note M.....	-	-	-	557
Other postemployment benefit obligations—Note I.....	-	-	-	846
Other liabilities.....	684,511	-	-	7,777,236
TOTAL LIABILITIES.....	2,904,054	10,194	854	8,635,226
NET ASSETS:				
Held in trust for:				
Pension benefits.....	77,086,096	-	-	-
Postemployment healthcare benefits.....	363,882	-	-	-
Employee salary deferrals.....	2,073,430	-	-	-
INVEST Program participants.....	-	595,201	-	-
Tuition Account Investment Program participants.....	-	-	974,775	-
TOTAL NET ASSETS.....	\$ 79,523,408	\$ 595,201	\$ 974,775	\$ -

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

Commonwealth of Pennsylvania
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2011

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund INVEST Program for Local Governments (December 31, 2010)	Private Purpose Trust Fund Tuition Account Investment Program
ADDITIONS:			
Pension contributions:			
Employer.....	\$ 1,703,388	\$ -	\$ -
Employee.....	1,721,497	-	-
Transfer in from other plans.....	47,848	-	-
Total contributions.....	<u>3,472,733</u>	<u>-</u>	<u>-</u>
Investment income:			
Net appreciation in fair value of investments.....	11,696,988	-	130,599
Interest income.....	627,479	1,893	20,459
Dividend income.....	434,453	-	-
Rental and other income.....	524,746	-	-
Total investment activity income.....	<u>13,283,666</u>	<u>1,893</u>	<u>151,058</u>
Less: investment expenses			
Investment activity expense.....	<u>(752,941)</u>	<u>(751)</u>	<u>-</u>
Net investment earnings.....	<u>12,530,725</u>	<u>1,142</u>	<u>151,058</u>
Securities lending activities:			
Income.....	10,823	-	-
Expenses.....	<u>(1,285)</u>	<u>-</u>	<u>-</u>
Total securities lending income.....	<u>9,538</u>	<u>-</u>	<u>-</u>
Total net investment income.....	<u>12,540,263</u>	<u>1,142</u>	<u>151,058</u>
Share transactions (at net asset value of \$1.00 per share):			
Shares purchased.....	-	1,552,902	169,354
Shares issued in lieu of cash distributions.....	-	953	-
Shares redeemed.....	-	<u>(1,630,623)</u>	<u>(63,577)</u>
Net increase (decrease) in net assets from share transactions.....	<u>-</u>	<u>(76,768)</u>	<u>105,777</u>
TOTAL ADDITIONS.....	<u>16,012,996</u>	<u>(75,626)</u>	<u>256,835</u>
DEDUCTIONS:			
Benefit payments.....	8,729,697	-	-
Refunds of contributions.....	26,702	-	-
Transfers to other plans.....	68,759	-	-
Administrative expenses.....	83,125	-	3,862
Other expenses.....	2,484	-	-
Distributions to participants.....	-	1,142	-
TOTAL DEDUCTIONS.....	<u>8,910,767</u>	<u>1,142</u>	<u>3,862</u>
CHANGE IN PLAN NET ASSETS HELD IN TRUST FOR:			
Pension benefits.....	6,825,672	-	-
Postemployment healthcare benefits.....	20,801	-	-
Employee salary deferrals.....	255,756	-	-
INVEST program participants.....	-	(76,768)	-
Tuition Account Investment Program participants.....	-	-	252,973
TOTAL CHANGE IN PLAN NET ASSETS HELD IN TRUST...	<u>7,102,229</u>	<u>(76,768)</u>	<u>252,973</u>
Net assets, July 1, 2010.....	<u>72,421,179</u>	<u>671,969</u>	<u>721,802</u>
Net assets, June 30, 2011.....	<u>\$ 79,523,408</u>	<u>\$ 595,201</u>	<u>\$ 974,775</u>

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

Commonwealth of Pennsylvania
Statement of Net Assets
Discretely Presented Component Units
June 30, 2011

(Amounts in thousands)

	Pennsylvania Turnpike Commission (May 31, 2011)	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Nonmajor Discretely Presented Component Units	Total
ASSETS							
Current assets:							
Cash—Note D.....	\$ 596,545	\$ 640,268	\$ 52,918	\$ 31,329	\$ 158,367	\$ 705,991	\$ 2,185,418
Temporary investments—Note D.....	249,678	155,834	752,574	619,219	449,659	245,641	2,472,605
Receivables:							
Accounts	31,700	-	38,761	-	124,700	5,062	200,223
Investment income.....	7,080	1,698	16	-	-	120	8,914
Interest on notes and loans.....	-	-	113,199	3,354	-	5,028	121,581
Loans—Note G.....	-	121,484	1,024,418	163,156	5,312	63,849	1,378,219
Lease rentals—Note G.....	-	-	-	-	-	953	953
Other	-	-	-	-	60,835	327	61,162
Due from primary government—Note H.....	6,039	-	-	-	777	1,230	8,046
Due from component units—Note H.....	-	18	-	44	-	-	62
Due from Federal government.....	-	-	35,077	2,233	-	374	37,684
Inventory.....	23,549	-	-	-	12,105	452	36,106
Prepaid and deferred expenses.....	-	-	6,634	-	8,755	1,451	16,840
Other assets.....	-	91,399	65,848	-	14,957	11,629	183,833
Total current assets	914,591	1,010,701	2,089,445	819,335	835,467	1,042,107	6,711,646
Noncurrent assets:							
Long-term investments—Note D.....	1,182,695	183,806	-	-	1,055,794	32,346	2,454,641
Receivables (net):							
Interest on notes and loans.....	-	-	16,433	-	-	-	16,433
Loans—Note G.....	-	4,684,126	7,533,109	2,053,460	30,848	695,111	14,996,654
Non-depreciable capital assets							
Land.....	248,011	2,454	2,946	-	49,287	77,513	380,211
Construction in progress.....	1,151,520	-	-	-	276,951	16,291	1,444,762
Depreciable or amortizable capital assets							
Land improvements.....	92,725	-	-	-	231,471	40,144	364,340
Buildings and building improvements.....	813,936	29,882	66,873	-	2,471,468	1,033,293	4,415,452
Machinery and equipment.....	498,255	10,229	36,766	-	444,974	196,968	1,187,192
Turnpike infrastructure.....	6,041,749	-	-	-	-	-	6,041,749
Library books.....	-	-	-	-	83,810	520	84,330
Other capital assets.....	-	-	-	-	-	337	337
Intangible assets.....	-	-	34,758	-	-	33	34,791
Less: accumulated depreciation and amortization.....	(4,281,338)	(10,126)	(87,751)	-	(1,161,942)	(291,619)	(5,832,776)
Net depreciable or amortizable capital assets.....	3,165,327	29,985	50,646	-	2,069,781	979,676	6,295,415
Other assets.....	143,897	140,195	58,136	72	102,890	158,452	603,642
Total noncurrent assets	5,891,450	5,040,566	7,661,270	2,053,532	3,585,551	1,959,389	26,191,758
TOTAL ASSETS.....	6,806,041	6,051,267	9,750,715	2,872,867	4,421,018	3,001,496	32,903,404

(continued)

Commonwealth of Pennsylvania
Statement of Net Assets
Discretely Presented Component Units
June 30, 2011

(Amounts in thousands)

	Pennsylvania Turnpike Commission (May 31, 2011)	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Nonmajor Discretely Presented Component Units	Total
LIABILITIES							
Current liabilities:							
Accounts payable and accrued liabilities.....	163,853	5,733	123,994	2,591	230,261	17,637	544,069
Securities lending obligations.....	-	-	-	26,134	-	-	26,134
Due to primary government—Note H.....	-	16	202	4,695	2,305	3,986	11,204
Due to component units—Note H.....	-	44	-	18	-	-	62
Due to political subdivisions.....	-	-	-	2,268	-	-	2,268
Due to other governments.....	-	-	-	-	-	17	17
Interest payable.....	143,266	44,593	18,213	243	-	15,621	221,936
Unearned revenue.....	35,876	-	174	10	53,044	7,316	96,420
Notes payable—Note J.....	-	-	135,800	85,000	-	188	220,988
Bonds payable—Note K.....	-	-	-	-	41,260	-	41,260
Revenue bonds payable—Note K.....	304,540	187,426	-	6,530	-	63,600	562,096
Capital lease/installment purchase obligations—Note K.....	-	-	-	-	3,441	-	3,441
Self insurance liabilities.....	-	-	-	-	4,895	5	4,900
Compensated absences.....	-	-	1,308	73	10,269	516	12,166
Other financing obligations—Note J.....	-	-	1,965	-	-	-	1,965
Other postemployment benefit obligations—Note J.....	-	-	-	-	52,604	158	52,762
Other liabilities.....	-	179,485	66,163	-	78,840	724	325,212
Total current liabilities.....	<u>647,535</u>	<u>417,297</u>	<u>347,819</u>	<u>127,562</u>	<u>476,919</u>	<u>109,768</u>	<u>2,126,900</u>
Non-current liabilities:							
Due to primary government—Note H.....	-	-	-	74,663	-	-	74,663
Unearned revenue.....	-	-	-	-	5,075	-	5,075
Student loan auction rate security bonds payable—Note J.....	-	-	6,052,338	-	-	-	6,052,338
Notes payable—Note J.....	-	-	2,538,359	-	251,799	393	2,790,551
Bonds payable—Note K.....	-	-	-	-	844,030	-	844,030
Revenue bond payable—Note K.....	7,330,665	4,390,751	-	7,644	755,719	1,760,525	14,245,304
Capital lease/installment purchase obligations—Note K.....	-	-	-	-	60,727	-	60,727
Other financing obligations—Note J.....	-	-	125,717	-	-	-	125,717
Compensated absences.....	6,000	-	13,945	275	91,559	2,242	114,021
Self insurance liabilities.....	24,907	-	-	-	14,090	29	39,026
Other postemployment benefit obligations—Note I.....	-	-	-	355	738,848	5,686	744,889
Other liabilities.....	165,072	432,769	49	-	153,568	144,895	896,353
Total non-current liabilities.....	<u>7,526,644</u>	<u>4,823,520</u>	<u>8,730,408</u>	<u>82,937</u>	<u>2,915,415</u>	<u>1,913,770</u>	<u>25,992,694</u>
TOTAL LIABILITIES.....	<u>8,174,179</u>	<u>5,240,817</u>	<u>9,078,227</u>	<u>210,499</u>	<u>3,392,334</u>	<u>2,023,538</u>	<u>28,119,594</u>
NET ASSETS—Note C:							
Invested in capital assets, net of related debt.....	1,086,340	12,506	53,228	-	601,613	305,137	2,058,824
Restricted for:							
Health-related programs.....	-	-	-	-	-	5,663	5,663
Capital projects.....	268,626	-	-	2,662,368	27,847	426	2,959,267
Debt service.....	39,433	179,589	219,410	-	-	4,199	442,631
Economic development.....	-	-	-	-	-	62,597	62,597
Higher Education.....	-	-	399,850	-	399,224	3,032	802,106
Other purposes.....	-	618,355	-	-	-	34,173	652,528
Unrestricted/(Deficit).....	(2,762,537)	-	-	-	-	562,731	(2,199,806)
TOTAL NET ASSETS.....	<u>\$ (1,368,138)</u>	<u>\$ 810,450</u>	<u>\$ 672,488</u>	<u>\$ 2,662,368</u>	<u>\$ 1,028,684</u>	<u>\$ 977,958</u>	<u>\$ 4,783,810</u>

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

(concluded)

Commonwealth of Pennsylvania
Statement of Activities
Discretely Presented Component Units
For the Fiscal Year Ended June 30, 2011

(Amounts in thousands)

	Pennsylvania Turnpike Commission (May 31, 2011)	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Nonmajor Discretely Presented Component Units	Total
Expenses.....	\$ 1,424,732	\$ 712,945	\$ 851,603	\$ 126,360	\$ 2,158,364	\$ 519,889	\$ 5,793,893
Program revenues:							
Charges for goods and services.....	758,648	270,280	556,445	29,715	1,283,202	76,327	2,974,617
Operating grants and contributions.....	44,275	482,029	469,200	159,381	964,457	243,657	2,362,999
Capital grants and contributions.....	98,442	-	-	113,834	11,918	140,796	364,990
Total program revenues.....	901,365	752,309	1,025,645	302,930	2,259,577	460,780	5,702,606
Change in net assets.....	(523,367)	39,364	174,042	176,570	101,213	(59,109)	(91,287)
Net assets, July 1, 2010 (restated)—Note B....	(844,771)	771,086	498,446	2,485,798	927,471	1,037,067	4,875,097
Net assets, June 30, 2011.....	\$ (1,368,138)	\$ 810,450	\$ 672,488	\$ 2,662,368	\$ 1,028,684	\$ 977,958	\$ 4,783,810

- 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 the 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, 2011. 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. The combining statements for all discretely presented component units are presented following the 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 State Employees' Retirement System, the Deferred Compensation Program and the Public School Employees' Retirement System are reported as Fiduciary Funds, Pension Trust Funds and the Pennsylvania Life and Health Insurance Guaranty Association and the Pennsylvania Property and Casualty Insurance Guaranty Association are reported as Fiduciary Funds, Agency Funds.

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 substantially all of the SERS pension obligations. The SERS provides services and benefits almost exclusively to the PG. The SERS administers both a defined benefit plan and a defined contribution plan. The defined benefit plan is funded through a combination of employee contributions, employer contributions and investment earnings. The defined contribution plan is funded by voluntary employee contributions and investment earnings. The SERS is reported for its fiscal year ended December 31, 2010.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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's Department of Education approves the SPSBA's projects (which indicate imposition of will and fiscal dependency). Neither the PG nor the Authorities are obligated for debt service payments (beyond lease/loan payments from schools).

Ben Franklin Technology Development Authority (BFTDA) - The BFTDA promotes economic development through interaction of technology development, modernization and training programs. Industrial resource centers and technology centers, established through the BFTDA, also increase Pennsylvania business competitiveness. The BFTDA 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 BFTDA 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. The PSDC is reported for its fiscal year ended December 31, 2010.

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. Through June 30, 2011 lending institutions and post-secondary schools were 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 and the federal government. The PG appoints all 20 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 older adults, persons with disabilities, and 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 Secretary of Banking, the Secretary of Community and Economic Development, the Secretary of Public Welfare, and the State Treasurer serve as ex-officio members. 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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

debt. This represents a PG moral obligation for the PHFA debt. The PHFA is fiscally dependent on the PG, as the Governor must approve the issuance of its 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 representing specific professional occupations, and four members appointed by the General Assembly. The Pennsylvania Department of Health determines whether or not PSTA recommendations will be adopted, establishing PG imposition of will; further, the enabling legislation limits the amount of assessments PSTA charges medical facilities to fund PSTA activities.

Pennsylvania Industrial Development Authority (PIDA) - The PIDA was created to provide employment opportunities throughout the Commonwealth by attracting businesses and investors to the state and retaining existing businesses. The PIDA provides low interest rate loans to prospective and existing businesses focusing on areas of the state where unemployment rates are the highest. 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 works 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 capital contributions; "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) - The 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. The 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 capital contributions, 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 all PTC debt, but the PG could take certain actions to satisfy all such bondholders. As further disclosed in Note N to the Financial Statements, the Commonwealth is contingently liable for \$401 million of PTC debt at fiscal year end. The PTC is reported for its fiscal year ended May 31, 2011.

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 20 voting board members, which in turn appoint the university presidents and chancellor. Five of the 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.

Commonwealth Financing Authority (CFA) - The CFA administers and funds economic stimulus programs; the programs offer financial assistance through loans, grants, guarantees, sales, leases, investments, lines and letters of credit, and other authorized financial arrangements. The PG appoints the four voting members of the Board of Directors and may remove these members at will. The Secretary of Community and Economic Development, Secretary of the Budget, and Secretary of Banking serve as ex-officio members of the Board. The CFA is authorized to issue limited obligation revenue bonds and other types of limited obligation revenue financing. The bonds are payable solely from CFA revenues or funds appropriated to the

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CFA by the Commonwealth. While the enabling legislation provides that CFA bonds are not a debt or obligation of the Commonwealth, it is anticipated that **General Fund** appropriations will be required to support the annual debt service cost on CFA debt. The CFA is fiscally dependent on the PG, as the Secretary of the Budget must certify that the **General Fund** will support any appropriations needed to pay the debt service payments or costs incurred in any bond issuance.

Thaddeus Stevens College of Technology (College) - Founded in the early twentieth century, the College was financially reported as part of the PG through and including the fiscal year ended June 30, 2003. Legislation effective July 1, 2003 amended the Board of Directors to a body politic and corporate constituting a public corporation, making the College an entity legally separate from the PG. The Governor, with the advice of the Senate, appoints nine members of the Board, and the Secretary of Education serves as an ex-officio member. Although the PG selects the members of the Board, the members have great latitude to manage the College subsequent to their appointment. The PG has some ability to influence the structure or content of the College's budget through overview of the Department of Education. The College presents a financial burden to the PG, as the PG appropriates funds for College operations.

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. The PLHIGA is reported for its fiscal year ended December 31, 2010.

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. The PPCIGA is reported for its fiscal year ended December 31, 2010.

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 state-owned schools are shared equally by covered employers and the PG; 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.

Pennsylvania Convention Center Authority (PCCA) - The PCCA was created to operate the Pennsylvania Convention Center located in the City of Philadelphia. The PG appoints six of the fifteen voting board members, and may appoint the chairman. The Secretary of the Budget serves as a nonvoting ex officio member of the board. The PG has final approval authority over the PCCA operating and capital budget. Additionally, the PCCA may not incur debt without the prior written approval of the PG. This represents PCCA fiscal dependence on the PG. The PG financed a portion of the PCCA facility in prior fiscal years and during the fiscal year ended June 30, 2011 and the PG also pays other periodic amounts to the PCCA, thus there is a financial burden on the PG.

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 PEDFA 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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 four 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 significant economic activity involves conduit debt. The PG appoints all 19 board members; six members are ex-officio. The Governor must approve the issuance of PEDA debt. The PG is not obligated for the PEDA debt, but the PG could take certain actions to satisfy bondholders.

Financial Statements for Component Units and Investment Trust Fund

Audited financial statements for component units are available by writing to the Commonwealth Chief Accounting Officer, 555 Walnut Street, Ninth Floor, Harrisburg, PA 17101-1921. 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 Chief Accounting Officer.

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. Act 22 of 2001 provided, in part, for the Commonwealth to appoint a voting majority of the Authority's governing board. The Act provided for an increase from five to eleven board members; the Commonwealth appointed six new members by June 30, 2001. Effective June 30, 2006, the terms of board members appointed prior to June 2001 expired. No replacement appointments for those positions were made, pursuant to the provisions of the Act. Beginning June 1, 2006, the board consists of the six members appointed in 2001, whose terms expire in 2011 and 2012. The PG is not financially accountable due to a lack of imposition of will and no financial benefit/burden.

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.

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 active Commonwealth employee healthcare benefits and is the Commonwealth's third-party administrator for the Commonwealth's retiree healthcare programs. 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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 a total of all nonmajor governmental funds; four major enterprise funds and a total of all nonmajor enterprise funds and internal service funds; and a total of 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 and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The **Motor License Fund** and the **Tobacco Settlement Fund** are reported as Major Funds.

The **Motor License Fund** receives restricted 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 highway 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.

The **Tobacco Settlement Fund** was originally established to deposit all payments received by the Commonwealth pursuant to

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

the Master Settlement Agreement with tobacco product manufacturers. Deposits into this fund include: jurisdictional payments received by the Commonwealth from the Master Settlement Agreement, strategic contribution payments from the Master Settlement Agreement, quarterly payments from certain Pennsylvania health insurance companies and earnings from investments. Expenditures from this fund are determined by the annual budget appropriated to each program. Amounts received from the Pennsylvania health insurance companies are held in a restricted account and used exclusively for Department of Insurance initiatives.

Debt Service Funds— Account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest. There are no major debt service funds.

Capital Projects Funds— Account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. 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, PACENET, 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 **SWIF** is reported for its fiscal year ended December 31, 2010.

The **Unemployment Compensation (UC) Fund** is comprised of four basic components: the Employer Contribution Fund, the UC Benefit Payment Fund, the Special Administration Fund, and the UC Trust Fund. The purpose of these funds is to collect employer assessments for UC 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. The 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 at each June 30 being transferred to the UC Trust Fund. The UC Benefit Payment Fund also receives funds from the Federal government to reimburse Pennsylvania for those Federal workers who collected UC benefits from Pennsylvania as well as grants to cover the cost of extended benefits. Extended benefits are additional UC benefits payable to qualified workers when an "Extended Benefit Period" (EB) occurs in Pennsylvania. An EB period begins with the third week after the unemployment rate reaches a certain level prescribed by law and ends the third week after the unemployment rate declines to a certain level prescribed by law.

The **Tuition Payment Fund** offers a college savings program allowing participants to purchase college credits at the current year rates. 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.

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 a pension trust fund that collects and administers amounts contributed by Commonwealth employees who defer a portion of their income until future years, in accordance with Internal Revenue Code Section 457. The Public School Employees' Retirement System (PSERS), a pension trust fund, is a component unit and 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 state-owned schools are shared equally by covered employers and the PG; all covered public school employees also contribute. The SERS, the Deferred Compensation Fund and PSERS are reported for their fiscal years ended December 31, 2010.

The INVEST Program for Local Governments is an Investment Trust Fund that invests amounts owned by local governments, school districts and not for profit entities. 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 INVEST Program for Local Governments is reported for its fiscal year ended December 31, 2010.

The largest Agency Fund, the Statutory Liquidator Fund, converts the remaining assets of insolvent insurance companies to cash for remittance to policyholders, creditors and stockholders. The order of distribution of the assets is established in Article V of the Pennsylvania Insurance Department Act of 1921 and on a Commonwealth Court approved percentage of claim basis. Although not yet determined, the actual amounts to be paid based on the amount of the remaining assets are expected to be less than the amounts actually claimed by 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**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 capital assets, such as heavy trucks, highways and bridges) and all 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. All tax revenues, except for unemployment compensation tax revenues which are reported as charges for sales and services program 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 (those 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 of Activities, regardless of when the benefits are used or the liabilities are paid.

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 defined 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 and available; accrued amounts due from the Federal government are treated as available in the period in which all applicable eligibility requirements have been met. 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 and other long-term liabilities 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 are reported for amounts accrued at fiscal year-end 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 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.

Proprietary Funds classify revenues and expenses as either 'operating' or 'nonoperating', depending on the nature of the activities reported in the individual fund. The majority of transactions are reported as 'operating'; however, investment

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

income and grants are reported as 'nonoperating' revenues by all Proprietary Funds. 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. Agency funds have no measurement focus and do not report operating statements.

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.

Investment Pools: The Fiscal Code provides the Treasury Department with investment control over most Commonwealth funds. The Treasury Department uses a variety of internal investment pools that seek to provide preservation of principal, liquidity, diversification and income for Commonwealth funds. All participating funds report amounts invested in such pools as temporary 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 Commonwealth Investment Program (CIP); practically all individual funds that are part of primary government are participants in the CIP. Investments purchased by the CIP and reported as shares by the participants 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. Such investments, which are expected to be realized in cash within twelve months after fiscal year end or less, are reported as temporary investments. The Treasury Department accounts for each participating fund's equity (considered "shares") in the CIP on a daily basis. "Share" balances of participating funds may fluctuate considerably during the fiscal year, based on the timing of cash receipts and disbursements in the participating fund. The CIP is considered an internal investment pool. Periodic CIP 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. In addition, several individual funds may directly own investments in specific securities.

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 the net asset value as reported by the investee.

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. If the change in the fair value of investments decreases during any specific fiscal year such decreases could cause reported overall investment income to be negative within specific funds. Similarly, realized losses could cause reported overall investment income to be negative within specific funds. Certain investment income from specific funds' investments is assigned to another fund and is reported by the receiving fund if the income is

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Grant Revenues: 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 and the revenue is available to pay expenditures.

Inventories and Prepaid Expenses: 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. Operating materials and supplies inventories are valued at cost (first-in, first-out) and merchandise inventories are reported at the lower of cost or market. In the governmental fund financial statements, inventories are accounted for using the purchases method whereby expenditures are reported for current-year purchases of operating materials and supplies. Also, in governmental fund financial statements, prepaid expenses are not reported.

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 (in thousands):

Land improvements, buildings and building improvements... ..	\$	25
Machinery and equipment.....		25
Highway and bridge infrastructure		100
All other infrastructure.....		25
Computer software		1,000
Trademarks, patents and copyrights.....		100

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 Basic Financial Statements. 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 to protect farmland under the Agricultural Area Security Law since participating counties within the Commonwealth play a much greater role in administering the Law than the Commonwealth. Capital assets (excluding land and construction in progress) are depreciated/amortized over the estimated useful lives of major capital asset classes using the straight-line method. Depreciation/amortization expense is reported in the Statement of Activities as part of direct functional expenses; all depreciation/amortization is allocated to a specific function. Capital assets reported by proprietary funds are reported in those funds at cost or estimated historical cost. Depreciation/amortization is reported on the straight-line basis over the capital assets' estimated useful lives. Depreciation expense associated with capital assets being procured under capital lease arrangements is reported as part of depreciation expense for other capital assets. 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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other infrastructure	20 years
Computer software	3 – 30 years
Trademarks, patents and copyrights.....	3 – 40 years

Primary government business-type activities report depreciation/amortization 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 based on the title for the SSHE-used real property remaining with the primary government. Based on agreements between the primary government, through its Department of General Services (DGS), and SSHE universities in 2002, DGS effectively transferred occupancy, custody and control to the SSHE universities and the SSHE universities assumed financial responsibility and legal liability for the SSHE-used real 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.

Capital Asset Impairments: Through a variety of policies, Commonwealth management requires agencies to perform periodic assessments of general and other capital assets. Beyond initial reporting (upon acquisition), agencies must adhere to continuing policies regarding usability, function and condition of reported capital assets. With few exceptions, reported capital assets are used by Commonwealth agencies on a daily or other periodic basis and agencies must report impairments promptly. In particular, Commonwealth highways and bridges are inspected on a frequent, scheduled basis. Other capital assets, such as structures, are used for housing or office space. Many pieces of equipment, including rolling stock, are used almost daily.

Liabilities: In the Statement of Net Assets, governmental, business-type and proprietary 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.

Self-Insurance: The Commonwealth is self-insured for property losses and 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. Most 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

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 and business-type activities and Proprietary Funds and Pension Trust Funds.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pollution Remediation Obligations: In the government-wide Statement of Net Assets, pollution remediation obligations are reported at the current value of expected outlays to fund remediation costs using the expected cash flow technique. This technique measures the sum of probability-weighted amounts in a range of possible estimated amounts and uses all expectations about possible cash flows on a site-specific basis. Such ranges are weighted within 'most likely', 'worst case' and/or 'best case' scenarios and are based on actual remediation cost experience, remediation cost estimates and/or discrete cost remediation treatment possibilities. All reported obligation amounts are estimates and are subject to change resulting from price increases or reductions, technology, or changes in applicable laws or regulations. In cases where remediation activities beyond site investigation/assessment or feasibility studies have not begun, remaining remediation costs are not reasonably estimable and liabilities for such cases are not reported.

Pension Costs: The Commonwealth's policy is to fund employer contributions to the State Employees' Retirement System (SERS) as required by the SERS board, through its statutory authority, or as required based on other applicable statutory requirements. Since 2005, established employer contributions have been completely funded but such contributions have been less than the 'annual required contributions of the employer' (ARC) calculated using 'parameters' defined by applicable accounting and financial reporting standards for 'sole' and 'agent' employer governments. Since the SERS is a cost-sharing, multiple-employer pension plan, the Commonwealth does not financially report a net pension obligation for the amount by which the calculated ARC exceeds actual contributions to the SERS. The Commonwealth is a non employer contributor in relation to the Public School Employees Retirement System with a commitment to fund a minimum of 50% of the required contributions.

Indirect Expenses: In the Statement of Activities, the full-cost allocation treatment is used, whereby reported program expenses, by function, include any expenses which could be treated as indirect expenses of another function.

Interest Expense: In the Statement of Activities, no interest expense is reported by direct program costs. No interest expense was capitalized during the fiscal year ended June 30, 2011.

Intergovernmental Revenues: These amounts represent revenues received principally from the Federal government and include revenues received from the Pennsylvania Turnpike Commission (PTC), a discretely presented component unit, based on Act 44 of 2007 and the related Lease and Funding Agreement between the PTC and the primary government Department of Transportation.

Restricted Net Assets: These amounts were determined based on enabling legislation, externally restricted by creditors, grantors, contributions or laws that provide for restrictions on how the resources of special (non-**General Fund**) funds may be used. At June 30, 2011, a portion of governmental activities net assets was restricted based on a Federal government purpose restriction. Practically all reported restricted net assets could become unrestricted based on possible future legislative changes.

Governmental Funds Fund Balance Categories

Nonspendable: Amounts that are not in spendable form (the long-term portion of loans receivable and advances to other funds) are reported as nonspendable fund balance.

Spendable Categories:

Restricted: Amounts which may only be spent for 1) expenditures in accordance with grants received from external parties or 2) expenditures which authorize expenditures for limited, specific purposes through enabling legislation (which also authorizes the Commonwealth to assess, levy, charge or otherwise mandate payment of resources from external sources) are reported as restricted fund balance.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unrestricted Categories:

Committed: Commonwealth law, enacted by the General Assembly (legislature) and approved by the Governor, is the Commonwealth's highest level of decision-making authority. Both legislative enactment and gubernatorial approval on or prior to fiscal year end are necessary, formal actions to establish, modify and/or rescind amounts committed. Also, within Governmental Funds, amounts encumbered through contract or purchase order are typically reported as fund balance commitments to the extent of existing resources.

Assigned: Based on applicable Commonwealth laws, the Governor is responsible for accounting and financial reporting matters. Through a 1984 Executive Order, the Governor delegates this authority to the Secretary of the Budget. Through further delegation, amounts assigned are determined jointly, between the Governor's Budget Office and the Office of Comptroller Operations.

Unassigned: This is a residual category. Only the **General Fund** can report a positive unassigned fund balance. The **General Fund** can also report a negative amount in the unassigned category and for other governmental funds where amounts restricted and/or committed exceed total fund balance, such funds report negative amounts in the Unassigned category.

Encumbrances: Among spendable fund balance amounts reported in the financial statements, certain amounts are disclosed as encumbrances based on purchase orders and other contracts. Such amounts are disclosed in Note C to the Financial Statements.

Classification among fund balance categories: Commonwealth laws, including annual enacted budgets, include legally enforceable expenditure restrictions on all funds. Commonwealth laws do not specifically recognize 'restricted' or 'unrestricted' (committed, assigned or unassigned) fund balance amounts. For financial reporting purposes, fund balance amounts for individual, specific Commonwealth funds are reported in the first classification for which the amount 'qualifies', in this order: nonspendable, restricted, committed, assigned and unassigned. Amounts are considered to have been spent from the fund balance classification from which specific expenditures are legally authorized. Within individual, specific Commonwealth funds, based on applicable law, individual expenditures may be charged to (spent from) only one, specific appropriation at a time or, possibly, several specific appropriations at a time. Budgetary spending control occurs at the appropriation level. Since appropriations are not duplicated among the various GAAP-reported fund balance classifications and state laws do not recognize the various classifications, accounting policies cannot establish that restricted amounts are spent before or after unrestricted amounts, or, within unrestricted amounts, that committed, assigned or unassigned amounts are spent in any specific order.

Budget Stabilization Reserve Fund: Act 91 of 2002 provided for this Fund effective July 1, 2002 to gradually provide 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. The last such transfer was \$177 million (based on the June 30, 2007 surplus) during the fiscal year ended June 30, 2008. Due to July 2008 legislation, there was no transfer from the **General Fund** during the fiscal year ended June 30, 2009. Further, the enacted **General Fund** budget for the fiscal year ended June 30, 2010 provided that nearly the entire balance in this Fund be transferred to the **General Fund**; a \$755 million transfer occurred on October 15, 2009. Since this Fund is financially reported as part of the **General Fund** all transfers between this Fund and the **General Fund** are eliminated in the basic financial statements. During the fiscal year ended June 30, 2011, the Commonwealth experienced a significant excess of **General Fund** revenues above the official revenue estimate and ended the fiscal year with an unappropriated ending fund balance of \$1.07 billion, as calculated on a budgetary basis. Under the aforementioned provisions of Act 91 of 2002, 25 percent of the ending June 30, 2011 balance was to be transferred from the **General Fund** to the Budget Stabilization Reserve Fund. However, provisions of the federal American Recovery and Reinvestment Act, which provided several billion dollars in financial assistance to the Commonwealth over the past three fiscal years, precluded the Commonwealth from transferring any June 30, 2011 **General Fund** fund balance to its Budget Stabilization Reserve Fund.

Tobacco Master Settlement Agreement Proceeds: In 1997, the Pennsylvania Attorney General began litigation in the Philadelphia court of common pleas against several defendant tobacco product manufacturers to recover specified damages.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Similar litigation was filed by many other states. In 1998, the Commonwealth joined in the Master Settlement Agreement which settled litigation against certain defendant manufacturers and 52 governmental entities, including Pennsylvania. As part of the settlement, the manufacturers agreed to remit periodic payments to the Commonwealth and other states in perpetuity. The proceeds of the settlement are accounted for in the Tobacco Settlement Fund. Amounts remitted are calculated based on a variety of specific settlement provisions; actual tobacco product sales are one key factor. The Agreement contains procedures for resolving disputes over payment or other issues that may arise. A dispute regarding the amount to be paid for cigarette sales that took place in 2003 is currently being litigated.

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

Bonds Issued, Premium/Discount on Bonds Issued and Bond Issuance Costs: In governmental fund financial statements, the face amount of bonds issued and related premium/discount are separately reported as other financing sources/uses. 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.

Interfund Transactions: The Commonwealth has the following types of transactions between funds; between PG governmental activities and business-type activities; and between PG and discretely presented component units:

Statutory Transfers—Legally required transfers from specific funds that subsidize receiving fund programs are reported when paid as “Transfers in” by the receiving fund and as “Transfers out” by the disbursing fund. Legally required payments from the primary government to component unit organizations are reported when paid as governmental activities program expenses and as either Operating Grants and Contributions or Capital Grants and Contributions by component unit organizations. Interfund balances (amounts due from/to other funds) are reported for unremitted, due and payable, 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, 2011 and transfers in/out during the fiscal year ended June 30, 2011 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:

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” GASB Statement No. 54 changes the existing categories within governmental funds fund balances from the former Reserved, Unreserved and, within Unreserved, Designated and Undesignated fund balances, to the new Nonspendable and Spendable and, within Spendable, Restricted, Committed, Assigned and Unassigned categories. Also, governmental funds fund type classifications are clarified. As further disclosed in Note B to the Financial Statements, the Commonwealth’s implementation of GASB Statement No. 54 did not change any individual governmental fund’s fund balance but did change the categories reported within fund balance and did change fund type classification for 41 former Special Revenue funds.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In June 2010, the GASB issued Statement No. 59, "Financial Instruments Omnibus." GASB Statement No. 59 provides changes to how unallocated insurance contracts are reported, amending GASB Statement Nos. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" and 43 "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"; clarifies that interest rate risk should be disclosed only for debt investment pools that do not meet the requirements to be reported as 2a7-like pools, amended GASB Statement No. 40 "Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)" and amends very specific, limited portions of GASB Statement No. 53 "Accounting and Financial Reporting for Derivative Instruments". Implementation did not change how investments are reported or disclosed in the basic financial statements.

New Accounting Pronouncements – To Be Adopted:

In December 2009, the GASB issued Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans." GASB Statement No. 57 amends certain current standards related to: employer accounting and reporting for OPEB; and OPEB plan reporting. The newer requirements are intended to increase the number of employer governments which may use the 'alternative method' and clarifies that the same frequency and timing of determining OPEB measures are required for both agent multiple-employer plans and those plans' participating employer governments. This will not have an effect on the Commonwealth.

In November 2010, the GASB issued Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements." GASB Statement No. 60 provides accounting and financial reporting requirements for reporting service concession arrangements (SCAs). An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The Commonwealth will determine if there are any SCA's and, if so, method of presentation.

In November 2010, the GASB issued Statement No. 61, "The Financial Reporting Entity: Omnibus", an amendment of GASB Statements No. 14 "The Financial Reporting Entity", and No. 34 "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments". GASB Statement No. 61 amends certain requirements for inclusion of component units in the reporting government's financial reporting entity. The amendments to the criteria for including component units allow users of financial statements to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. It also requires consolidation, as a blended component unit, organizations which serve as financing vehicles for the primary government. The Commonwealth will be reevaluating its component units and method of presentation.

In December 2010, the GASB issued Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." GASB Statement No. 62 incorporates into the GASB's own pronouncements certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and interpretations;
2. Accounting Principles Board Opinions; and,
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

In June 2011, the GASB issued Statement No. 63, "Financial Reporting of Deferred Outflows or Resources, Deferred Inflows of Resources and Net Position." GASB Statement No. 63 provides accounting and financial reporting requirements for deferred outflows of resources and deferred inflows of resources as introduced and defined in GASB's Concepts Statement No. 4, "Elements of Financial Statements". This Statement amends the net asset reporting requirements in Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments".

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In June 2011, the GASB issued Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53". GASB Statement No. 53 clarified whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

The new standards must be adopted as follows:

- GASB Statement No. 57 Effective immediately for employer alternative measurement purposes and effective July 1, 2011 for OPEB plan financial statements for fiscal years ending June 30, 2012.
- GASB Statement No. 60 Effective July 1, 2012 for financial statements for the fiscal year ending June 30, 2013.
- GASB Statement No. 61 Effective July 1, 2012 for financial statements for the fiscal year ending June 30, 2013.
- GASB Statement No. 62 Effective July 1, 2012 for financial statements for the fiscal year ending June 30, 2013.
- GASB Statement No. 63 Effective July 1, 2012 for financial statements for the fiscal year ending June 30, 2013.
- GASB Statement No. 64 Effective July 1, 2011 for financial statements for the fiscal year ending June 30, 2012.

NOTE B – RESTATEMENTS

Primary Government

Restatement Due to Adoption of New Accounting Standard

Effective July 1, 2010 the Commonwealth implemented the Governmental Accounting Standards Board’s (GASB’s) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”. Total previously-reported governmental funds fund balance at June 30, 2010 (\$6,350,874) did not change. However, as depicted below, implementation did change fund type classification effective July 1, 2010 for 41 individual funds formerly reported as Special Revenue funds through June 30, 2010. Effective July 1, 2010, these 41 individual funds began to be reported as either: 1) components within the reported **General Fund** (38 of the 41 funds) or 2) individual Capital Projects funds (three of the 41 funds). On a fund-by-fund basis, previously-reported fund balance at June 30, 2010 did not change for any of the 41 aforementioned funds, or for any other individual governmental fund, except for the reported **General Fund** fund balance (amounts in thousands).

Governmental Fund Types - Fund Balances by Fund Type Classification

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Governmental Funds
Fund balances by fund type, as previously reported, at June 30 2010	\$ 284,803	\$5,272,103	\$ 46,853	\$ 747,115	\$ 6,350,874
To apply new Special Revenue fund type definition	280,420 *	(445,663)	-	165,243 **	-
Fund balances by fund type, as restated, as of July 1, 2010	<u>\$ 565,223</u>	<u>\$4,826,440</u>	<u>\$ 46,853</u>	<u>\$ 912,358</u>	<u>\$ 6,350,874</u>

Special Revenue Funds fund balances,
as previously reported, at June 30 2010:

Major Funds:

Motor License Fund	\$1,661,421
Tobacco Settlement Fund	827,184
Total non-major funds	<u>2,783,498</u>
Total, as previously reported at June 30, 2010	<u>\$5,272,103</u>

Special Revenue Funds fund balances,
as restated, as of July 1, 2010:

Major Funds:

Motor License Fund	\$1,661,421
Tobacco Settlement Fund	827,184
Total non-major funds	<u>2,337,835</u>
Total, as restated as of July 1, 2010	<u>\$4,826,440</u>

* Former Special Revenue Funds being reported as **General Fund**:

Catastrophic Loss Benefits Continuation Fund	\$ 94,831
Pharmaceutical Assistance Fund	50,680
Surface Mining Conservation and Reclamation Fund	45,714
Other funds	<u>89,195</u>
Total	<u>\$ 280,420</u>

** Former Special Revenue Funds being reported as Capital Projects Funds:

Public Transportation Assistance Fund	\$ 29,275
Growing Greener Bond Fund	53,613
Water Supply and Wastewater Treatment Fund	<u>82,355</u>
Total	<u>\$ 165,243</u>

NOTE B – RESTATEMENTS (continued)**Discretely Presented Component Units****Restatement Due to Adoption of New Accounting Standard**

Effective June 1, 2010 the Pennsylvania Turnpike Commission (PTC) adopted GASB Statement No 53, "Accounting and Financial Reporting for Derivative Instruments". Implementation affected previously-reported total assets, total liabilities and total net assets, as previously reported at May 31, 2010. Total previously-reported assets of \$5,919 increased by \$121, to \$6,040, total previously-reported liabilities of \$6,785 increased by \$100, to \$6,885, and total previously reported net assets deficit of \$865 decreased by \$20, to \$845, as of June 1, 2010. The restatement increased previously- reported Net assets invested in capital assets, net of related debt by \$31.2 as of June 1, 2010. Previously-reported Restricted net assets decreased by \$15.9 as of June 1, 2010. Previously-reported Unrestricted net assets deficit was decreased by \$5.4 as of June 1, 2010 (amounts in millions).

Restatement Due to Inclusion of Discretely Presented Component Unit

Effective July 1, 2010 the Commonwealth of Pennsylvania's financial reporting entity's discretely presented component units include the Pennsylvania Convention Center Authority (PCCA) based on certain terms within a 2010 Operating Agreement among the Commonwealth, the City of Philadelphia and the PCCA. The PCCA was formerly reported as a discretely presented component unit of the City of Philadelphia through June 30, 2010. The PCCA's previously-reported net assets of \$686,863 at June 30, 2010 have not changed as of July 1, 2010 (amount in thousands).

As a result of the two restatements affecting discretely presented component units, total previously-reported net assets of the discretely presented component units of \$4,167,563 at June 30, 2010 have been restated and increased by \$707,534 to \$4,875,097 as of July 1, 2010 (amounts in thousands).

NOTE C – NET ASSETS AND FUND BALANCE

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 (excluding unspent proceeds) for debt specifically related to the acquisition of the capital assets. At June 30, 2011, governmental and business-type activities, respectively, reported \$25,352,588 and \$84,065 of net assets invested in capital assets, net of related debt (amounts in thousands).

Restricted net assets are reported based on constraints imposed by either 1) creditors, grantors, contributors or laws or regulations of other governments; or 2) Commonwealth enabling legislation. At June 30, 2011, governmental and business-type activities, respectively, reported \$3,308,306 and \$665,847 of restricted net assets. Net assets restricted for other purposes of \$40,078 and \$94,985 for governmental activities and business-type activities, respectively, at June 30, 2011 include amounts for a range of dissimilar statutory purposes (amounts in thousands).

Unrestricted net assets represents total net assets less the amounts of net assets invested in capital assets, net of related debt and restricted net assets. At June 30, 2011, governmental and business-type activities, respectively, reported unrestricted net assets deficits of \$4,407,594 and \$2,314,339 (amounts in thousands).

Governmental Funds Fund Balance: Reported fund balance within individual governmental funds is categorized between nonspendable and spendable categories. At June 30, 2011 nonspendable fund balance is only reported for amounts which are not in spendable form; no nonspendable fund balance is reported based on either legal or contractual requirements to be maintained intact. Within the spendable category, fund balance is further categorized among: restricted, committed, assigned and, within the **General Fund** only, unassigned categories. At June 30, 2011, spendable governmental funds fund balance is categorized among all categories except that no assigned fund balance is reported among any of the governmental funds because, if reported, the assigned fund balance or a portion thereof would cause a negative unassigned fund balance.

NOTE C – NET ASSETS AND FUND BALANCE (continued)

	General Fund	Motor License Fund	Tobacco Settlement Fund	Nonmajor Funds	Total
Nonspendable:					
Not in spendable form:					
Advances to other funds.....	\$ 114,475	\$ -	\$ -	\$ -	\$ 114,475
Long-term loans receivable.....	8,681	-	-	-	8,681
Total nonspendable.....	123,156	-	-	-	123,156
Restricted for:					
General government operations.....	\$ 756,141	\$ -	\$ -	\$ -	\$ 756,141
Health-related programs.....	-	-	44,261	17,534	61,795
Transportation.....	-	1,503,483	-	135,098	1,638,581
Unemployment/worker's compensation.....	-	-	-	761,476	761,476
Environmental and conservation programs	-	-	-	420,567	420,567
Gaming licensing/regulation.....	-	-	-	731,517	731,517
Emergency support.....	-	-	-	52,083	52,083
Other purposes.....	-	-	-	45,975	45,975
Total restricted.....	756,141	1,503,483	44,261	2,164,250	4,468,135
Committed for:					
General government operations.....	\$ 790,156	\$ -	\$ -	\$ -	\$ 790,156
Health-related programs.....	-	-	408,139	-	408,139
Transportation.....	-	-	-	29,867	29,867
Capital projects.....	-	-	-	209,313	209,313
Debt service.....	-	-	-	17,040	17,040
Elderly programs.....	37,400	-	-	-	37,400
Environmental and conservation programs	94,945	-	-	18,252	113,197
Economic development.....	11,565	-	-	-	11,565
Emergency support.....	217	-	-	-	217
Higher education.....	3,943	-	-	-	3,943
Other purposes.....	125,387	-	-	-	125,387
Total committed.....	1,063,613	-	408,139	274,472	1,746,224
Unassigned:					
Deficit.....	\$ (321,475)	\$ -	\$ -	\$ (23,548)	\$ (345,023)
Total fund balances.....	\$ 1,621,435	\$ 1,503,483	\$ 452,400	\$ 2,415,174	\$ 5,992,492

A portion of the nonspendable fund balance reported by the **General Fund**, \$114.5 million, is applicable to advances to other funds at June 30, 2011, as follows; \$2.3 million to the **State Workers' Insurance Fund** and \$110.0 million to the State Stores Fund, both Enterprise Funds; and \$2.2 million to the **Motor License Fund**, a Special Revenue fund.

Encumbrances: Fund balance amounts related to encumbrances based on outstanding purchase orders and other contracts are as follows (amounts in thousands):

General Fund.....	\$ 810,825
Motor License Fund.....	437,952
Tobacco Settlement Fund.....	510
Capital Facilities Fund.....	1,841,716
Other nonmajor funds.....	315,625
Total.....	\$ 3,406,628

NOTE C – NET ASSETS AND FUND BALANCE (continued)

Governmental Funds Fund Balance Deficits: The State Racing Fund and Uninsured Employers Guaranty Fund, both Special Revenue Funds, reported fund balance deficits of \$2,791 and \$46, respectively, at June 30, 2011. The Capital Facilities Fund, a Capital Projects fund, reported a total fund balance deficit of \$20,711 at June 30, 2011 (amounts in thousands).

Proprietary Funds Net Assets: Nonmajor Enterprise funds reported total restricted net assets for “other purposes” of \$94,985 at June 30, 2011 for the following programs: mine subsidence insurance, \$84,833; vocational rehabilitation, \$2,249; and \$7,903 for other programs (amounts in thousands).

Proprietary Funds Net Assets Deficits: In addition to deficits reported in four major funds (**Unemployment Compensation Fund, State Workers’ Insurance Fund, State Lottery Fund and Tuition Payment Fund**), one nonmajor Enterprise fund has reported a net asset deficit in the proprietary statement of net assets. The State Stores Fund reported a net assets deficit of \$98,831 at June 30, 2011 (amount in thousands).

Component Unit Net Assets: Net assets of most component units are restricted, consistent with enabling legislation for component units. Net assets are restricted for purposes specifically identified by the legislation that created the component unit entity. At June 30, 2011 the Philadelphia Regional Port Authority and the Commonwealth Financing Authority reported deficit unrestricted net assets of \$806 and \$455,695, respectively (amounts in thousands).

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

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 Fiscal Code grants the Treasury Department the authority to invest in any deposits and investments. This authority is 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 there from as well as the probable safety of their capital. Treasury Department deposits and investments may include equity securities and mutual funds.

As of June 30, 2011, the Treasury Department manages the Commonwealth Investment Program (CIP). Practically all Commonwealth Funds of the primary government are invested on a temporary basis in the CIP. Treasury is required to exercise careful judgment in determining those investments that are appropriate for each Commonwealth fund based upon distinct investment criteria such as income needs, cash flow requirements, investment time horizons, and risk tolerance. All investments are made in accordance with the statutory authority described in the preceding paragraph. The CIP investment pool structure invests in both equity securities and fixed income securities to achieve the investment objectives of the funds of the CIP. Asset allocation targets among cash, equity securities, fixed income securities and alternative investments are established in order to meet these overall objectives.

Treasury has created two separate Pools within the CIP, each with its own distinct investment strategies, goals, and holdings that reflect the differing needs of Commonwealth funds for income, cash flows, and investment risk tolerance. A highly liquid vehicle, Pool 99, consists of short-term fixed income and cash and provides a high degree of liquidity and security but only modest returns. A less liquid vehicle, Pool 198, allows for investment in assets that offer potentially higher returns with commensurate risk.

Other Investing Organizations

Certain investing organizations have statutory authority, which is comparable to the Treasury Department 'prudent person' authority above. The investments of such organizations are accounted for in the following funds: Workers Compensation Fund, **Tobacco Settlement**, Workers Compensation Security Trust, **State Workers' Insurance**, **Tuition Payment**, Tuition Account Investment Program, INVEST Program for Local Governments (INVEST), and Underground Storage Tank Indemnification (collectively, other investing organizations). Among other things, the other investing organizations typically invest for longer periods of time than the CIP. Therefore, the other investing organizations own, in relative terms, more intermediate or long-term investments than the CIP. Most of the other investing organizations establish contractual arrangements with investment managers, which identify investment objectives without providing strict limitations on 'allowable' investment purchases. Most of the other investing organizations prohibit investing in certain assets, such as commodities and futures contracts, private placements (except Section 144), limited partnerships, and corporations that are engaged in the tobacco industry. Several of the organizations also prohibit short selling and marginal transactions. One notable exception is **Tobacco Settlement**; this organization permits some or all of the previously mentioned prohibited assets and transactions as well as foreign investments.

Pension Trust Funds

The State Employees' Retirement System (SERS), the Deferred Compensation Program (DCP), the Public School Employees' Retirement System (PSERS) and the Other Post Employment Benefit Investment Pool constitute combined Pension (and Other Employee Benefit) Trust Funds (Pension Trust Funds) reported in the basic financial statements. Pension Trust Funds avoid deposit risks; as such deposits must be authorized by the Treasury Department. Several state laws govern investment authority for the SERS and the PSERS, such laws provide 'prudent person' investing authority. Allowable DCP investment options are established by the SERS under its applicable statutory authority. A very large portion of total Pension Trust Fund investments consists of equity securities, real estate and a wide variety of mutual funds.

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

The Statutory Liquidator Fund investments are primarily managed by the affected insurance companies pursuant to Liquidation Orders issued by the PA Insurance Commissioner. Other investments are managed by the Insurance Department's Office of Liquidations, Rehabilitations and Special Funds. Also, a portion of Statutory Liquidator holdings is invested in the Commonwealth Investment Program.

Deposit Risks

At June 30, 2011, Treasury Department bank balances of \$6,555 were subject to custodial risk because they were uninsured and uncollateralized. In addition, \$21,097 of Statutory Liquidator Fund deposits were subject to custodial credit risk because they were uninsured and uncollateralized. The PSERS had deposits at M&T Bank (which has a credit rating of A-/A3) totaling \$57,924 at June 30, 2011 that were not required to be collateralized by statute or policy. None of the other investing organizations or the Pension Trust Funds were exposed to either custodial credit risk or foreign currency risk for its deposits at June 30, 2011 (December 31, 2010 for the **State Workers' Insurance Fund**, SERS, INVEST and DCP) (amounts in thousands).

Investment Risks

Risk Management Policies: The Treasury Department, which is responsible for the CIP, **Tuition Payment** and INVEST Program, has formally adopted a written investment policy. Provisions of the written investment policy and current management of the investments address custodial credit risk, concentration of credit risk, credit risk, interest rate risk, and foreign currency risk. Most of the other investing organizations have adopted investment policies intended to reduce the various risks or, in the case of foreign currency risk, to avoid it entirely. Pension Trust Fund policies avoid custodial credit risk entirely but are exposed to credit risk, interest rate, and foreign currency risk. To a large degree, credit risk is mitigated by following policies to purchase only 'investment grade' securities (Baa/BBB/BBB or better). Where interest rate risk policies have been adopted, risk is mitigated by establishing maximum maturities. To a degree, the establishment of policies limiting investment purchases from a single issuer mitigated concentration risk. The individual risk policies and related disclosures are discussed in greater detail below. Based on the long-term nature of Pension Trust Fund investments, those Funds are exposed to interest rate risk, foreign currency risk and, to a smaller degree, credit risk.

Investments by Type

At June 30, 2011, the Treasury and other investing organizations reported a total of \$17,757,585 in investments. Cash equivalents and certificates of deposit, amounting to \$849,708, which are held in the Commonwealth Investment Pool and other portfolios, are reported as investments but are not included as part of fixed income investment disclosures. Excluding cash equivalents and certificates of deposits, total investments disclosed amount to \$16,907,877; of this amount, excluding equities and private equity holdings (\$1,875,656 and \$792,494, respectively), fixed income investments disclosed amount to \$14,239,727. The investment types and related amounts are as follows (amounts in thousands):

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

Investment Type	Amount
Alternative.....	\$ (10)
Asset backed securities.....	150,594
Commercial paper.....	2,887,301
Convertible securities.....	1,266
Corporate obligations.....	1,294,983
Equities.....	1,875,656
Money market mutual funds.....	1,905,364
Mortgage-backed securities.....	539,777
Mutual funds.....	38,716
Preferred securities.....	2,145
Private equity.....	792,494
Private placements.....	252,102
Repurchase agreements.....	212,625
Sovereign debt obligations.....	35,116
State and municipal obligations.....	215,543
U.S. Government agencies.....	44,296
U.S. Government sponsored enterprises.....	5,536,985
U.S. Treasury obligations.....	1,122,924
Total investments	\$ 16,907,877
Cash equivalents and certificates of deposit.....	849,708
Total investments, cash equivalents and certificates of deposit.....	\$ 17,757,585

In addition, at June 30, 2011, all reported investments of the Tuition Account Investment Program, amounting to \$974,419, consist entirely of mutual funds (\$921,687) and money market mutual funds (\$52,732).

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event a counterparty fails to uphold its agreement to a transaction, with either the Treasury Department, the other investing organizations or the Pension Trust Funds, they would not be able to recover the value of investment or collateral securities in the possession of an outside party. In accordance with a contractual relationship between the Treasury Department and its custodial agents, substantially all investments, where securities are used as evidence of the investment, are held by the custodians in book entry form in the name of the Commonwealth or the custodian. The CIP, **Tuition Payment** and INVEST investments are insured or registered; and the securities are held by the Treasury Department or its agent. Similarly, investments of the other investing organizations and the Pension Trust Funds are almost always registered in the name of the Commonwealth, as the Treasury Department is the statutory custodian for such investments. At June 30, 2011, only the Statutory Liquidator Fund, an Agency Fund, owned investment securities subject to custodial credit risk, in the amount of \$2,376,122. Such securities are neither insured nor registered and are either held by the counterparty or the counterparty’s trust department or agent but not in the name of the Commonwealth. The investment types and related amounts are as follows (amounts in thousands):

Investment Type	Amount
Asset backed securities.....	\$ 218,982
Commercial paper.....	74,256
Corporate obligations.....	627,532
Derivatives.....	(333)
Mortgage-backed securities.....	702,079
Private placements.....	36,620
Repurchase agreements.....	71,041
Sovereign debt obligations.....	12,859
U.S. Government agencies.....	243,951
U.S. Treasury obligations.....	389,135
Total.....	\$ 2,376,122

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

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the government’s investment in a single issuer. The Treasury Department places a 10 percent limit on the concentration of investments in any one fixed income issuer within the CIP, **Tuition Payment** and **INVEST**. This limitation excludes government-sponsored enterprises (GSEs), direct obligations of the U.S. Treasury or U.S. agencies, and repurchase agreements. The Treasury Department also places a 5 percent limit on the concentration of investments in one equity issuer within the Common Investment Pool. Similarly, to a degree, the five other investing organizations limit exposure to concentration of credit risk. Several other investing organizations have adopted policies, which allow greater than 5 percent of portfolios to consist of securities issued by the U.S. Treasury. Among Treasury and other investing organizations, based on total portfolio value of \$16,907,877, the following concentrations existed as of June 30, 2011 (December 31, 2010 for the **State Workers’ Insurance Fund (SWIF)** and **INVEST**) (amounts in thousands):

<u>Issuer Name</u>	<u>Amount</u>	<u>% of Treasury and Other Investing Organizations Portfolio</u>
Federal Home Loan Mortgage Corporation.....	\$ 2,935,212	17.36%
Federal National Mortgage Association.....	2,194,989	12.98
Dreyfus Institutional Money Market.....	1,527,737	9.04

The concentration of credit risk for the Statutory Liquidator Fund is as follows:

<u>Issuer Name</u>	<u>Amount</u>	<u>% of Treasury and Other Investing Organizations Portfolio</u>
Federal National Mortgage Association.....	\$ 473,922	14.64%
United States Treasury.....	395,341	12.21
Western Asset.....	247,204	7.64
Federated Prime.....	223,072	6.89
Federal Home Loan Mortgage Corporation.....	196,724	6.08

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by Nationally Recognized Statistical Rating Agencies (NRSRA) such as Moody’s Investors Service (Moody’s), Standard & Poor’s (S&P), and Fitch Ratings (Fitch). The Treasury Department requires purchases of CIP assets to be investment grade (Baa/BBB/BBB or better) at the time of purchase. The fixed income portfolio includes a provision for the asset allocation to allow up to 10 percent of the portfolio to be in high yield investments. These investments, by definition, are not restricted to the investment grade requirements and include investments rated at Ba/BB/BB or below. Generally, the other investing organizations limit exposure to credit risk through policies, which prevents purchasing below investment grade (Ba/BBB/BBB or better).

At June 30, 2011, approximately \$14,239,727 of total Treasury and other investing organization investments of \$17,757,585 are fixed income investments, susceptible to credit quality rating; the remainder is primarily equities (\$1,875,656), private equities (\$792,494), cash equivalents and certificates of deposit (\$849,708). Of the amount susceptible to credit quality rating, \$5,082,196 is rated; ratings are not available for \$9,157,531 of fixed income investments. The following tables disclose aggregate fair value, by the lowest rating obtained by credit quality rating category, at June 30, 2011 for the Treasury Department and the other investing organizations fixed income investments (amounts in thousands):

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

<u>Moody's Investors Service</u>	<u>Amount</u>
Aaa.....	\$ 393,825
Aa.....	102,365
A.....	264,240
Baa.....	253,440
Ba.....	127,499
B.....	213,266
Caa.....	43,419
Ca.....	9,647
C.....	745
P-1.....	548,007
Moody's Investors Service subtotal.....	<u>\$ 1,956,453</u>
<u>Standard and Poor's</u>	<u>Amount</u>
AAA.....	\$ 30,749
AA.....	73,155
A.....	1,918,096
BBB.....	84,074
BB.....	37,865
B.....	72,543
CCC.....	8,832
CC.....	927
C.....	20
D.....	2,058
Standard and Poor's subtotal.....	<u>\$ 2,228,319</u>
<u>Fitch Ratings</u>	<u>Amount</u>
AAA.....	\$ 708
AA.....	7,815
A.....	19,571
BBB.....	11,237
BB.....	2,955
B.....	2,484
CCC.....	15,380
CC.....	2,951
C.....	10,959
D.....	392
F1.....	822,972
Fitch Ratings subtotal.....	<u>\$ 897,424</u>
Ratings subtotal.....	<u>\$ 5,082,196</u>
Unrated subtotal.....	<u>9,157,531</u>
Total fixed income investments.....	<u>\$ 14,239,727</u>

At June 30, 2011, 11 percent (\$551,942) of rated fixed income investments of \$5,082,196 are rated below investment grade. Approximately 64 percent (\$9,157,531) of the fixed income portfolio in Treasury and other investing organizations are not rated by any of the NRSRA. Unrated Fixed Income Investments include securities that did not have a credit rating available from a NRSRA at June 30, 2011 (December 31, 2010 for the **SWIF** and **INVEST**). These unrated items include U.S. Treasury Obligations (\$1,122,924). They are negotiable debt obligations of the U.S. Treasury secured by the full faith and credit of the U.S. Government. Also included in the Unrated subtotal are U.S. Government Sponsored Enterprises (GSEs) (\$5,536,985) securities. GSE securities are not explicitly backed by the full faith and credit of the U.S. Government and are subject to credit risk. Among the Tuition Account Investment Program's mutual funds within its portfolios, certain mutual funds hold fixed income investments susceptible to credit quality ratings and all such investments are rated Baa or higher by Moody's or BBB or higher by S&P.

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

The Pension Trust Funds may expose themselves to greater credit risk than the Treasury Department or other investing organizations to meet specific investment objectives. SERS and DCP fixed income securities (at December 31, 2010), which are exposed to credit risk, are rated as follows (amounts in thousands):

<u>Moody's Investors Service^a</u>	<u>SERS</u>	<u>DCP</u>
Aaa.....	\$ 31,306	\$ 138,650
Aa.....	56,135	41,583
A.....	188,147	156,402
Baa.....	443,208	46,580
Ba.....	354,211	974
B.....	452,252	-
Caa.....	174,065	964
Ca.....	14,202	-
C.....	10,580	14
D.....	9,258	-
Unrated ^b	127,067	402,481
Commonwealth Investment Program.....	932,783	53,397
Total.....	<u>\$ 2,793,214</u>	<u>\$ 841,045</u>

- a. The Moody's rating represents all of the securities that fall within subcategories of the ratings shown in this table. For example, a security with a rating of Ba1 is shown as a rating of Ba in this table.
- b. 'Unrated' represents securities that were either not rated or had a withdrawn rating (\$88,851 for SERS and \$0 for DCP). Also, 'Unrated' represents securities for GSEs, which were not rated by a NRSRA (\$38,216 for SERS and \$402,481 for DCP). Such GSEs are not explicitly backed by the full faith and credit of the U.S. Government and are subject to credit risk (amounts in thousands).

PSERS fixed income securities, which are subject to credit risk rating, are listed below using the rating (expressed as S&P equivalent), available from Fitch, Moody's, and/or S&P that indicates the greatest degree of risk at June 30, 2011 (amounts in thousands):

<u>Standard and Poor's Equivalent^a</u>	<u>Amount</u>
AAA.....	\$ 2,749,362
AA.....	5,070,392
A.....	1,063,433
BBB.....	844,735
BB and below.....	1,222,225
Unrated ^b	5,183,904
U.S. Government guaranteed ^c	2,409,837
Total.....	<u>\$18,543,888</u>

- a. The S & P rating represents all the securities that fall within subcategories of the ratings shown in this table. For example, a security with a rating of A+ is shown as a rating of A in this table.
- b. Unrated represents securities that were not rated by S&P; \$4,202,834 in collective trust funds and \$981,070 in other investments.
- c. Represents securities issued by the U.S. Government and agency obligations explicitly guaranteed by the U.S. Government and not considered to have credit risk.

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

The Statutory Liquidator Fund fixed income securities at June 30, 2011, which are exposed to credit risk, are rated as follows:

<u>Moody's Investors Service</u>	<u>Amount</u>
Aaa.....	\$ 1,356,940
Aa.....	83,055
A.....	196,985
Baa.....	73,439
Ba.....	21,549
B.....	24,690
Caa.....	3,855
C.....	1
P-1.....	46,480
Moody's Investors Service subtotal.....	<u>\$ 1,806,994</u>

<u>Standard and Poor's</u>	<u>Amount</u>
AAA.....	\$ 90,468
AA.....	45,790
A.....	153,392
BBB.....	134,127
BB.....	8,617
CCC.....	2,455
C.....	22
Standard and Poor's subtotal.....	<u>\$ 434,871</u>

<u>Fitch Ratings</u>	<u>Amount</u>
AA.....	6,044
BBB.....	2,122
CCC.....	104
Fitch Ratings subtotal.....	<u>\$ 8,270</u>
Ratings subtotal.....	\$ 2,250,133
Unrated subtotal.....	902,682
Commonwealth Investment Program.....	<u>84,562</u>
Total fixed income investments.....	<u>\$ 3,237,377</u>

Interest Rate Risk: Interest rate risk is the risk that an investment’s value will change, advantageously or adversely, due to a change in the absolute value of interest rates. The Treasury Department measures interest rate risk using duration. To limit Treasury’s exposure to fair value losses arising from rising interest rates, Treasury’s long-term asset allocation diversifies its fixed income core segment between intermediate duration and longer duration strategies. Duration is a measure of an investment’s sensitivity to changes in interest rates. The higher the duration, the greater the changes in fair value when interest rates change. Treasury measures interest rate risk using option-adjusted duration, which takes into account embedded options affecting cash flows. Other investing organizations use less sophisticated measurements to manage interest rate risk; several limit the maximum term-to-maturity of investment purchases. Further, to avoid interest rate risk, many other organizations deliberately hold a given percentage of total investments in very short-term securities to avoid the potential need to sell such securities at a loss. At June 30, 2011, Treasury and other investing organizations’ fixed income portfolio, excluding Statutory Liquidator Fund and Tuition Account Investment Program, had the following option-adjusted durations (in years) by investment type (amounts in thousands):

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

Investment Type	Amount of Securities with Duration	Option-Adjusted Duration	Amount of Securities with no Duration	Total
Alternative.....	\$ (10)		\$ -	\$ (10)
Asset backed securities.....	71,436	1.300	79,158	150,594
Commercial paper.....	2,887,301	0.090	-	2,887,301
Convertible securities.....	1,266	0.120	-	1,266
Corporate obligations.....	1,152,779	5.100	142,204	1,294,983
Money market mutual funds.....	-	-	1,905,364	1,905,364
Mortgage-backed securities.....	511,822	3.320	27,955	539,777
Mutual funds.....	-	-	38,716	38,716
Preferred securities.....	365	4.690	1,780	2,145
Private placements.....	243,155	4.960	8,947	252,102
Repurchase agreements.....	212,625	0.010	-	212,625
Sovereign debt obligations.....	15,116	8.700	20,000	35,116
State and municipal obligations.....	79,743	8.930	135,800	215,543
U.S. Government agencies.....	39,788	3.060	4,508	44,296
U.S. Government sponsored enterprises.....	5,536,985	0.630	-	5,536,985
U.S. Treasury obligations.....	1,122,924	5.500	-	1,122,924
Total.....	\$ 11,875,295		\$ 2,364,432	\$ 14,239,727

Neither the Statutory Liquidator Fund nor the Tuition Account Investment Program use option-adjusted duration as a means of managing interest rate risk; the following provides segmented time distribution for the Statutory Liquidator Fund (amounts in thousands):

Investment Type	Matures in less than 1 Year	Matures in 1 to 5 Years	Matures in 6 to 10 Years	Matures in 11 to 20 Years	Matures in 21 to 30 Years	Matures in 31 to 40 Years	Matures after 40 Years	No Maturity Date	Total
	Alternative.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,739
Annuities.....	-	-	-	-	-	-	-	1,319	1,319
Asset backed securities.....	5,104	176,108	8,669	10,276	18,007	818	-	-	218,982
Commercial paper.....	74,256	-	-	-	-	-	-	-	74,256
Corporate obligations.....	62,128	449,630	97,147	837	2,744	13,028	2,018	-	627,532
Derivatives.....	(325)	-	(54)	-	46	-	-	-	(333)
Money market mutual funds.....	6,815	530	-	-	36,484	-	-	554,183	598,012
Mortgage-backed securities.....	12,172	34,193	67,198	65,912	370,432	128,076	24,096	-	702,079
Mutual funds.....	-	-	-	-	-	-	-	115,275	115,275
Private placements.....	1,102	20,220	5,683	-	4,988	4,122	505	-	36,620
Repurchase agreements.....	71,041	-	-	-	-	-	-	-	71,041
Sovereign debt obligations.....	-	12,724	135	-	-	-	-	-	12,859
State and municipal obligations.....	-	4,491	987	2,727	2,578	2,563	-	-	13,346
U.S. Government agency.....	64,905	163,659	8,344	-	3,212	3,833	-	-	243,953
U.S. Treasury obligations.....	73,608	251,973	53,658	7,310	2,586	-	-	-	389,135
Commonwealth Investment Program..	-	-	-	-	-	-	-	84,562	84,562
Total.....	\$ 370,806	\$ 1,113,528	\$ 241,767	\$ 87,062	\$ 441,077	\$ 152,440	\$ 26,619	\$ 804,078	\$ 3,237,377

Within the Tuition Account Investment Program, the following mutual funds are exposed to interest rate risk, as follows (amounts in thousands):

	Amount	Average Duration	Average Effective Maturity
Vanguard Total Bond Market II Index Fund Institutional Shares.....	\$ 294,136	5.2 years	7.4 years
Vanguard Inflation-Protected Securities Fund Institutional Shares.....	27,406	7.7 years	8.9 years
Vanguard Prime Money Market Fund Institutional Shares.....	52,732	N/A	58 days

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

Based on specific investment objectives, the Pension Trust Funds may expose themselves to greater interest rate risk than Treasury or other investing organizations. Several investment choices, which may be selected by the DCP participants, including the Short-Term Money Market Fund, the Stable Value Account and the Aggregate Bond Index Fund, include a variety of fixed income securities. Each Pension Trust Fund uses option-adjusted duration (in years) as a measure of interest rate risk, as follows (amounts in thousands):

<u>Investment Type</u>			SERS	DCP
	<u>Amount</u>	<u>Amount</u>	<u>Option-Adjusted Duration</u>	<u>Option-Adjusted Duration</u>
Asset backed securities.....	\$ 49,484	\$ 38,033	1.10	0.90
Corporate obligations.....	693,812	277,995	4.80	4.80
Mortgage-backed securities.....	132,329	356,735	3.00	3.00
Other investments ^a	51,116	-	N/A	N/A
Sovereign debt.....	396,334	10,983	6.40	4.00
Commonwealth Investment Program.....	932,783	53,397	0.10	0.10
U.S. Treasury obligations.....	1,159,131	331,002	2.40	3.50
U.S. Government sponsored enterprises.....	141,688	18,421	4.20	3.60
U.S. private placements.....	532,139	3,643	3.40	3.10
Total.....	<u>\$ 4,088,816</u>	<u>\$ 1,090,209</u>		

a. Other Investments represents certain SERS securities with maturities ranging through 2019 and the value of swap agreements as of December 31, 2010.

PSERS:

<u>Investment Type</u>	<u>Amount</u>	<u>Option-Adjusted Duration</u>
Domestic asset-backed and mortgage-backed securities.....	\$ 3,418,696	1.3
U.S. Government and agency obligations.....	1,773,700	5.7
Domestic corporate and taxable municipal bonds.....	1,724,004	3.4
Collective trust funds.....	1,131,686	3.8
International fixed income.....	1,611,233	4.3
PSERS Short-Term Investment Fund.....	4,587,180	0.1
Total.....	<u>\$ 14,246,499</u>	

Fixed income investment managers enter into futures contracts to adjust the durations of their portfolios as a whole. In total, futures contracts have adjusted PSERS' total fixed income and Short-Term Investment Fund portfolio duration upward by 0.1 at June 30, 2011.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Treasury Department's policy requires all investments to be denominated in U.S. dollars, issued under U.S. laws and regulations, designed for U.S. investors, and traded in U.S. markets. Among the other investing organizations, the **Tobacco Settlement Fund** and the **Tuition Payment Fund** are authorized to purchase securities denominated in a foreign currency. At June 30, 2011, the **Tobacco Settlement Fund** reported \$4.1 million and the **Tuition Payment Fund** reported \$47.3 million of foreign currency-denominated holdings. The foreign currency holdings make up nearly 3.4 percent of the **Tuition Payment Fund's** total investment portfolio and nearly .75 percent of the **Tobacco Settlement Fund's** total investment portfolio. The amounts invested, by currency, are as follows :

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

<u>Foreign Currency</u>	<u>Short Term</u>		<u>Preferred</u>	<u>Private</u>	<u>Total</u>
	<u>Holdings</u>	<u>Equities</u>	<u>Securities</u>	<u>Equity</u>	
Australian dollar.....	\$ -	\$ 1,142	\$ -	\$ -	\$ 1,142
Brazil real.....	-	1,307	-	-	1,307
British pound sterling.....	-	8,108	-	-	8,108
Canadian dollar.....	2	3,184	-	-	3,186
Danish krone.....	-	1,348	-	-	1,348
Euro.....	-	13,043	1,519	4,104	18,666
Hong Kong dollar.....	-	5,247	-	-	5,247
Japanese yen.....	-	6,364	-	-	6,364
Norwegian krone.....	-	548	-	-	548
Mexican new peso.....	-	807	-	-	807
Swedish krona.....	-	1,643	-	-	1,643
Swiss franc.....	36	3,710	-	-	3,746
Total.....	\$ 38	\$ 46,451	\$ 1,519	\$ 4,104	\$ 52,112

Within the Tuition Account Investment Program, the Vanguard Total International Stock Index Fund (\$60,350) is exposed to foreign currency risk (amounts in thousands).

Each Pension Trust Fund is exposed to foreign currency risk as part of meeting specific investing objectives or allocations among different classes of investments. The SERS is exposed to foreign currency risk primarily for equity securities at December 31, 2010 as follows (amounts in thousands):

<u>Foreign Currency</u>	<u>Short Term</u>			<u>Real Estate</u>	<u>Alternative</u>	<u>Total</u>
	<u>Investments^a</u>	<u>Fixed income</u>	<u>Equity</u>		<u>Investments</u>	
Euro.....	\$ 2,604	\$ 5,879	\$ 437,097	\$ 17,759	\$ 495,161	\$ 958,500
British pound sterling.....	812	-	329,393	14,657	-	344,862
Japanese yen.....	(298)	1,216	294,063	37,426	-	332,407
Hong Kong dollar.....	(145)	-	204,074	36,803	210	240,942
Swiss franc.....	1,535	-	147,800	1,782	-	151,117
Australian dollar.....	(383)	-	75,896	26,939	-	102,452
Brazil real.....	2,171	25,157	34,739	-	-	62,067
South Korean won.....	30	-	59,483	-	-	59,513
Singapore dollar.....	(53)	-	37,508	16,021	-	53,476
New Taiwan dollar.....	1,013	-	36,087	-	-	37,100
Mexican new peso.....	626	22,554	10,139	-	-	33,319
South African comm rand.....	1,059	16,530	17,854	-	-	35,443
Swedish krona.....	(340)	-	19,585	2,064	6,364	27,673
Indian rupee.....	162	-	31,195	-	-	31,357
Indonesian rupiah.....	1,103	17,442	12,439	-	-	30,984
Danish krone.....	143	-	20,759	-	-	20,902
Norwegian krone.....	(330)	-	22,457	900	-	23,027
Thailand baht.....	486	12,203	7,403	-	-	20,092
Polish zloty.....	664	18,849	2,350	-	-	21,863
Canadian dollar.....	86	6,333	20,906	5,553	-	32,878
Other currencies (15).....	2,038	37,663	32,069	-	2	71,772
Total.....	\$ 12,983	\$ 163,826	\$ 1,853,296	\$ 159,904	\$ 501,737	\$ 2,691,746

a. Includes receivables and payables as of December 31, 2010 for securities sold and purchased.

One of several investing choices that may be selected by the DCP participants is the European, Australian and Far East (EAFE) Equity Index Fund, which owns international equities and is managed by an external manager. The EAFE Equity Index Fund within the DCP seeks to track the more than 1,000 foreign stocks representing established companies in 21 countries located in Western Europe and the Pacific Rim that are a part of the Morgan Stanley Capital International EAFE Index. At December 31, 2010, the DCP had the following currency exposures related to equity securities (amounts in thousands):

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

<u>Foreign Currency</u>	<u>Fair Value</u>
Euro.....	\$ 31,011
British pound sterling.....	22,613
Japanese yen.....	23,543
Australian dollar.....	9,296
Swiss franc.....	8,519
Swedish krona.....	3,416
Hong Kong dollar.....	3,040
Singapore dollar.....	1,791
Danish krone.....	1,073
Norwegian krone.....	887
Israeli New Sheqel.....	810
New Zealand dollar.....	116
Total.....	<u>\$ 106,115</u>

The PSERS is exposed to foreign currency risk for equity and other securities as follows (amounts in thousands):

<u>Foreign Currency</u>	<u>Equity</u>	<u>Fixed income</u>	<u>Alternative Investments and Real Estate</u>	<u>Short-term*</u>	<u>Total</u>
Euro.....	\$ 869,631	\$ 283,457	\$ 2,700,941	\$ (42,624)	\$ 3,811,405
British pound sterling.....	1,037,285	28,124	7,905	(83,210)	990,104
Japanese yen.....	888,939	59,028	-	19,296	967,263
Canadian dollar.....	570,515	17,855	2,163	(32,757)	557,776
Australian dollar.....	387,318	6,982	-	130,042	524,342
Brazil real.....	103,195	57,054	-	145,027	305,276
Hong Kong dollar.....	254,608	-	-	176	254,784
Swiss franc.....	334,961	-	-	(96,720)	238,241
South African rand.....	65,946	49,997	-	116,948	232,891
Indian rupee.....	67,743	-	-	138,855	206,598
Indonesian rupiah.....	39,246	47,443	-	80,196	166,885
Norwegian krone.....	30,641	3,808	-	131,625	166,074
South Korean won.....	102,798	7,550	-	53,188	163,536
Other currencies.....	558,614	331,305	-	14,558	904,477
Total.....	<u>\$ 5,311,440</u>	<u>\$ 892,603</u>	<u>\$ 2,711,009</u>	<u>\$ 574,600</u>	<u>\$ 9,489,652</u>

*Includes investment receivables and payables.

Securities Lending Program

The Treasury Department provides a securities lending program in which the various investments under custody of the Treasury Department participate. A contract between the Treasury department and its custodian, acting as a lending agent, provides that the custodian lends securities owned by the participants to independent brokers, dealers and banks, acting as borrowers in exchange for collateral.

Lending agreements between the custodian and the borrowers require that the custodian receive collateral from the borrowers in exchange for the securities lent. Securities lent consist of both domestic and foreign equity securities and U.S. Treasury and foreign debt obligations. For securities lent which are not denominated in U.S. dollars or whose primary trading market is located outside the U.S., the fair value of 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. Practically all collateral received consists of cash. A small portion of collateral received consists of letters of credit, U.S. Treasury, corporate and/or foreign debt obligations. Collateral is marked to market daily. Additional collateral from borrowers is

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

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 obligation 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. At June 30, 2011, 100 percent of the collateral was invested in repurchase agreements. 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 do not generally match the maturities of the investments made with the 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, 2011 (December 31, 2010 for the **SWIF**, SERS and DCP), 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, 2011 (December 31, 2010 for the **SWIF**, the SERS and the DCP), the total fair value of the securities lent, along with the type of investments lent, were as follows (amounts in thousands):

Fund/Organization	Total Securities Lent	U.S. Treasury Obligations	U.S. Government				Sovereign Debt	Exchange Traded
			Sponsored Enterprises	Corporate Obligations	Equities			
Deferred Compensation Program.....	\$ 37,339	\$ -	\$ 32,890	\$ 4,449	\$ -	\$ -	\$ -	
State Lottery Fund	762	762	-	-	-	-	-	
State Employees' Retirement System.....	224,816	6,021	236	39,553	167,571	9,435	-	
Public School Employees' Retirement System.....	1,293,630	267,074	467	24,344	954,961	23,084	23,699	
Underground Storage Tank Indemnification.....	11,701	6,177	3,209	1,111	107	-	1,097	
Workers' Compensation Security Trust.....	61,271	49,755	5,590	4,183	705	-	1,038	
State Workers' Insurance Fund	190,163	140,939	17,708	26,147	5,368	-	-	
Other Postemployment Benefits Investment Pool..	70,247	-	-	-	358	-	69,889	
Commonwealth Investment Program.....	159,221	55,950	10,129	30,234	21,551	-	41,358	
Tobacco Settlement Fund	11,495	9,753	1,742	-	-	-	-	
Tuition Payment Fund	133,284	20,212	9,460	4,040	14,369	-	85,203	

Derivative and Other Similar Investments

State Employees’ Retirement System (SERS)

The SERS enters into certain 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 make payment for international investments, futures contracts to gain exposure to certain equity markets and to manage interest rate risk and swaps to gain equity exposure.

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 for its international investments to settle pending trades that occur more than two business days after trade date. To reduce the risk of counterparty nonperformance, the SERS generally enters into these contracts with institutions regarded as meeting high standards of credit worthiness. The unrealized gain/loss on contracts is included in the SERS’ net assets and represents the fair value of the contracts on December 31. At December 31, 2010, the SERS had contracts to purchase and sell, by major foreign currency, as follows (amounts in thousands):

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

<u>Foreign Currency</u>	<u>Purchase Contracts</u>	<u>Unrealized Gain/(Loss)</u>	<u>Sell Contracts</u>	<u>Unrealized Gain/(Loss)</u>
Chinese yuan renminbi.....	\$ 15,704	\$ 233	\$ 5,966	\$ (80)
Euro.....	13,224	287	10,576	(117)
Malaysian ringgit.....	12,894	163	430	-
Mexican new peso.....	8,805	324	8,594	(70)
Hong Kong dollar.....	5,171	(4)	2,459	-
New Turkish lira.....	4,989	(240)	568	37
South Korean won.....	4,710	(18)	100	(3)
Singapore dollar.....	4,377	140	1,534	(63)
Columbian peso.....	4,339	34	8,017	332
Russian ruble.....	3,226	26	-	-
Philippines peso.....	2,473	27	21	-
Hungarian forint.....	1,940	(16)	3,065	(92)
Chilean peso.....	1,894	73	3,639	(175)
Peruvian nuevo sol.....	1,628	(14)	1,153	(13)
Japanese yen.....	1,033	5	39,087	(1,518)
Australian dollar.....	764	5	10,737	(738)
Brazil real.....	441	19	7,581	(110)
South African comm rand.....	398	19	5,083	(239)
Indonsian rupiah.....	311	2	1,959	(9)
Polish zloty.....	216	10	6,634	197
Swiss franc.....	-	-	15,328	(1,250)
Other currencies (5).....	2,074	43	1,005	(22)
Total.....	<u>\$ 90,611</u>	<u>\$ 1,118</u>	<u>\$ 133,536</u>	<u>\$ (3,933)</u>

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and 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 SERS has entered into certain futures contracts maturing through December 17, 2012. The notional value of these contracts at December 31, 2010 is as follows (amounts in thousands):

<u>Futures Contract Type</u>	<u>Purchase Contracts</u>	<u>Sell Contracts</u>
Eurodollar.....	\$ 22,098	\$ -

The exchange on which futures contracts are traded assumes the counterparty risk and generally requires margin payments to minimize such risk. The SERS pledges investment securities to provide the initial margin requirements on the futures contracts it buys.

Swap agreements provide for periodic payments between parties based on the change in value of underlying assets, indexes, rates, or credit worthiness. During 2010, the SERS used contracts with multiple counterparties as well as collateral posting requirements to manage its counterparty credit risk. Credit default swaps are agreements with counterparties to either purchase or sell credit protection. The SERS uses credit default swaps to either increase or decrease credit exposure to certain credit markets. Interest rate swaps are over-the-counter contracts that allow counterparties to exchange a fixed rate liability for a floating rate liability. The SERS used interest rate swaps as a cost-effective way of gaining exposure to certain sectors of the fixed income market.

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

The table below presents the SERS’ swap exposure at December 31, 2010 (amounts in thousands):

<u>Swap Type</u>	<u>Notional Value</u>	<u>Receivable/(Payable)</u>
Interest rate.....	\$ 144,253	\$ 292
Credit default.....	30,300	161

The SERS mitigates its legal risk on investment holdings, including the previously discussed instruments, by carefully selecting investment advisors and extensively reviewing their documentation. It manages its exposure to market risk within risk limits set by management.

The SERS also indirectly holds foreign exchange contracts, futures contracts, and certain swap contracts through its investments in collective trust funds and absolute return funds-of-hedge funds. Those collective trust funds invest in those investments directly and indirectly (through a securities lending collateral pool), to gain foreign exchange exposure, to synthetically create equity-like returns, and to manage interest rate risk by altering the average life of the investment portfolio.

Deferred Compensation Program (DCP)

The DCP, through the BlackRock Institutional Trust Company (BTC) managed accounts, indirectly holds certain derivative financial instruments. Certain accounts directly participate in futures contracts, which are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price on a future date. The accounts may enter into future contracts to gain exposure to certain equity markets. In those accounts where the use of futures contracts is permitted, BTC limits the account’s positions to a small amount of the account’s total assets, subject to each account’s investment and credit risk guidelines. The exchange on which the futures are traded assumes counterparty risk and generally requires margin payments to minimize such risk.

Counterparty credit risk exposure may be controlled through regular credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures undertaken by BTC with respect to accounts it manages.

The BTC-managed accounts may also indirectly hold foreign exchange contracts, futures contracts, and certain swap contracts through a securities lending collateral pool. Those instruments are held to create “synthetic cash transactions”. Generally, synthetic cash transactions involve investing in one or more instruments that taken either individually or together have an interest rate, credit or liquidity exposure similar to that of a conventional money market instrument. This may be so even though none of the individual instruments themselves have a money market risk profile. 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. Swap agreements provide for periodic payments between parties based on the net difference in the cash flows of underlying assets, indices, or rates. To reduce the risk of counterparty nonperformance, the collateral pool generally enters into these contracts with institutions regarded as meeting high standards of credit worthiness.

BTC seeks to mitigate its legal risk related to derivative financial instruments by using them only in the accounts for which they are authorized. BTC manages its exposure to market risk within risk limits set for the accounts by buying or selling instruments or entering into offsetting positions. The following table discloses the futures contracts held and the derivatives held indirectly in the security lending collateral pool, as of December 31, 2010 (amounts in thousands):

	<u>Notional Value</u>
Equity Index Fund	
Futures directly held.....	\$ 4,166
Extended Market Fund	
Futures directly held.....	3,856
EAFE Equity Index Fund	
Futures directly held.....	3,284

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

Public School Employees’ Retirement System (PSERS)

The PSERS enters into a variety of financial contracts, which include options and futures. The PSERS also enters into foreign exchange positions, such as forward and spot contracts to obtain or hedge foreign currency exposure; swap agreements to gain exposure to certain sectors of the equity and fixed income markets; collateralized mortgage obligations (CMOs); other forward contracts, and U.S. Treasury STRIPS. The PSERS is not a dealer, but an end-user of these instruments. The contracts are used primarily to enhance investment performance and reduce the volatility of the investment portfolio. The PSERS is exposed to credit risk in the event of non-performance by counterparties to financial instruments. The PSERS generally enters into transactions only with high quality institutions. Legal risk is mitigated through selection of executing brokers and review of all documentation. The PSERS is exposed to market risk, the risk that future changes in market condition 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 PSERS’ involvement in the various types and uses of derivative financial instruments and do not measure the PSERS’ 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 PSERS’ derivative financial instruments at June 30, 2011 (amounts in thousands):

<u>Type of Derivative</u>	<u>Notional Value</u>
Futures contracts - long.....	\$ 3,239,904
Futures contracts - short.....	618,656
Foreign exchange forward and spot contracts, gross.....	9,941,182
Options - calls purchased.....	4,336,538
Options - puts purchased.....	4,708,379
Options - calls sold.....	4,673,491
Options - puts sold.....	5,024,008
Swaps - total return type.....	2,931,449

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 futures 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 PSERS 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 and by cash held by various brokers. Although the PSERS 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, 2011 represent a restriction on the amount of assets available as of fiscal year-end to use for other purposes.

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 PSERS generally uses exchange listed currency, index, stock, and future options. The PSERS has authorized an investment manager to write covered call stock index option spreads up to a notional amount of \$1.5 billion. The program terminated during the fiscal year ended June 30, 2011.

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 \$9,941 million of foreign currency contracts outstanding at June 30, 2011 consist of “buy” contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of \$5,343 million and “sell” contracts, which represent the U.S. dollar equivalents of commitments to sell foreign

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

currencies of \$4,598 million. The unrealized gain on contracts of \$4 million at June 30, 2011 is included in the PSERS' Statement of Plan Net Assets and represents the fair value of the contracts.

Swap agreements provide for periodic payments at predetermined future dates between parties based on the change in value of underlying securities, indexes or interest rates. During the fiscal year ended June 30, 2011, the PSERS entered into total return type swaps. Under the total return type swap arrangements, the PSERS receives the net return of certain equity securities or indices in exchange for a short-term rate minus a spread or a predetermined fixed charge. The receivable on the total return type swap contracts of \$29 million at June 30, 2011 is included in the Statement of Plan Net Assets and represents the fair value of the contracts. The contracts have varying maturity dates which range from August 9, 2011 to May 17, 2012.

The PSERS also invests in mortgage-backed securities (MBS) such as CMOs and MBS forward contracts to maximize yields. These securities are sensitive to prepayments of mortgages, which may result from a decrease in interest rates. The MBS forward contracts are subject to credit risk in the event of nonperformance by counterparties. The fair value of CMOs at June 30, 2011 is \$1.7 billion.

The PSERS 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 PSERS also indirectly holds various derivative financial instruments. The collective trust funds invest in futures and options thereon; forward foreign currency contracts; options; interest rate, currency, equity, index, and total return swaps; interest-only STRIPS; and CMOs, to enhance the performance and reduce the volatility of their investment portfolios.

Discretely Presented Component Units**Authority for Deposits and Investments**

Component unit organizations typically control receipt and disbursement of their own deposits, often through a trustee. Enabling legislation provides varying authority for investments; several component unit organizations participate in the CIP.

Deposit Risks

At June 30, 2011, the Pennsylvania Higher Education Assistance Agency (PHEAA) held \$63,500 of deposits with financial institutions in excess of federal depository insurance limits that were uninsured and collateralized following an agreement to pledge assets on a pooled basis to secure public deposits in Pennsylvania. All collateral on deposits is held by the participating financial institution's trust department and is not held in the PHEAA's name. The Pennsylvania Housing Finance Agency (PHFA) held \$47,653 of cash deposits that were uninsured and collateralized with securities held by the pledging financial institution, its trust department or agent, but not in the PHFA's name. The State System of Higher Education (SSHE) held \$2,295 of uninsured and uncollateralized deposits; and \$16,285 of uninsured and uncollateralized deposits, but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971, as amended. The Philadelphia Regional Port Authority held \$304 of deposits uninsured but collateralized by the financial institution and \$1 in deposits that were uncollateralized. The Pennsylvania Infrastructure Investment Authority (PENNVEST) held \$20,748 in deposits that were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the PENNVEST name. The Insurance Fraud Prevention Authority held deposits of \$3,695 that were uncollateralized (amounts in thousands).

Investment Risks

Risk Management Policies: At June 30, 2011, component unit policies for certain risks are established by governing boards; policies for the Pennsylvania Turnpike Commission are established by its bond indentures. Most of the organizations' policies

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

address credit quality risk by establishing minimum NRSRA ratings for allowable investment purchases. Concentration of credit risk is also avoided by most of the organizations by limiting the concentration of investments in any one issuer. Some organizations have policies in place that prohibit a certain percent of the overall portfolio, whereas others determine concentration limits based on security type. Custodial credit risk is typically avoided through registration. The PHEAA investment policy does not include requirements that limit its exposure to custodial credit risk.

Investments by Type

At June 30, 2011, the discretely presently component units reported total temporary investments of \$2,472,605 and long-term investments of \$2,454,641, including securities lending collateral of \$26,154, amounting to \$4,927,246. Total investments disclosed amount to \$4,599,508, in addition SSHE component units reported \$327,738, for total investments reported of \$4,927,246. Nearly 100 percent of this amount represents fixed income investments. The investment types and related amounts are as follows (in thousands):

<u>Investment Type</u>	<u>Amount</u>
Commonwealth Investment Program.....	\$ 1,029,594
U.S. Government agency obligations.....	1,020,923
State and municipal bonds.....	449,741
Corporate obligations.....	428,267
Money market mutual funds.....	397,318
Mortgage-backed securities.....	387,784
Commercial paper.....	337,967
U.S. Treasury obligations.....	196,022
Guaranteed investment contracts.....	123,756
Asset backed securities.....	90,578
Equity/balanced mutual funds.....	25,960
Securities lending collateral.....	26,154
Repurchase agreements.....	22,933
Derivatives.....	20,142
GNMA obligations.....	19,213
Fixed income mutual funds.....	4,512
Common stock.....	1,081
Domestic preferred equities.....	40
Total investments.....	<u>\$ 4,581,985</u>
Certificates of deposit.....	17,523
Total investments and certificates of deposits.....	<u>\$ 4,599,508</u>

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the organizations’ investment in a single issuer. Several of the organizations limit concentration to five percent or more of their total investments, with the exception of U.S. Treasury and U.S. Government Agencies. The SSHE has policies that do not limit the concentration in any single issuer for corporate bonds, collateralized mortgage obligations, and asset-backed securities. The following concentrations existed as of June 30, 2011 (May 31, 2011 for the Pennsylvania Turnpike Commission) (amounts in thousands):

<u>Issuer Name</u>	<u>PA Turnpike Commission</u>	<u>PA Higher Education Assistance Agency</u>	<u>PA Industrial Development Authority</u>
Federal Home Loan Bank.....	\$ 240,106	\$ -	\$ -
Federal National Mortgage Association.....	111,925	-	-
Federal Home Loan Mortgage Corporation.....	163,182	-	-
Federated Fund Cash Manager.....	-	125,873	-
Trinity Plus Funding Co.....	-	123,756	-
First American Government.....	-	-	204,015

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

Credit Risk: At June 30, 2011, \$4,456,273 of total discretely presented component unit investments of \$4,573,354 are fixed income investments, susceptible to credit risk. Of the amount of fixed income securities susceptible to credit risk, \$2,740,700 are rated and \$1,805,573 of fixed income investments do not have ratings available. The following table discloses aggregate fair value, by Moody’s or Standard and Poor’s credit quality rating category, at June 30, 2011 (May 31, 2011 for Pennsylvania Turnpike Commission) (amounts in thousands):

Moody's	Amount	Unrated	Amount
Aaa.....	\$ 706,765	Corporate obligations.....	\$ 28,247
Aa.....	217,660	Commonwealth Investment Program.....	1,029,594
A.....	10,021	Money market mutual funds.....	209,618
B.....	-	U.S. Treasury obligations.....	196,022
Ba.....	3,572	U.S. Government agency obligations.....	257,769
Baa.....	8,218	Repurchase agreements.....	22,933
P1.....	334,515	Certificates of deposit.....	17,523
Moody's Investors Service subtotal.....	<u>\$ 1,280,751</u>	Derivatives.....	20,142
		GNMA obligations.....	19,213
		Fixed income mutual funds.....	4,512
Standard and Poor's		Unrated subtotal.....	<u>\$ 1,805,573</u>
AAA.....	\$ 658,166		
AA.....	451,026	Total fixed income investments.....	<u>\$ 4,546,273</u>
A.....	336,120		
Below A.....	14,637	Equity/balanced mutual funds.....	25,960
Standard and Poor's subtotal.....	<u>\$ 1,459,949</u>	Common stock.....	1,081
		Domestic preferred equities.....	40
Rated subtotal.....	<u>\$ 2,740,700</u>		
		Total investments.....	<u>\$ 4,573,354</u>

U.S. Government agency obligations include all securities issued by the U.S. Treasury, U.S. Government agencies, and U.S. Government Sponsored Enterprises (GSEs). These include securities that are both explicitly and implicitly guaranteed by the full faith and credit of the U.S. Government. Many of these securities are not usually rated by a NRSRA and have an implied rating of Aaa/AAA.

Interest Rate Risk: Interest rate risk is managed using different techniques: weighted average maturity, maximum maturity dates, effective duration, modified duration or operational cash needs. The following table discloses option-adjusted duration (in years) by investment type for the fixed income portfolio of the discretely presented component units, excluding the PHEAA, the PHFA, the PENNVEST and the Pennsylvania Industrial Development Authority (PIDA) at June 30, 2011 (May 31, 2011 for the Pennsylvania Turnpike Commission) (amounts in thousands):

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

<u>Investment Type</u>	<u>Amount</u>	<u>Option-Adjusted Duration</u>	<u>Securities with no Duration</u>
Asset backed securities.....	\$ 90,578	0.480	\$ -
Certificates of deposit.....	17,500	0.002	23
Commercial paper.....	312,882	0.070	-
Corporate obligations.....	423,669	1.442	-
Derivatives.....	20,142	12.590	-
Mortgage-backed securities.....	169,873	3.680	-
Mutual funds.....	25,231	3.390	-
State and municipal obligations.....	449,741	1.490	-
U.S. Government agency obligations.....	984,880	2.451	-
U.S. Treasury obligations.....	120,632	3.860	-
Total.....	<u>\$ 2,615,128</u>		<u>\$ 23</u>

The PHEAA, the PHFA, the PENNVEST and the Pennsylvania Industrial Development Authority do not use option-adjusted duration as a means of managing interest rate risk; the following provides segmented time distribution for those organizations at June 30, 2011 (amounts in thousands):

<u>Investment Type</u>	<u>Matures in</u>			<u>Total</u>
	<u>Matures in less than 1 Year</u>	<u>1 to 10 Years</u>	<u>Matures in more than 10 years</u>	
Commercial paper.....	\$ 25,085	\$ -	\$ -	\$ 25,085
Corporate obligations.....	1,011	3,572	-	4,583
Guaranteed investment contracts.....	123,756	-	-	123,756
Money market mutual funds.....	397,318	-	-	397,318
Mortgage-backed securities.....	6,063	10,001	221,060	237,124
Repurchase agreements.....	15,527	-	-	15,527
U.S. Government agency obligations.....	291	678	48,574	49,543
U.S. Treasury obligations.....	7,041	54,849	-	61,890
Total.....	<u>\$ 576,092</u>	<u>\$ 69,100</u>	<u>\$ 269,634</u>	<u>\$ 914,826</u>

At June 30, 2011, discretely presented component units reported investments including CIP holdings amounting to \$1,029,594 and, for the PA Treasury securities lending program, collateral held of \$26,154 (amounts in thousands).

Foreign Currency Risk: Foreign currency risk is the risk of an investment’s value changing, advantageously or adversely, due to changes in currency exchange rates. The SSHE disclosed that \$12 of its local investments was exposed to foreign currency risk. The amounts invested, by currency, at June 30, 2011 are as follows (amounts in thousands):

<u>Foreign Currency</u>	<u>Amount</u>
British pound sterling.....	\$ 11
Euro.....	1
Total.....	<u>\$ 12</u>

Derivatives

As of June 30, 2011, the PHFA, in its separately-issued financial statements, reported a noncurrent hedging derivative instrument liability of \$101,607. Such amounts were reported as deferred outflows of resources (\$101,607). Changes in the fair value of the hedging derivatives (\$38,588) were deferred. To obtain further information regarding the nature and notional value of the financial instruments refer to their separately audited and issued financial statements.

As of May 31, 2011, the Pennsylvania Turnpike Commission (PTC), in its separately-issued financial statements, reported noncurrent hedging derivative instrument liabilities of \$67,155 which were offset by reported deferred outflow of resources of \$67,155. Also, the PTC reported noncurrent hedging derivative instrument liabilities of \$(17,664) which were offset by

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

reported deferred inflow of resources of \$17,664. Changes in the fair value of the hedging derivative instruments during the fiscal year ended May 31, 2011 (\$35,032) were deferred (amounts in thousands).

Further information regarding the nature and notional value of the hedging and investment derivative instruments of the PHFA (as of June 30, 2011) and the PTC (as of May 31, 2011) is available within their separately audited and issued financial statements.

NOTE E – CAPITAL ASSETS

A summary of capital assets by category at June 30, 2011 is as follows (amounts in thousands):

	Primary Government				Discretely Presented Component Units
	Governmental Activities			Business-Type Activities	
	General Capital Assets	Internal Service Funds	Total Governmental Activities	Enterprise Funds	
Land.....	\$ 543,447	\$ -	\$ 543,447	\$ 323	\$ 380,211
Highway right-of-way.....	1,970,183	-	1,970,183	-	-
Buildings and building improvements. Improvements other than buildings.....	6,517,338	7,462	6,524,800	48,096	4,415,452
Machinery and equipment.....	656,324	1,011	657,335	-	364,340
Library books and other.....	933,088	93,335	1,026,423	141,233	1,187,192
Turnpike infrastructure.....	-	-	-	-	84,667
Bridge infrastructure.....	-	-	-	-	6,041,749
Highway infrastructure.....	10,137,372	-	10,137,372	-	-
Waterway infrastructure.....	22,801,439	-	22,801,439	-	-
Other infrastructure.....	23,158	-	23,158	-	-
General construction in progress.....	179,184	-	179,184	-	-
Highway and bridge construction in progress.....	783,857	-	783,857	2,886	293,242
Software.....	2,753,284	-	2,753,284	-	1,151,520
Other intangibles.....	112,909	-	112,909	12,688	34,758
Total.....	200	-	200	-	33
	<u>\$ 47,411,783</u>	<u>\$ 101,808</u>	<u>\$ 47,513,591</u>	<u>\$ 205,226</u>	<u>\$ 13,953,164</u>

Changes in general capital assets for the fiscal year ended June 30, 2011 are as follows (amounts in thousands):

	Balance			Balance
	June 30, 2010	Increases	Decreases	June 30, 2011
Non-Depreciable General Capital Assets:				
Land.....	\$ 510,509	\$ 33,011	\$ 73	\$ 543,447
Highway right-of-way.....	1,886,890	83,293	-	1,970,183
General construction in progress.....	838,126	507,459	561,728	783,857
Transportation construction in progress.....	<u>2,631,773</u>	<u>2,429,210</u>	<u>2,307,699</u>	<u>2,753,284</u>
Subtotal.....	<u>5,867,298</u>	<u>3,052,973</u>	<u>2,869,500</u>	<u>6,050,771</u>
Depreciable and Amortizable General Capital Assets:				
Buildings and building improvements.....	6,318,099	244,264	45,025	6,517,338
Improvements other than buildings.....	602,674	55,353	1,703	656,324
Machinery and equipment.....	879,673	77,744	24,329	933,088
Bridge infrastructure.....	8,984,353	1,153,019	-	10,137,372
Highway infrastructure.....	21,646,760	1,154,679	-	22,801,439
Waterway infrastructure.....	22,065	1,093	-	23,158
Other infrastructure.....	164,949	14,235	-	179,184
Software.....	13,119	99,790	-	112,909
Other intangibles.....	200	-	-	200
Subtotal.....	<u>38,631,892</u>	<u>2,800,177</u>	<u>71,057</u>	<u>41,361,012</u>
Total general capital assets.....	<u>\$ 44,499,190</u>	<u>\$ 5,853,150</u>	<u>\$ 2,940,557</u>	<u>\$ 47,411,783</u>

NOTE E – CAPITAL ASSETS (continued)

Changes in general capital assets accumulated depreciation and amortization for the fiscal year ended June 30, 2011 are as follows (amounts in thousands):

	<u>Balance</u> <u>June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2011</u>
Buildings and building improvements.....	\$ 2,437,003	\$ 143,606	\$ 29,838	\$ 2,550,771
Improvements other than buildings.....	265,025	18,919	1,380	282,564
Machinery and equipment.....	459,742	63,158	19,354	503,546
Bridge infrastructure.....	2,181,228	204,963	-	2,386,191
Highway infrastructure.....	10,540,538	838,702	-	11,379,240
Waterway infrastructure.....	1,390	455	-	1,845
Other infrastructure.....	8,439	8,901	-	17,340
Software.....	442	34,296	-	34,738
Other intangibles.....	70	13	-	83
	<u>\$ 15,893,877</u>	<u>\$ 1,313,013</u>	<u>\$ 50,572</u>	<u>\$ 17,156,318</u>

Depreciation and amortization expense, by function, related to governmental activities capital assets for the fiscal year ended June 30, 2011 is as follows (amounts in thousands):

	<u>General Capital</u> <u>Assets</u>	<u>Internal</u> <u>Service</u>
Direction and supportive services.....	\$ 41,881	\$ 6,626
Protection of persons and property.....	88,799	2,403
Public education.....	26,066	-
Health and human services.....	44,456	-
Economic development.....	201	-
Transportation.....	1,094,218	-
Recreation and cultural enrichment.....	17,392	-
	<u>\$ 1,313,013</u>	<u>\$ 9,029</u>

Changes in Internal Service funds capital assets for the fiscal year ended June 30, 2011 are as follows (amounts in thousands):

	<u>Balance</u> <u>June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2011</u>
Buildings and building improvements.....	\$ 7,237	\$ 225	\$ -	\$ 7,462
Improvements other than buildings.....	667	344	-	1,011
Machinery and equipment.....	96,465	2,384	5,514	93,335
	<u>\$ 104,369</u>	<u>\$ 2,953</u>	<u>\$ 5,514</u>	<u>\$ 101,808</u>

NOTE E – CAPITAL ASSETS (continued)

Changes in Internal Service fund capital assets accumulated depreciation for the fiscal year ended June 30, 2011 are as follows (amounts in thousands):

	Balance			Balance
	June 30, 2010	Increases	Decreases	June 30, 2011
Buildings and building improvements.....	\$ 1,815	\$ 119	\$ -	\$ 1,934
Improvements other than buildings.....	78	59	-	137
Machinery and equipment.....	69,302	8,851	4,671	73,482
Total accumulated depreciation.....	\$ 71,195	\$ 9,029	\$ 4,671	\$ 75,553

Changes in Enterprise fund capital assets for the fiscal year ended June 30, 2011 are as follows (amounts in thousands):

	Balance			Balance
	June 30, 2010	Increases	Decreases	June 30, 2011
Non-Depreciable Capital Assets:				
Land.....	\$ 323	\$ -	\$ -	\$ 323
General construction in progress.....	2,886	-	-	2,886
Subtotal.....	3,209	-	-	3,209
Depreciable and Amortizable Capital Assets:				
Buildings and building improvements.....	47,501	15,215	14,620	48,096
Machinery and equipment.....	123,441	20,245	2,453	141,233
Software.....	7,599	5,089	-	12,688
Subtotal.....	178,541	40,549	17,073	202,017
Total Enterprise fund capital assets.....	\$ 181,750	\$ 40,549	\$ 17,073	\$ 205,226

Changes in Enterprise fund capital assets accumulated depreciation and amortization for the fiscal year ended June 30, 2011 are as follows (amounts in thousands):

	Balance			Balance
	June 30, 2010	Increases	Decreases	June 30, 2011
Buildings and building improvements.....	\$ 25,678	\$ 2,873	\$ 429	\$ 28,122
Machinery and equipment.....	80,707	4,315	2,522	82,500
Software.....	973	9,566	-	10,539
Total accumulated depreciation and amortization.....	\$ 107,358	\$ 16,754	\$ 2,951	\$ 121,161

NOTE E – CAPITAL ASSETS (continued)

Construction in progress included in general capital assets at June 30, 2011 includes project information as follows (amounts in thousands):

	<u>Project Authorization</u>	<u>Amounts Expended at June 30, 2011</u>	<u>Authorization Available</u>
General Construction in Progress:			
Capitol Complex.....	\$ 378,321	\$ 156,485	\$ 221,836
Department of Corrections Institutions.....	371,949	171,553	200,396
Educational Institutions.....	874,211	113,773	760,438
Environmental Protection.....	39,809	166	39,643
State Parks and Forests.....	177,983	21,236	156,747
Veterans Homes and Military Armories.....	119,533	46,011	73,522
Dept of Public Welfare Institutions.....	23,441	16,675	6,766
Transportation Facilities.....	53,084	40,172	12,912
Historical and Museum Commission Facilities.....	51,949	22,615	29,334
State Police Facilities.....	40,946	1,224	39,722
Agriculture Facilities.....	19,388	11,131	8,257
Labor & Industry Software.....	161,160	145,865	15,295
Other.....	278,434	36,951	241,483
Total general construction in progress.....	<u>2,590,208</u>	<u>783,857</u>	<u>1,806,351</u>
Highway and Bridge Construction in Progress:.....	<u>5,070,938</u>	<u>2,753,284</u>	<u>2,317,654</u>
Total construction in progress.....	<u>\$ 7,661,146</u>	<u>\$ 3,537,141</u>	<u>\$ 4,124,005</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, 2011 the amount of general capital assets related to the initial 1986 valuation amounted to \$1,694 million and did not include highway, bridge or waterway infrastructure. The infrastructure was retro-actively added in 1989.

NOTE F – LONG-TERM OBLIGATIONS - BUSINESS-TYPE ACTIVITIES AND PROPRIETARY FUNDS

Due to Other Governments

During 2009, pursuant to a Commonwealth request, the Federal government began advancing the Commonwealth amounts to assist the Commonwealth in financing the payment of unemployment compensation benefits to qualifying individuals. The amount owed to the Federal government through June 30, 2011 amounts to \$3,848,309. Changes in the amount owed during the fiscal year ended June 30, 2011 follow (amounts in thousands):

<u>Balance at July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2011</u>
\$ 3,022,317	\$ 825,992	\$ -	\$ 3,848,309

Tuition Benefits Payable

The reported liability for tuition benefits payable of \$1,400,922 of the **Tuition Payment Fund**, an Enterprise Fund, at June 30, 2011 is based on several actuarial assumptions, including those related to future sales of tuition credits, tuition cost increases, administrative charges, investment experience and program expenses for the Pennsylvania 529 Guaranteed Savings Plan (GSP). The June 30, 2011 actuarial analysis includes two changes in assumptions to reflect updated expense projections and changes in investment returns. The change in expense assumptions reflects a decrease in authorized expenses. The assumed rate of return on long-term investments decreased from 8.25% to 8.0%. The current portion of the total liability is \$189,878 and the noncurrent portion is \$1,211,044 (in thousands).

Changes in tuition benefits payable are as follows:

<u>Balance at July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2011</u>	<u>Current Due within One Year</u>	<u>Non Current Due after One Year</u>
\$1,329,891	\$ 235,982	\$ 164,951	\$ 1,400,922	\$ 189,878	\$1,211,044

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 3.25 percent at December 31, 2010 and December 31, 2009. 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, 2010 and 2009, the following summary provides information on prior year reported insurance loss liability, incurred claims and payments, and current year reported insurance loss liability (amounts in thousands).

<u>Year Ended December 31</u>	<u>Prior Year Liability</u>	<u>Incurred Claims</u>		<u>Payments</u>		<u>Current Year Liability</u>
		<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	
2010	\$1,554,136	\$226,197	\$31,327	\$43,747	\$258,099	\$1,509,814
2009	1,635,237	248,059	29,934	55,039	304,055	1,554,136

The current portion of the total **SWIF** insurance loss liability is \$253,964 and the noncurrent portion is \$1,255,850. Additionally, nonmajor Enterprise funds reported a noncurrent insurance loss liability of \$311 at June 30, 2011. Total reported current insurance loss liability amounts to \$253,964 and total noncurrent insurance loss liability amounts to \$1,256,161 (in thousands) at June 30, 2011.

NOTE F – LONG-TERM OBLIGATIONS - BUSINESS-TYPE ACTIVITIES AND PROPRIETARY FUNDS (continued)

Compensated Absences Liability

The reported compensated absences liability for the Enterprise Funds totaled \$35,132 at June 30, 2011. Of that amount, the liability is primarily owed by the State Stores Fund (\$27,240), the **State Worker’s Insurance Fund** (\$2,790), and the **State Lottery Fund** (\$2,902). The following summary provides aggregated information reported for June 30, 2011 compensated absence liabilities; additions and reductions during the fiscal year ended June 30, 2011 and reported compensated absences liabilities at June 30, 2010 (amounts in thousands):

<u>Liability at June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Liability at June 30, 2011</u>
\$ 36,975	\$ 24,124	\$ 25,967	\$ 35,132

The current portion of the total compensated absences liability for Enterprise Funds is \$7,357 and the noncurrent portion is \$27,775 (in thousands).

NOTE G - TAXES, LOANS AND LEASE RENTALS RECEIVABLE

Taxes Receivable: Taxes receivable, by tax type, reported on the Statement of Net Assets at June 30, 2011 consisted of the following (amounts in thousands):

Statement of Net Assets
Governmental Activities

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Sales and use.....	\$ 656,210	\$ 203,351	\$ 859,561
Personal income	430,464	376,359	806,823
Corporation.....	249,576	520,444	770,020
Liquid fuels.....	179,721	-	179,721
Inheritance.....	314,141	105,624	419,765
Cigarette.....	66,667	-	66,667
Other.....	20,381	-	20,381
Total.....	<u>\$ 1,917,160</u>	<u>\$ 1,205,778</u>	<u>\$ 3,122,938</u>

Taxes receivable reported on the Balance Sheet for Governmental Funds at June 30, 2011 consisted of the following (amounts in thousands):

Fund Balance Sheets

<u>General Fund</u>					<u>Motor License Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Fiduciary Funds</u>
Expected to be Collected:							
From					Collected by	Collected by	Collected by
September 1, 2011							
By	through	After	Total				
<u>August 31, 2011</u>	<u>June 30, 2012</u>	<u>June 30, 2012</u>	<u>Total</u>	<u>August 31, 2011</u>	<u>August 31, 2011</u>	<u>August 31, 2011</u>	
Sales and use....	\$ 551,306	\$ 104,904	\$ 203,351	\$ 859,561	-	-	\$ 24,431
Personal income	240,609	189,855	376,359	806,823	-	-	-
Corporation.....	27,745	221,831	520,444	770,020	-	-	-
Liquid fuels.....	-	-	-	-	179,721	-	-
Inheritance.....	126,760	187,381	105,624	419,765	-	-	-
Cigarette.....	66,667	-	-	66,667	-	-	-
Other.....	381	-	-	381	-	20,000	2,131
Total.....	<u>\$ 1,013,468</u>	<u>\$ 703,971</u>	<u>\$ 1,205,778</u>	<u>\$2,923,217</u>	<u>\$ 179,721</u>	<u>\$ 20,000</u>	<u>\$ 26,562</u>

On the governmental funds balance sheet, the **General Fund** taxes receivable of \$1,909,749 expected to be collected after August 31, 2011 is reported as an unearned revenue liability. The total amount of taxes receivable reported on the governmental funds balance sheet, \$1,917,160 (\$1,717,439 reported in the **General Fund**, \$179,721 reported in the **Motor License Fund**, and \$20,000 reported in nonmajor governmental funds), expected to be collected from July 1, 2011 through June 30, 2012 is also reported as current taxes receivable in governmental activities on the Statement of Net Assets. The remaining **General Fund** taxes receivable of \$1,205,778 reported on the governmental funds balance sheet expected to be collected after June 30, 2012 is reported as noncurrent taxes receivable in governmental activities on the Statement of Net Assets. All of the revenue associated with the taxes receivable reported in governmental activities on the Statement of Net Assets is reported as tax revenue in governmental activities on the Statement of Activities (amounts in thousands).

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

Loans Receivable: Loans receivable at June 30, 2011 consisted of the following (amounts in thousands):

	<u>Primary Government</u>			Discretely Presented Component Units
	<u>Governmental Activities</u>	<u>Business Type Activities</u>		
	<u>General Fund</u>	<u>Capital Projects Funds</u>	<u>Enterprise Funds</u>	
Mortgage loans.....	\$ -	\$ -	\$ -	\$ 5,028,512
Student loans.....	-	-	-	8,615,131
Economic development loans.....	27,298	-	230,179	773,606
Drinking water, storm water and sewer system loans.....	-	65,440	-	2,263,050
Volunteer fire company loans.....	-	-	97,138	-
Environmental program loans.....	8,413	-	-	-
Other notes and loans.....	110	-	-	8,837
	<u>35,821</u>	<u>65,440</u>	<u>327,317</u>	<u>16,689,136</u>
Less: allowance for uncollectible amounts.....	15,255	4,365	34,969	314,263
Loans receivable, net.....	<u>\$ 20,566</u>	<u>\$ 61,075</u>	<u>\$ 292,348</u>	<u>\$ 16,374,873</u>

The **General Fund** reported \$16,256 in loans due after June 30, 2012, Capital Projects funds reported \$58,268 in loans due after June 30, 2012 and the Enterprise funds reported \$239,438 in loans due after June 30, 2012. Discretely presented component units reported \$14,996,654 in loans receivable due after June 30, 2012 (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 unearned revenue equal to the principal lease payments to be received are recorded in the Capital Debt Fund. At June 30, 2011 the total remaining minimum lease payments to be received were \$493, consisting of principal present value of \$427 and interest of \$66 (amounts in thousands).

The Philadelphia Regional Port Authority, a discretely presented component unit, reported a lease rental receivable of \$953 at June 30, 2011 (amounts in thousands).

Minimum lease payments receivable from prior years and for the fiscal year succeeding June 30, 2011 are as follows (amounts in thousands):

<u>Fiscal Year Ending June 30</u>	<u>Primary Government</u>	<u>Discretely Presented Component Units</u>
Prior years	\$ 493	\$ -
2012.....	-	953

All amounts receivable are due by June 30, 2012.

Governmental Funds Unearned Revenue: The **General Fund**, Special Revenue Funds, and Debt Service Funds reported unearned revenue at June 30, 2011. The following chart provides the portion of total unearned revenue which was 1) unavailable or 2) not yet earned as of June 30, 2011 (amounts in thousands):

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

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
Unavailable.....	\$ 2,212,299	\$ 162,923	\$ -
Unearned.....	<u>67,184</u>	<u>46,012</u>	<u>3,649</u>
Total unearned revenue.....	<u>\$ 2,279,483</u>	<u>\$ 208,935</u>	<u>\$ 3,649</u>

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS

Statement of Net Assets

Internal Balances

In the Statement of Net Assets, reported internal balances of (\$108,644)/\$108,989 for governmental activities/business-type activities differ by \$345 because the **State Workers' Insurance Fund**, an Enterprise Fund, reports for its fiscal year ended December 31, 2010 (amounts in thousands).

Fund Financial Statements

Interfund Balances

The composition of governmental and proprietary funds interfund balances reported at June 30, 2011 is as follows, with Major Fund titles in bold. Aggregate nonmajor governmental funds receivables from other funds and from component units, respectively, amount to \$107,073 and \$4,635; aggregate nonmajor enterprise funds receivables amount to \$7,396 and \$0; aggregate internal service funds receivables amount to \$33,616 and \$278 (amounts in thousands):

FUND TYPE/FUND PRIMARY GOVERNMENT	DUE FROM		DUE TO	
	OTHER FUNDS	COMPONENT UNITS	OTHER FUNDS	COMPONENT UNITS
General Fund	\$ 45,229	\$ 1,007	\$ 137,664	\$ 1,741
<u>Special Revenue:</u>				
Motor License Fund	18,284	7	56,501	8,851
Tobacco Settlement Fund	-	-	334	-
Public Transportation Trust Fund.....	46,644	-	10	-
Gaming Fund.....	2	3,334	982	-
Vocational Rehabilitation Fund.....	-	-	7,419	-
Emergency Medical Services Operating Fund.....	2,225	-	-	-
Agricultural Conservation Easement Purchase Fund.....	12,934	-	-	-
Fish and Boat Fund.....	1,712	-	2,633	13
Other Funds.....	2,890	-	2,609	14
	<u>84,691</u>	<u>3,341</u>	<u>70,488</u>	<u>8,878</u>
<u>Capital Projects:</u>				
Capital Facilities Fund.....	25,734	1,301	17,023	-
Keystone Recreation, Park and Conservation Fund.....	5,075	-	28	-
Public Transportation Assistance Fund.....	9,857	-	848	-
	<u>40,666</u>	<u>1,301</u>	<u>17,899</u>	<u>-</u>
<u>Enterprise:</u>				
Unemployment Compensation Fund	6,244	801	71	-
State Lottery Fund	38	-	581	-
Tuition Payment	-	-	7	-
State Stores Fund.....	24	-	8,782	-
Rehabilitation Center Fund.....	7,181	-	48	-
Other Funds.....	191	-	43	-
	<u>13,678</u>	<u>801</u>	<u>9,532</u>	<u>-</u>
<u>Internal Service:</u>				
Purchasing Fund.....	26,997	275	3,747	17
Manufacturing Fund.....	6,619	3	214	-
	<u>33,616</u>	<u>278</u>	<u>3,961</u>	<u>17</u>
<u>Fiduciary - Pension Trust:</u>				
State Employees' Retirement System.....	8,614	5,654	-	-
Deferred Compensation Fund.....	-	-	124	-
Public School Employees' Retirement System.....	6,813	-	10,887	-
	<u>15,427</u>	<u>5,654</u>	<u>11,011</u>	<u>-</u>
Total primary government.....	<u>\$ 233,307</u>	<u>\$ 12,382</u>	<u>\$ 250,555</u>	<u>\$ 10,636</u>

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

DISCRETELY PRESENTED COMPONENT UNITS	DUE FROM		DUE TO	
	PRIMARY GOVERNMENT	COMPONENT UNITS	PRIMARY GOVERNMENT	COMPONENT UNITS
Pennsylvania Turnpike Commission.....	\$ 6,039	\$ -	\$ -	\$ -
Pennsylvania Housing Finance Agency.....	-	18	16	44
Pennsylvania Higher Education Assistance Agency.....	-	-	202	-
Pennsylvania Infrastructure Investment Authority.....	-	44	79,358	18
State System of Higher Education.....	777	-	2,305	-
Commonwealth Financing Authority.....	1,230	-	612	-
Pennsylvania Convention Center Authority.....	-	-	3,334	-
Other component units.....	-	-	40	-
Total component units.....	<u>\$ 8,046</u>	<u>\$ 62</u>	<u>\$ 85,867</u>	<u>\$ 62</u>

The amount of total reported interfund receivables of \$253,797 does not agree with total reported interfund payables of \$347,120 at June 30, 2011 due to different fiscal year ends and reporting differences for certain Funds included in the Fund Financial Statements at June 30, 2011. The amount reported for the Pennsylvania Turnpike Commission, a discretely presented component unit, is reported at its fiscal year ended May 31, 2011; the amounts reported as interfund balances for the State Employees' Retirement System and Deferred Compensation Fund, Pension Trust Funds, the INVEST Program for Local Governments, an Investment Trust Fund, and the **State Workers' Insurance Fund**, an Enterprise Fund, are reported at their fiscal years ended December 31, 2010. The following presents a reconciliation of interfund balances reported at June 30, 2011 and those amounts that would have been reported if all Funds reported at the same fiscal year end (amounts in thousands):

	Governmental Funds	Proprietary Funds	Fiduciary Funds	Component Units	Total
Due from other funds.....	\$ 169,818	\$ 40,154	\$ 5,376	\$ -	\$ 215,348
Due from pension trust funds.....	768	7,140	10,051	-	17,959
Due from component units.....	5,649	1,079	5,654	62	12,444
Due from primary government.....	-	-	-	8,046	8,046
Total.....	<u>\$ 176,235</u>	<u>\$ 48,373</u>	<u>\$ 21,081</u>	<u>\$ 8,108</u>	<u>\$ 253,797</u>
Reported Interfund Receivables.....					\$ 253,797
State Employees' Retirement System decrease in receivables from January 1, 2011 through June 30, 2011.....					(3,278)
Pennsylvania Turnpike Commission increase in receivables from June 1, 2011 through June 30, 2011.....					2,589
State Workers' Insurance Fund increase in receivables from January 1, 2011 through June 30, 2011.....					628
Interfund receivables reported as taxes receivable and accounts receivable by fiduciary funds.....					9,422
Payroll accrual at June 30, 2011 - receivables attributable to State Employees' Retirement System.....					16,316
General Fund receivable from Pennsylvania Infrastructure Investment Authority (full accrual).....					79,208
Reconciled Interfund Receivables.....					<u>\$ 358,682</u>

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

	Governmental Funds	Proprietary Funds	Fiduciary Funds	Component Units	Total
Due to other funds.....	\$ 197,672	\$ 12,765	\$ 932	\$ -	\$ 211,369
Due to pension trust funds.....	28,379	728	10,079	-	39,186
Due to component units.....	10,619	17	-	62	10,698
Due to primary government.....	-	-	-	85,867	85,867
Total.....	<u>\$ 236,670</u>	<u>\$ 13,510</u>	<u>\$ 11,011</u>	<u>\$ 85,929</u>	<u>\$ 347,120</u>
Reported Interfund Payables.....					\$ 347,120
State Employees' Retirement System increase in payables from January 1, 2011 through June, 30, 2011.....					4,929
Deferred Compensation Fund decrease in payables from January 1, 2011 through June,30, 2011.....					(117)
Pennsylvania Turnpike Commission increase in payables from June 1, 2011 through June 30,2011.....					90
State Workers' Insurance Fund increase in payables from January 1, 2011 through June 30, 2011.....					164
INVEST Program for Local Governments increase in payables from January 1, 2011 through June 30, 2011.....					33
Interfund payables reported as accounts payable by component units.....					2
Interfund payables reported as accounts payable by fiduciary funds.....					6,461
Reconciled Interfund Payables.....					<u>\$ 358,682</u>

Advances – Fund Financial Statements

At June 30, 2011 the **General Fund** reported Advances to Other Funds of \$114,475. Specifically, this amount has been advanced as follows: \$2,300 to the **State Workers' Insurance Fund** and \$110,000 to the State Stores Fund, Enterprise Funds; and, \$2,175 to the **Motor License Fund**, a Special Revenue 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 \$2,180 at its fiscal year ended December 31, 2010. At June 30, 2011 the Workers' Compensation Security Fund and the Hazardous Sites Cleanup Fund, Special Revenue Funds, reported Advances to Other Funds of \$1,500 and \$3,000, respectively; these amounts were advanced to the **General Fund** and the Small Business First Fund, an Enterprise Fund. Additionally, the Pennsylvania Infrastructure Bank Fund, an Enterprise Fund, reported an advance of \$1,400; the amount was advanced to the **Motor License Fund**, a Special Revenue Fund. All amounts advanced, with exception to a \$493 repayment from the **Motor License Fund** to the Pennsylvania Infrastructure Bank Fund, are expected to be repaid subsequent to June 30, 2012. The Underground Storage Tank Indemnification Fund, an Agency Fund, reported a \$67,500 statutory advance to the **General Fund** at June 30, 2011; no repayment is expected to occur during the fiscal year ending June 30, 2012 (amounts in thousands).

General Appropriation Act 1-A and Act 46 of 2010

During July 2010, the General Appropriation Act 1-A (Act 1-A) and Act 46 of 2010 (Act 46) included routine, annual amendments to the Fiscal Code and amended other laws to implement the **General Fund** budget for the fiscal year ended June 30, 2011, which was adopted during July 2010. Act 46 mandated several non-routine transfers to the **General Fund**, following, during the fiscal year ended June 30, 2011 (amounts in thousands):

Tobacco Settlement Fund	\$ 371,000
Oil and Gas Lease Fund	180,000
Keystone Recreation, Park and Conservation Fund	9,227
Emergency Medical Services Operating Fund.....	5,000
Small Business First Fund.....	4,000
Local Government Capital Project Loan Fund.....	1,000
Motor License Fund	800
	<u>\$ 571,027</u>

Transfers

A summary of transfers reported for the fiscal year ended June 30, 2011 is as follows, with Major Fund titles in bold. Aggregate nonmajor governmental fund transfers from other funds amounted to \$1,281,503 during the fiscal year ended June 30, 2011; aggregate nonmajor governmental fund transfers to other funds amounted to \$564,561. Aggregate nonmajor proprietary fund transfers from other funds amounted to \$48, while aggregate nonmajor proprietary fund transfers to other funds amounted to \$111,674 (amounts in thousands).

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

	TRANSFERS	
	IN	OUT
PRIMARY GOVERNMENT		
General Fund.....	\$ 1,063,293	\$ 1,023,268
<u>Special Revenue:</u>		
Motor License Fund.....	-	62,725
Tobacco Settlement Fund.....	-	411,856
Workers' Compensation Administration Fund.....	-	2,200
Environmental Stewardship Fund.....	-	41,814
Public Transportation Trust Fund.....	109,679	-
Gaming Fund.....	-	286,216
Vocational Rehabilitation Fund.....	40,473	-
Agricultural Conservation Easement Purchase Fund.....	4,645	-
State Farm Products Show Fund.....	2,605	-
Self-Insurance Guaranty Fund.....	2,200	-
Recycling Fund.....	1,000	1,250
Oil and Gas Lease Fund.....	-	197,575
Hazardous Sites Cleanup Fund.....	-	5,000
Emergency Medical Services Operating Fund.....	-	5,000
Other Funds.....	1,543	122
	<u>162,145</u>	<u>1,013,758</u>
<u>Debt Service:</u>		
Disaster Relief Redemption Fund.....	163	-
Pennsylvania Infrastructure Investment Authority Redemption Fund.....	5,122	-
Capital Debt Fund.....	1,049,927	-
Pennsylvania Economic Revitalization Sinking Fund.....	503	-
Water Facilities Loan Redemption Fund.....	1,852	-
Land and Water Development Sinking Fund.....	241	-
Growing Greener Bond Sinking Fund.....	37,169	-
Water Supply and Wastewater Treatment Sinking Fund.....	13,920	-
Water and Sewer Assistance Bond Sinking Fund.....	9,207	-
Other Funds.....	1,254	-
	<u>1,119,358</u>	<u>-</u>
<u>Capital Projects:</u>		
Keystone Recreation, Park and Conservation Fund.....	-	9,227
Local Criminal Justice Fund.....	-	1
Public Transportation Assistance Fund.....	-	16,156
	<u>-</u>	<u>25,384</u>
<u>Enterprise:</u>		
Unemployment Compensation Fund.....	-	6,000
State Lottery Fund.....	165,900	288,199
State Stores Fund.....	-	106,674
Small Business First Fund.....	-	4,000
Pennsylvania Infrastructure Bank Fund.....	48	-
Local Government Capital Project Loan Fund.....	-	1,000
	<u>165,948</u>	<u>405,873</u>
Total transfers, fund financial statements.....	2,510,744	2,468,283
Less: net elimination of governmental fund transfers.....	2,228,358	2,228,358
Less: Medical Care Availability and Reduction of Error Fund transfers to General Fund.....	42,461	-
Total transfers, Statement of Activities.....	<u>\$ 239,925</u>	<u>\$ 239,925</u>

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

Assigned Investment Income: During the fiscal year ended June 30, 2011, certain assigning 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 (amounts in thousands):

<u>Assigning Fund</u>	<u>Receiving Fund</u>	<u>Reason</u>	<u>Amount</u>
Liquor License Fund	General Fund	Legal/contractual	\$ 6
Liquid Fuels Tax Fund	Motor License Fund	Legal/contractual	28
Land and Water Development Fund	Land and Water Development Sinking Fund	Legal/contractual	2
Remining Financial Assurance Fund	Land and Water Development Sinking Fund	Other than legal/contractual	367
Fire Insurance Tax Fund	State Insurance Fund	Legal/contractual	103
Fire Insurance Tax Fund	Municipal Pension Aid Fund	Legal/contractual	30

Primary Government Transactions with Discretely Presented Component Units

Financial Support Provided to:

Major Discretely Presented Component Units

During the fiscal year ended June 30, 2011 (May 31, 2011 for PA Turnpike Commission), the Commonwealth provided financial support to major discretely presented component units, reported by the component units as follows (amounts in thousands):

State System of Higher Education (appropriations, grants and contracts, ARRA state fiscal stabilization funds)	\$ 605,728
PA Higher Education Assistance Agency (grants).....	450,661
PA Turnpike Commission (capital contributions).....	88,996
PA Infrastructure Investment Authority (capital contributions).....	50,673
PA Housing Finance Agency (program income and fees).....	10,476

Nonmajor Discretely Presented Component Units

During the fiscal year ended June 30, 2011, the Commonwealth provided financial support to nonmajor component units by appropriations, as follows (amounts in thousands):

Ben Franklin Technology Development Authority.....	\$ 16,861
Thaddeus Stevens College of Technology (includes ARRA state fiscal stabilization funds).....	10,876
Port of Pittsburgh Commission.....	724

During the fiscal year ended June 30, 2011, the Commonwealth provided financial support in the amount \$156,945 to the Commonwealth Financing Authority; the support included \$78,480 in **General Fund** appropriations and \$78,465 from the Gaming Fund for payment of debt service and approved project funding. The Commonwealth provided \$86,028 to the PA Convention Center Authority, under a delegation agreement, during the fiscal year ended June 30, 2011. Additionally, the Commonwealth provided financial support to the Philadelphia Regional Port Authority during the fiscal year ended June 30, 2011; the Philadelphia Regional Port Authority categorized the support among governmental appropriations, capital appropriations and contributions, and transfers in. For the fiscal year ended June 30, 2011, the Philadelphia Regional Port Authority’s reported revenues include about \$30,000 of financial support from the Commonwealth (amounts in thousands).

Financial Support Provided to the Commonwealth

During its fiscal year ended May 31, 2011, the PA Turnpike Commission incurred additional debt in order to provide \$200,000 to the **Motor License Fund** and \$250,000 to the Public Transportation Trust Fund under the statutory provisions of Act 44 of 2007 and the related Lease and Funding Agreement between the PA Turnpike Commission and the Commonwealth. Additionally, during the fiscal year ended June 30, 2011, the Commonwealth Financing Authority provided \$25,000 to the **General Fund** under the provisions of Act 1 of Special Session 1 of 2008 (amounts in thousands).

NOTE I - PENSION 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. The SERS and the PSERS issue stand-alone, audited financial statements are available at www.sers.state.pa.us and www.psers.state.pa.us. Written requests for SERS or PSERS financial statements should be directed to the following addresses:

State Employees' Retirement System
30 North Third Street, Suite 150
Harrisburg, PA 17101-1716

Public School Employees' Retirement System
Bureau of Communications
P.O. Box 125
Harrisburg, PA 17108-0125

State Employees' Retirement System

Plan Description: The SERS is the administrator of a cost-sharing multiple-employer defined benefit retirement plan established to provide pension benefits for Commonwealth employees and certain other organizations. At December 31, 2010 there were 108 employer state agencies and other organizations participating in the SERS.

Retirement Benefits: Article II of the Pennsylvania Constitution provides the General Assembly the authority to establish and amend plan benefit provisions. The SERS provides retirement, death, and disability benefits. Retirement benefits generally vest after five 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.

Most members of the SERS, and all covered employees hired after June 30, 2001 (except State Police officers and certain members of the judiciary and legislators), are Class AA members, pursuant to Act 2001-9 (Act 9), signed into law on May 17, 2001. Among other things, Act 9 provides for general annual retirement benefits of 2.5 percent of the member's highest three-year average salary (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. For legislators in office on May 17, 2001 Act 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 highest three-year salary multiplied by years of service.

Funding Policy: Commonwealth law establishes all member contribution rates. The active plan member contribution rate is 6.25 percent of covered payroll for employees in Class AA; for Class A members, the contribution rate is 5 percent. Higher contributions are required for certain members of the General Assembly and judges and district justices who elect higher contribution rates. 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. The employer contribution rates are established on a periodic basis and are intended to provide employer contributions which, when combined with member contributions and investment returns, are adequate to accumulate assets to pay benefits when due.

Act 9 provided that new benefits arising therefrom 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 be combined and amortized 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, Act 2003-40 (Act 40) was signed into law. The significant provisions of the law were to change certain actuarial methods and periods used to amortize actuarial assets and liabilities, as follows: Pre-Act 9 funding credit, ten years; Act 9 liability, 30 years; post-2000 gains and losses, 30 years; and, existing and future cost of living adjustments, ten years.

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Also, pursuant to Act 40, beginning July 1, 2005, the SERS established employer contribution rates which resulted in total 2005 through 2010 employer contributions which were lower than the minimum annual required contribution as defined by GASB Statement No. 25. Since the SERS is a cost-sharing multiple-employer defined benefit retirement system and all SERS-required employer contributions were made, no unfunded pension liability is reported by the Commonwealth as of June 30, 2011. Act 8 of 2007 established a permanent, minimum employer contribution rate ‘floor’ of 4 percent. Act 120 of 2010 established a fresh start amortization of the December 31, 2009 unfunded liability over a 30-year period beginning July 1, 2010 and ending June 30, 2040.

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

<u>Year ended December 31</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2010	\$ 866,822	31.4
2009	\$ 643,861	39.1
2008	\$ 584,248	39.9

At December 31, 2010, 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: Investments are reported at fair value, which is the amount that the SERS 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. The investments in short-term funds, including those managed by the State Treasurer, are reported at cost plus allocated interest, which approximates fair value. The securities lending collateral pool, which is a fund operated by the securities lending agent, also is reported at cost plus accrued interest, which approximates fair value. U.S. government securities, corporate and foreign bonds and notes, common and preferred stocks, and the underlying holdings in funds-of-hedge funds (reported as part of alternative investments), 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. Foreign exchange and futures contracts are marked-to-market daily with changes in fair value recognized as part of investments and investment income. Real estate investments, which are subject to annual independent audits, are primarily valued based on independent appraisals. Properties that have not been appraised are valued using the present value of the projected future net income stream. Alternative investments, which are subject to an annual independent audit, include interests in limited partnerships invested in venture capital, leveraged buyouts, private equities, and other investments, are valued based on estimated fair value established by valuation committees.

The collective trust funds (CTF) consist 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. The CTF is subject to an annual independent audit.

Unsettled investment sales are reported as investment proceeds receivable and unsettled investment purchases are reported as investment purchases payable. Investment expenses consist of investment managers’ fees and those expenses directly related to the SERS’ investment operations.

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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, 2011 there were 756 participating employers, generally school districts. In relation to the PSERS, the Commonwealth is a non-employer contributor organization.

Benefits: The PSERS provides retirement, disability retirement, death 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. 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 the member’s number of years of credited service. The Commonwealth has the authority to establish or amend benefit provisions.

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 rates 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, charter schools, 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 during 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. Act 120 of 2010 suppressed the employer contribution rate by using rate caps in future years to keep the rate from rising too high, too fast for budgetary purposes. The rate caps limit the amount the pension component of the employer contribution rate can increase over the prior years’ rates as follows:

- FY 2012 – not more than 3% plus the premium assistance contribution rate
- FY 2013 – not more than 3.5% plus the premium assistance contribution rate
- FY 2014 – not more than 4.5% plus the premium assistance contribution rate

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

Fiscal year Ended June 30	Annual Required Contribution	Percentage Contributed
2011	\$ 2,436,602	27
2010	\$ 1,928,278	27
2009	\$ 1,761,295	29

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

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

and employer contributions are recognized in the period for 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 published market prices or quotations from national security exchanges or securities pricing services, in which case they are reported at the published market price. Fixed income securities and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges or 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.

Directly-owned real estate investments are primarily valued based on appraisals performed by independent appraisers and, for properties not appraised, the present value of the projected future net income. Real estate owned investments are reported net of related debt borrowed against the market value of the property. As of June 30, 2011 line of credits advances amounting to \$132 million were netted against the related property valuation.

Alternative investments, which include private equity, private debt, venture capital and equity real estate, are primarily valued based on amounts established by valuation committees; such amounts include cash flow activity through fiscal year-end. 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. Investments that are not subject to this oversight are subject to annual independent audits.

Other Postemployment Benefits**Primary Government**

The Commonwealth established and sponsors two primary plans which provide postemployment benefits other than pensions (OPEB). These two plans are the Retired Employees Health Program (REHP) and the Retired Pennsylvania State Police Program (RPSPP). These two plans are administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF), which acts as a third-party administrator and administers the REHP and RPSPP under an administrative agreement with the Commonwealth. Both plans are single employer defined benefit OPEB plans. Nearly all Commonwealth agencies and several discretely presented component units participate in the REHP. The Pennsylvania Judiciary (Judiciary), Pennsylvania House of Representatives (House), and the Pennsylvania Senate (Senate) have established and sponsor their own OPEB plans. All OPEB plans and benefit provisions therein have been established under pertinent statutory authority. The REHP is provided, in part, as a part of collective bargaining agreements with most Commonwealth labor unions. The RPSPP is provided as a part of collective bargaining agreements with certain Commonwealth labor unions.

Benefit provisions included in the REHP, RPSPP, Judiciary, House, and Senate plans are established and may be amended by the establishing sponsor of the given OPEB plan. Each OPEB plan provides postemployment healthcare benefits and, to varying degrees, some of the non-REHP OPEB plans provide specific dental, hearing, vision, life insurance, long term disability and long term care benefits. Among the different OPEB plans, the REHP is the largest of such plans and provides only postemployment healthcare benefits. None of the OPEB plans 1) issues a stand-alone financial report nor 2) is included in the financial statements of a public employee retirement system.

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

REHP contribution requirements are established by the Office of Administration and the Governor’s Budget Office. All employing agencies and certain plan members must contribute specified amounts to the REHP. During the fiscal year ended June 30, 2011, almost all employing agencies contributed \$200 (whole dollars) for each current, active employee per biweekly pay period to fund the REHP. Several employing agencies contribute under comparable payment arrangements. Effective July 1, 2003 certain changes to prescription formulary and certain member co-payment costs were made. Beginning July 1, 2004 other periodic changes to both member contributions and REHP benefits were made. Starting July 1, 2005, REHP plan members with membership dates after June 30, 2004 contribute between 1.0 percent and 2.0 percent of their final salary, based on REHP enrollment date. In February 2008 a three tiered prescription REHP member copayment was introduced and in May 2008 a Medicare Private Fee-For-Service plan for REHP was started. In January 2011, the majority of REHP Medicare-eligible members were enrolled in Medicare HMO or Medicare PPO medical plans.

RPSPP contribution requirements are established within collective bargaining agreements. During the fiscal year ended June 30, 2011 employing agencies contributed \$600 (whole dollars) for each current, active employee per biweekly pay period to fund the RPSPP. RPSPP plan members are not required to make contributions.

The REHP and RPSPP funding rates needed to fund ongoing annuitant health care costs are established as part of the Commonwealth’s annual budgeting process. During the fiscal year ended June 30, 2011, the Commonwealth funded \$598.34 million and \$66.35 million of annuitant health care claims and administrative costs for the REHP and RPSPP, respectively. Any additional contributions to advance fund annuitant health care costs are determined annually by the Commonwealth. During the fiscal year ended June 30, 2008, advance funding of \$60 million for the REHP and \$50.8 million for the RPSPP was contributed to the Other Postemployment Benefits Investment Pool, a Pension (and Other Employee Benefit) Trust Fund. No such additional, advance contributions were made during the fiscal years ended June 30, 2011, 2010 or 2009.

Annual OPEB cost and actual contributions – primary government OPEB plans:

As of and for the fiscal year ended						
June 30, 2011	REHP	RPSPP	Judiciary	House	Senate	Total
Annual required contributions.....	\$879.210	\$158.330	\$35.958	\$41.327	\$17.698	\$1,132.523
Interest on net OPEB obligation.....	32.400	9.200	2.846	3.768	2.375	50.589
Adjustment to annual required contribution..	-28.450	-8.080	-2.521	-5.140	-2.015	-46.206
Annual OPEB cost (expense).....	883.160	159.450	36.283	39.955	18.058	1,136.906
Qualifying contributions.....	-598.340	-66.350	-21.190	-12.009	-6.171	-704.060
Increase in net OPEB obligation.....	284.820	93.100	15.093	27.946	11.887	432.846
Net OPEB obligation, July 1, 2010.....	647.956	184.030	56.917	83.729	52.778	1,025.410
Net OPEB obligation, June 30, 2011.....	<u>\$932.776</u>	<u>\$277.130</u>	<u>\$72.010</u>	<u>\$111.675</u>	<u>\$64.665</u>	<u>\$1,458.256</u>

(amounts in millions)

For the primary government, for all OPEB plans, total qualifying contributions of \$704.06 during the fiscal year ended June 30, 2011 in relation to the total annual OPEB cost of \$1,136.91 for the fiscal year, resulted in an increase in prior year OPEB obligations of \$432.85 and an unfunded OPEB liability of \$1,458.26 (in millions) is reported as of June 30, 2011. The net OPEB obligation attributable to REHP at June 30, 2011 is allocated among all REHP-participating employers. Several REHP-participating employer organizations are not financially reported as part of the Commonwealth’s financial reporting entity or are reported as discretely presented component units. Percentage of annual OPEB cost contributed during the fiscal years ended June 30, 2011, 2010 and 2009 (transition year) is as follows (dollar amounts in millions):

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

	REHP	RPSPP	Judiciary	House	Senate	Total
For the fiscal year ended June 30, 2011						
Annual OPEB cost.....	\$883.160	\$159.450	\$36.283	\$39.955	\$18.058	\$1,136.906
Percentage of annual OPEB cost contributed.....	67.750	41.612	58.402	30.056	34.173	61.928
Net OPEB obligation.....	\$932.776	\$277.130	\$72.010	\$111.675	\$64.665	\$1,458.256
For the fiscal year ended June 30, 2010						
Annual OPEB cost.....	\$850.440	\$151.730	\$34.482	\$37.305	\$17.217	\$1,091.174
Percentage of annual OPEB cost contributed.....	60.608	40.875	52.288	27.021	32.869	56.015
Net OPEB obligation.....	\$647.956	\$184.030	\$56.917	\$83.729	\$52.778	\$1,025.410
For the fiscal year ended June 30, 2009						
Annual OPEB cost.....	\$818.510	\$143.390	\$38.598	\$37.778	\$26.443	\$1,064.719
Percentage of annual OPEB cost contributed.....	61.766	38.057	47.570	23.654	19.661	55.660
Net OPEB obligation.....	\$312.950	\$94.320	\$40.465	\$56.504	\$41.220	\$545.459

Funded status of the OPEB plans as of the most recent valuation is as follows (dollar amounts in millions):

OPEB Plan	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio (assets as % of AAL)	Estimated Annual Covered Payroll	UAA as a Percentage of Annual Covered Payroll
REHP.....	July 1, 2011	\$70.740	\$12,907.790	\$12,837.050	0.548	\$3,839.000	334.4
RPSPP.....	July 1, 2011	59.900	2,492.280	2,432.380	2.403	447.000	544.2
Judiciary.....	July 1, 2010	-	442.300	442.300	-	196.300	225.3
House.....	July 1, 2010	-	352.269	352.269	-	96.164	366.3
Senate.....	July 1, 2010	-	222.167	222.167	-	48.446	458.6
Total primary government.....		\$130.640	\$16,416.806	\$16,286.166	0.796	\$4,626.910	352.0

The REHP and RPSPP data in the preceding charts was obtained from an actuarial valuation, prepared by an independent actuary, as of July 1, 2011 using census data collected as of December 2010 and health care claims costs for calendar year 2010. The valuation measurements result, in part, from estimates of the value of reported amounts and assumptions about the probability of events far into the future and such actuarially determined estimates are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Also, the valuation measurements are based, in part, on the types of benefits provided under the terms of the substantive plan at the time of the valuation and on the pattern of sharing of costs between the Commonwealth and its employing agencies and the plan members through July 1, 2011. Inherently, the projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial measurements were made using a long-term perspective and, consistent with that perspective, the different actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in both actuarial accrued liabilities and the actuarial value of assets.

Specific actuarial assumptions for the REHP and RPSPP:

Actuarial cost method:	Projected Unit Credit
Method used to determine actuarial value of assets:	Fair Value
Investment returns:	4.75 percent

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Healthcare cost trend increases:	Initial Rate		Ultimate Rate	
	REHP	RPSPP	REHP	RPSPP
Medicare-Retiree				
Medical Benefits (REHP)	10.0	--	4.75	--
Non-Medicare Retiree				
Medical Benefits (REHP)	7.5	--	4.75	--
Medical Benefits (RPSPP)	--	7.0	--	4.75
Pharmacy Benefits	6.0	6.0	4.75	4.75
Dental Benefits (RPSPP)	--	6.0	--	4.75
Part B Premiums	--	3.7	--	4.75

Amortization method:	Level percent of payroll
Amortization period:	30 year open amortization (fresh start each year)

Schedules of Funding Progress and Employer Contributions for primary government OPEB plans are included in Required Supplementary Information, immediately following the Notes to the Financial Statements, and include three fiscal years of information about whether the actuarial value of plan assets is increasing or decreasing in relation to the actuarial accrued liability for benefits.

Discretely Presented Component Units

Each discretely presently component unit with employees participates in the Commonwealth’s REHP except for the Pennsylvania Turnpike Commission (PTC) and the Pennsylvania Housing Finance Agency, which have both established and sponsor their own, separate OPEB plans. The State System of Higher Education (SSHE), another discretely presented component unit, participates in the REHP, for certain employees, as well as its own, separate SSHE OPEB plan. All separate, non-REHP plans, have been established under pertinent statutory authority. All benefit provisions and contributions are established by the plan sponsors. Net OPEB obligations (assets) are reported at June 30, 2011 (May 31, 2011 for the PTC) as follows:

As of and for the fiscal year ended June 30, 2011	PA Turnpike Commission	PA Housing Finance Agency	State System of Higher Education	Total
Annual required contributions.....	\$25.676	\$4.318	\$109.339	\$139.333
Interest on net OPEB obligation.....	1.027	0.417	32.516	33.960
Adjustment to annual required contribution.....	0.027	(0.569)	(35.732)	(36.274)
Annual OPEB cost (expense).....	26.730	4.166	106.123	137.019
Qualifying contributions.....	(28.505)	(0.564)	(37.245)	(66.314)
Increase in net OPEB obligation/(asset).....	(1.775)	3.602	68.878	70.705
Net OPEB obligation/(asset), July 1, 2010.....	(1.764)	9.686	722.574	730.496
Net OPEB obligation/(asset), June 30, 2011....	<u>(\$3.539)</u>	<u>\$13.288</u>	<u>\$791.452</u>	<u>\$801.201</u>

(amounts in millions)

As of and for the fiscal year ended June 30, 2011	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio (assets as % of AAL)	Estimated Covered Payroll	UAAL as a Percentage of Covered Payroll
State System of Higher Education.....	-	\$1,315.116	\$1,315.116	-	\$554.213	237.3
PA Turnpike Commission (May 31, 2011).....	\$66.436	263.398	196.962	25.223	123.754	159.2
PA Housing Finance Agency.....	44.969	61.750	16.781	72.824	15.566	107.8

(\$ amounts in millions)

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Additional disclosures for the three OPEB plans are available from the separately-issued audited financial statements of the three discretely presented component unit plan sponsors.

NOTE J - SHORT-TERM DEBT, STUDENT LOAN AUCTION RATE SECURITY BONDS PAYABLE, NOTES PAYABLE AND OTHER FINANCING OBLIGATIONS

Primary Government

Short-Term Debt

During the fiscal year ended June 30, 2011 the Commonwealth issued \$1 billion of tax anticipation notes (TANs) in October 2010 to provide cash to the **General Fund** to permit disbursements in accordance with statutory payment dates and to allow the timely payment of payrolls, vendor invoices and other **General Fund** disbursements in advance of the receipt of tax revenues to the **General Fund**. The Commonwealth retired the TANs on June 30, 2011. A schedule of changes in TANs balances follows (amounts in millions):

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011
Principal	\$ -	\$ 1,000	\$ 1,000	\$ -

On August 4, 2011, the Commonwealth initiated a temporary interfund advance of \$500 million from the Treasury Department’s Short Term Investment Pool to the Capital Facilities Fund, a Capital Projects Fund. As disclosed in Note R to the Financial Statements, repayment was made on October 27, 2011.

Other Financing Obligation

Pursuant to applicable Commonwealth laws, the Underground Storage Tank Indemnification Fund (USTIF), an Agency Fund, advanced \$67,500 to the **General Fund**. There were no borrowings from, or repayments to, the USTIF during the fiscal year ended June 30, 2011, as follows (amounts in thousands):

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011
Principal	\$ 67,500	\$ -	\$ -	\$ 67,500

Discretely Presented Component Units

In December 2010, the Pennsylvania Infrastructure Investment Authority (PENNVEST), a discretely presented component unit, issued the first series of short term obligations to finance the issuance of loans to program participants. These obligations were issued at interest rates ranging from 0.16 percent to 0.32 percent, with the interest due at maturity. During the fiscal year ended June 30, 2011 PENNVEST issued 13 such obligations in the aggregate principal amount of \$275 million and repaid eight of these in the aggregate principal amount of \$190 million. As of June 30, 2011, \$85 million of these obligations remained outstanding. PENNVEST used a letter of credit to finance the \$190 million repayment and repaid all balances owed for the letter of credit during the fiscal year ended June 30, 2011. A schedule of changes in the short-term obligations and the letter of credit follows (amounts in millions):

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011
Notes Payable	\$ -	\$ 275	\$ 190	\$ 85
Letter of Credit	\$ -	\$ 190	\$ 190	\$ -

NOTE J – SHORT-TERM DEBT, STUDENT LOAN AUCTION RATE SECURITY BONDS PAYABLE, NOTES PAYABLE AND OTHER FINANCING OBLIGATIONS (continued)

The Pennsylvania Higher Education Assistance Agency (PHEAA), a discretely presented component unit, has reported \$6,052,338 of auction rate security bonds payable, \$2,674,159 of notes payable (consisting of student loan financings of \$135,800, student loan floating rate notes of \$1,414,811 and student loan variable rate notes of \$1,123,548), and \$127,682 of other obligations (consisting of capital financings of \$62,610 and term financings of \$65,459) at June 30, 2011 as follows (amounts in thousands):

	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2011</u>
Bonds payable:				
Student loan auction rate security bonds, due 2022-2047, at weighted-average rates of 1.23 percent as of June 30, 2011 and 1.28 percent as of June 30, 2010.....	\$ 6,695,900	\$ -	\$ 641,425	\$ 6,054,475
Less: deferred amount on current refunding of student loan auction rate security bonds.....	<u>2,340</u>	<u>-</u>	<u>203</u>	<u>2,137</u>
Total auction rate security bonds payable.....	<u>\$ 6,693,560</u>	<u>\$ -</u>	<u>\$ 641,222</u>	<u>\$ 6,052,338</u>
Notes payable:				
Student loan variable rate funding notes, due 2014-2015, at an estimated weighted-average rate of 0.75 percent as of June 30, 2011 and 0.63 percent as of June 30, 2010.....	\$ 1,316,485	\$ -	\$ 188,841	\$ 1,127,644
Less: deferred amount on current refunding of student loan variable rate funding notes.....	<u>5,681</u>	<u>-</u>	<u>1,585</u>	<u>4,096</u>
Subtotal.....	<u>\$ 1,310,804</u>	<u>\$ -</u>	<u>\$ 187,256</u>	<u>\$ 1,123,548</u>
Student loan floating rate notes, due 2016-2038 at weighted average rates of 0.57 percent as of June 30, 2011 and 0.62 percent as of June 30, 2010.....	\$ 1,595,532	\$ -	\$ 176,708	\$ 1,418,824
Less: deferred amount on current refundings of student loan floating rate notes.....	<u>4,696</u>	<u>-</u>	<u>683</u>	<u>\$ 4,013</u>
Subtotal.....	<u>\$ 1,590,836</u>	<u>\$ -</u>	<u>\$ 176,025</u>	<u>\$ 1,414,811</u>
Student loan financings, due on demand at weighted-average rates of 0.78 percent as of June 30, 2011 and 1.07 percent as of June 30, 2010	<u>\$ 144,000</u>	<u>\$ -</u>	<u>\$ 8,200</u>	<u>\$ 135,800</u>
Total notes payable.....	<u>\$ 3,045,640</u>	<u>\$ -</u>	<u>\$ 371,481</u>	<u>\$ 2,674,159</u>
Capital and other financing obligations:				
Capital acquisition bonds, due 2010 at weighted-average rates of 6.25 percent as of June 30, 2010.....	\$ 61,120	\$ -	\$ 61,120	\$ -
Capital acquisition refunding bonds, due 2011-2030, at weighted-average rates of 5.09 percent as of June 30, 2011 and 2010.....	64,545	-	1,935	62,610
Term financing, due 2029-2030, at zero percent interest as of June 30, 2011 and 2010.....	72,874	-	7,415	65,459
Line of credit, due 2010, at weighted-average rates of 2.76 percent as of June 30, 2010.....	<u>26,000</u>	<u>-</u>	<u>26,000</u>	<u>-</u>
Subtotal.....	<u>\$ 224,539</u>	<u>\$ -</u>	<u>\$ 96,470</u>	<u>\$ 128,069</u>
Less: unamortized discount.....	<u>441</u>	<u>-</u>	<u>54</u>	<u>387</u>
Total capital and other financing obligations.....	<u>\$ 224,098</u>	<u>\$ -</u>	<u>\$ 96,416</u>	<u>\$ 127,682</u>

The note and bond indentures, among other things, require the PHEAA to comply with various covenants. Student loans and investments collateralize all student loan financings, student loan floating rate notes, and student loan demand revenue bonds and auction rate notes. As of June 30, 2011, \$8.6 billion of student loan principal and related interest receivable and

NOTE J – SHORT-TERM DEBT, STUDENT LOAN AUCTION RATE SECURITY BONDS PAYABLE, NOTES PAYABLE AND OTHER FINANCING OBLIGATIONS (continued)

\$281.6 million of cash equivalents and related interest receivable collateralized the \$8.9 billion of student loan financings and notes and bond payable.

The student loan auction rate security bonds, floating rate notes, variable rate funding notes and other term financings are non-recourse obligations to the PHEAA’s unrestricted net assets and to the Commonwealth.

Debt service requirements subsequent to June 30, 2011, based upon stated maturities for student loan bonds and estimated interest payments for variable-rate debt after considering terms renegotiated after June 30, 2011 are as follows (amounts in thousands):

Year of Maturity	Student Loan Bonds and Notes		Other Financing Obligations	
	Principal	Interest	Principal	Interest
2012.....	\$ 135,800	\$ 84,564	\$ 1,965	\$ 3,133
2013.....	-	84,564	2,040	3,031
2014.....	634,482	84,537	2,125	2,924
2015.....	493,161	77,932	2,220	2,814
2016.....	-	76,139	2,315	2,698
2017-21.....	305,979	377,747	13,320	11,561
2022-26.....	252,600	368,507	16,970	7,719
2027-31.....	358,273	352,615	87,114	2,816
2032-36.....	171,500	341,738	-	-
2037-41.....	1,581,597	317,012	-	-
2042-46.....	3,915,501	200,308	-	-
2047-51.....	887,850	9,142	-	-
Total.....	<u>\$ 8,736,743</u>	<u>\$ 2,374,805</u>	<u>\$ 128,069</u>	<u>\$ 36,696</u>
Reported as:				
Auction rate security bonds payable.....	\$ 6,052,338		\$ -	
Add: Deferred amount on current refundings.....	2,137		-	
Total principal owed on student loan				
auction rate security bonds payable.....	6,054,475		-	
Notes payable - current.....	135,800		-	
Notes payable - non-current.....	2,538,359		-	
Add: Deferred amount on current refundings.....	8,109		-	
Other financing obligations, current.....	-		1,965	
Other financing obligations, non-current.....	-		125,717	
Add: Unamortized discount.....	-		387	
Total principal	<u>\$ 8,736,743</u>		<u>\$ 128,069</u>	

The PHEAA reported \$8.7 billion of its total \$8.9 billion of student loan bonds, notes, and financings as variable-rate debt, of which \$5.4 billion resets based upon auctions every 28 days, \$643.1 million resets based upon auctions every 35 days, \$1.5 billion is indexed to the one-month or three-month LIBOR, \$13.8 million is indexed to three-month financial commercial paper and \$1.1 billion is conduit financing. PHEAA notes and bonds payable, as well as all other debt, are limited obligations of the PHEAA payable only from related pledged assets.

In addition to the PHEAA’s reported current notes payable of \$135,800 at June 30, 2011, the Pennsylvania Infrastructure Investment Authority (PENNVEST) reported current notes payable of \$85,000 and the Philadelphia Regional Port Authority (PRPA) reported current notes payable of \$188. Also, in addition to the PHEAA’s reported non-current notes payable of \$2,538,359 at June 30, 2011, component unit organizations of the State System of Higher Education reported non-current notes payable of \$251,799 and the PRPA reported non-current notes payable of \$393. Total reported notes payable, current and non-current, for all discretely presented component units totaled \$220,988 and \$2,790,551, respectively, at June 30, 2011 (amounts in thousands).

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

Long-term obligations of the Commonwealth’s governmental activities at June 30, 2011 and changes therein during the fiscal year ended June 30, 2011 are as follows (amounts in thousands):

GENERAL LONG-TERM OBLIGATIONS	Issue	Interest	Maturity	Bonds	Balance	Additions	Reductions	Balance
	Dates	Rates	Dates	Authorized	July 1, 2010			June 30, 2011
			Through	But Unissued				
General Obligation Bonds Payable From Tax Revenues:								
Capital Facilities.....	1992-10	3.45-6.25%	2030	\$86,441,560	\$ 5,781,060	\$ 560,825	\$ 380,235	\$ 5,961,650
Disaster Relief.....	2001	5.00%	2011	105,908	155	-	155	-
Land and Water Development.....	1992	6.25%	2012	300	695	-	220	475
Nursing Home Loan Development.....	-	-	-	31,000	-	-	-	-
Volunteer Companies Loan.....	1992	6.25%	2012	50,000	225	-	70	155
Vietnam Conflict Veterans								
Compensation.....	-	-	-	3,000	-	-	-	-
Water Facilities Loan.....	1992	6.25%	2012	11,500	5,060	-	1,585	3,475
Pennsylvania Economic Revitalization.....	1992	6.25%	2012	14,000	1,380	-	430	950
Pennsylvania Infrastructure								
Investment Authority.....	1992-10	3.75-6.25%	2030	357,600	237,370	49,400	8,585	278,185
Agricultural Conservation Easement								
Purchase.....	1992	6.25%	2012	-	1,835	-	575	1,260
Local Criminal Justice.....	2001-08	4.00-5.25%	2028	3,000	4,035	-	335	3,700
Water Supply and Wastewater								
Treatment.....	2005-10	.60-5.85%	2030	38,725	158,830	20,275	6,550	172,555
Growing Greener.....	2005-10	3.45-5.85%	2030	121,000	410,380	19,500	17,240	412,640
Persian Gulf Conflict Veterans								
Compensation.....	2008	4.00-5.00%	2028	13,000	5,810	-	220	5,590
Refunding Bonds.....	2002-09	3.00-5.50%	2021	-	3,317,740	-	281,310	3,036,430
Total principal.....				87,190,593	9,924,575	650,000	697,510	9,877,065
Unamortized premium on bonds issued..					789,018	17,435	51,081	755,372
Unamortized deferred net refunded loss.					(214,799)	-	(25,552)	(189,247)
Total general obligation bonds payable..				<u>87,190,593</u>	<u>10,498,794</u>	<u>667,435</u>	<u>723,039</u>	<u>10,443,190</u>
Other General Long-Term Obligations								
Payable From Tax and Other Revenues:								
Installment Purchase Obligations.....					5,332	-	1,364	3,968
Capital Lease Obligations.....					26,626	110	3,797	22,939
Self-Insurance—Note M*.....					883,144	686,502	596,742	972,904
Compensated Absences*.....					769,065	486,562	506,519	749,108
Pollution Remediation Obligations*.....					265,682	11,573	41,424	235,831
Other*.....					1,324,749	295,288	274,676	1,345,361
Subtotal.....					<u>3,274,598</u>	<u>1,480,035</u>	<u>1,424,522</u>	<u>3,330,111</u>
TOTAL GENERAL LONG-TERM OBLIGATIONS.....					<u>\$87,190,593</u>	<u>\$13,773,392</u>	<u>\$2,147,470</u>	<u>\$ 13,773,301</u>

*The reported current liability portion of: Self-Insurance is \$147,222; Compensated Absences is \$160,997; Pollution Remediation Obligation is \$15,905 and Other liabilities is \$161,219 (amounts in thousands).

Total principal ‘Additions’ above, amounting to \$650,000, are equal to Bonds Issued of \$650,000 reported in the Governmental Funds ‘Statement of Revenues, Expenditures, and Changes in Fund Balances’ for the fiscal year ended June 30, 2011 (amounts in thousands).

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

Revenue bond obligations of discretely presented component units at June 30, 2011 (May 31, 2011 for the Pennsylvania Turnpike Commission (PTC)) and changes during the fiscal year then ended are as follows (amounts in thousands):

	Issue Dates	Interest Rates	Maturity Dates Through	Bonds Authorized But Unissued				Balance June 30, 2011
					Balance July 1, 2010	Additions	Reductions	
REVENUE BONDS PAYABLE								
Philadelphia Regional Port Authority.....	2008	3.00-5.00	2021	-	\$ 39,220	\$ -	\$ 2,835	\$ 36,385
Pennsylvania Housing Finance Agency.....	1993-11	various	2041	-	4,833,385	595,590	823,636	4,605,339
Pennsylvania Industrial Development Authority.....	2002-08	4.00-5.50	2024	-	363,395	-	23,305	340,090
Pennsylvania Turnpike Commission.....	2001-11	various	2049	-	6,429,971	2,249,852	960,225	7,719,598
Commonwealth Financing Authority.....	2005-10	0.93-6.40	2040	-	1,313,455	150,000	36,180	1,427,275
Pennsylvania Infrastructure Investment Authority..	1998-05	4.25 - 5.00	2014	-	23,120	-	9,080	14,040
Total principal obligations.....					13,002,546	2,995,442	1,855,261	14,142,727
Less: unamortized bond discount.....					(26,824)	600	(4,018)	(22,206)
Add: unamortized bond premium.....					117,610	16,818	8,213	126,215
Less: deferred net refunded loss.....					(168,798)	(48,729)	(20,472)	(197,055)
TOTAL					\$12,924,534	\$ 2,964,131	\$ 1,838,984	\$ 14,049,681

Additionally, the Port of Pittsburgh Commission and component unit organizations of the State System of Higher Education reported non-current revenue bonds payable of \$2,000 and \$755,719, respectively, at June 30, 2011 for total revenue bonds payable for all discretely presented component units of \$14,807,400. Total reported current and non-current revenue bonds payable were \$562,096 and \$14,245,304, respectively, at June 30, 2011 (May 31, 2011 for the PTC) (amounts in thousands).

Primary Government

The Commonwealth has pledged its full faith and credit for the payment of principal and interest on its general obligation bonds. The **General Fund**, the **Motor License Fund** and the PA Gaming Economic Development and Tourism Fund transferred amounts to Debt Service funds for general obligation bond principal and interest payments. During the fiscal year ended June 30, 2011, these three funds transferred \$942,604, \$59,335 and \$47,987, respectively, to the Capital Debt Fund, which reported \$1,099,980 (nearly 94 percent) of total Debt Service funds principal and interest expenditures of \$1,175,261 (amounts in thousands). Typically, except for Catastrophic Loss Benefits Claims, which are funded by motorist violation fines, general long-term obligations other than general obligation bonds are mostly funded by the **General Fund** and/or the **Motor License Fund**. In specific, limited instances, a variety of individual funds will fund some obligations; such instances include capital assets being procured using long-term vendor or other financing; Commonwealth employees earning compensated absences; or self-insurance claims originating.

The total "Additions" of \$667,435 for General Obligation Bonds Payable at June 30, 2011 consists of total bonds issued of \$650,000 and a bond premium of \$17,435, for Governmental Funds during the fiscal year ended June 30, 2011 (amounts in thousands).

The total "Reductions" of \$723,039 for General Obligation Bonds Payable at June 30, 2011 consists of total principal repayments of \$697,510, plus \$51,081 of bond premium that was amortized and credited to bond interest expense in the Statement of Activities (unamortized premium in the Statement of Net Assets at June 30, 2011 is \$755,372), less \$25,552 of deferred net refunded loss that 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, 2011 is \$189,247) (amounts in thousands):

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

	<u>Additions</u>	<u>Reductions</u>
Bonds/refunding bonds issued/repaid.....	\$ 650,000	\$ 697,510
Net principal accretion.....	-	-
Total principal.....	650,000	697,510
Unamortized premium on bonds/refunding bonds issued.....	17,435	51,081
Unamortized deferred net refunded loss.....	-	(25,552)
Changes in general obligation bonds payable.....	<u>\$ 667,435</u>	<u>\$ 723,039</u>

Pollution remediation obligations generally involve groundwater, surface water and/or soil at or adjacent to former manufacturing/industrial locations. Also, affected landfills have either received specific contaminants and/or are the source of leachate, either on-site or affecting adjacent properties. Typical contaminants include petroleum, chlorinated and/or polycyclic aromatic hydrocarbons; also, priority pollutant and/or target analyte list metals or lead. Financial responsibility is often coordinated between the Commonwealth, the Federal Environmental Protection Agency and, from time to time, either private responsible or potentially responsible parties. Reported obligation amounts do not include instances, or portions of instances, where specific components of a potential remediation effort are not reasonably estimable as of June 30, 2011. The nature of the remediation activities in such instances is often site assessment, investigation or feasibility studies. Remediation efforts are typically funded through the Hazardous Sites Cleanup Fund or the **Motor License Fund**, both special revenue funds.

Included in "Other" for Other General Long-Term Obligations payable from workers' compensation insurance carrier assessments, **General Fund**, **Motor License Fund**, Hazardous Sites Cleanup Fund and/or other governmental fund tax revenues, investment income and/or escheated property are the following at June 30, 2011 (amounts in thousands):

Workers' Compensation Security Trust claims.....	\$ 379,353
Catastrophic Loss Benefits claims.....	82,623
Public Utility Realty Tax Act (PURTA) liability.....	30,259
Litigation liability - Note N.....	110,250
State Insurance Fund claims.....	5,614
Foster Care litigation liability - Note N.....	109,768
Restricted receipts liability.....	4,038
Escheated property liability.....	<u>623,456</u>
Total.....	<u>\$ 1,345,361</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 Catastrophic Loss Benefits Continuation Fund provides specific benefits to qualifying claimants who sustained severe injuries in motor vehicle accidents. The Public Utility Realty Tax Act (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. Escheated property is held in perpetuity for the rightful owner. This property may be claimed at any time without the appropriation process. None of the 'Other' amounts included in General Long-Term Obligations at June 30, 2011 are payable with currently expendable available financial resources.

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 \$58.1 billion as of August 31, 2011, with net debt outstanding of \$8.52 billion.

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

Discretely Presented Component Units

The Pennsylvania Housing Finance Agency (PHFA), the Pennsylvania Industrial Development Authority, the Pennsylvania Turnpike Commission (PTC), the Philadelphia Regional Port Authority (PRPA), the Commonwealth Financing Authority (CFA) and the Pennsylvania Infrastructure Investment Authority (PENNVEST), discretely presented component units, have pledged substantially all of their revenues for the redemption of revenue bonds outstanding. Revenue bonds outstanding at June 30, 2011 (May 31, 2011 for the PTC) include unamortized bond discount, unamortized bond premium, and deferred net refunded loss of \$22 million, \$126 million, and \$197 million, respectively.

The following tables present annual principal and interest payments for long-term debt outstanding for the primary government and discretely presented component units at June 30, 2011 (May 31, 2011 for the Pennsylvania Turnpike Commission) (amounts in thousands):

Primary Government

	2012	2013	2014	2015	2016	2017-21	2022-26
GENERAL OBLIGATION BONDS:							
Capital Facilities.....	\$ 654,277	\$ 617,735	\$ 583,718	\$ 523,639	\$ 494,269	\$ 2,226,433	\$ 2,550,275
Disaster Relief.....	-	-	-	-	-	-	-
Land and Water Development.....	253	253	-	-	-	-	-
Nursing Home Loan Development.....	-	-	-	-	-	-	-
Volunteer Companies Loan.....	82	83	-	-	-	-	-
Vietnam Conflict Veterans Compensation.....	-	-	-	-	-	-	-
Water Facilities Loan.....	1,850	1,846	-	-	-	-	-
Pennsylvania Economic Revitalization.....	505	505	-	-	-	-	-
Pennsylvania Infrastructure Investment Authority.....	22,462	22,244	20,267	20,214	20,165	91,061	155,487
Agricultural Conservation Easement Purchase.....	670	670	-	-	-	-	-
Local Criminal Justice.....	420	369	364	238	233	1,672	1,622
Water Supply and Wastewater Treatment.....	14,868	15,274	15,279	15,281	15,294	62,913	82,142
Growing Greener.....	37,988	37,835	37,734	37,664	37,617	159,601	189,705
Persian Gulf Conflict Veterans Compensation.....	499	498	506	503	499	1,845	2,863
Refunding Bonds.....	<u>449,636</u>	<u>464,458</u>	<u>426,176</u>	<u>401,038</u>	<u>371,347</u>	<u>1,581,342</u>	<u>111,880</u>
Total Principal and Interest.....	1,183,510	1,161,770	1,084,044	998,577	939,424	4,124,867	3,093,974
Less: Interest Payments.....	<u>481,367</u>	<u>442,575</u>	<u>405,939</u>	<u>373,352</u>	<u>342,509</u>	<u>1,284,062</u>	<u>656,354</u>
Total General Obligation Bonds.....	702,143	719,195	678,105	625,225	596,915	2,840,805	2,437,620
Other General Long-Term Obligations.....	<u>485,343</u>	<u>183,151</u>	<u>193,311</u>	<u>202,778</u>	<u>197,899</u>	<u>913,111</u>	<u>592,484</u>
TOTAL GENERAL LONG-TERM OBLIGATIONS	<u>\$ 1,187,486</u>	<u>\$ 902,346</u>	<u>\$ 871,416</u>	<u>\$ 828,003</u>	<u>\$ 794,814</u>	<u>\$ 3,753,916</u>	<u>\$ 3,030,104</u>

The portion of Total General Long-Term Obligations due by June 30, 2012 is \$1,187,486 (in thousands).

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

Primary Government (continued)

	<u>2027-31</u>	<u>Total</u>
GENERAL OBLIGATION BONDS:		
Capital Facilities.....	\$ 1,208,391	\$ 8,858,737
Disaster Relief.....	-	-
Land and Water Development.....	-	506
Nursing Home Loan Development.....	-	-
Volunteer Companies Loan.....	-	165
Vietnam Conflict Veterans Compensation.....	-	-
Water Facilities Loan.....	-	3,696
Pennsylvania Economic Revitalization.....	-	1,010
Pennsylvania Infrastructure Investment Authority.....	99,673	451,573
Agricultural Conservation Easement Purchase.....	-	1,340
Local Criminal Justice.....	318	5,236
Water Supply and Wastewater Treatment.....	32,509	253,560
Growing Greener.....	81,614	619,758
Persian Gulf Conflict Veterans Compensation.....	1,145	8,358
Refunding Bonds.....	-	<u>3,805,877</u>
Total Principal and Interest.....	1,423,650	14,009,816
Less: Interest Payments.....	<u>146,593</u>	<u>4,132,751</u>
Total General Obligation Bonds.....	1,277,057	9,877,065
Other General Long-Term Obligations.....	<u>562,034</u>	<u>3,330,111</u>
TOTAL GENERAL LONG-TERM OBLIGATIONS.....	<u>\$ 1,839,091</u>	<u>\$ 13,207,176</u>

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

DISCRETELY PRESENTED COMPONENT UNITS

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017-21</u>	<u>2022-26</u>
Philadelphia Regional Port Authority..	\$ 4,604	\$ 4,604	\$ 4,604	\$ 4,608	\$ 4,607	\$ 25,014	\$ -
Pennsylvania Housing Finance Agency	320,875	240,206	226,028	235,373	263,857	1,344,626	1,236,601
Pennsylvania Industrial Development Authority.....	39,318	38,304	39,156	40,418	38,680	173,737	97,814
Pennsylvania Turnpike Commission....	605,140	403,967	464,676	448,507	398,322	2,238,722	2,476,379
Commonwealth Financing Authority...	115,817	125,036	125,244	125,156	125,079	623,379	599,972
Pennsylvania Infrastructure Investment Authority.....	7,054	3,913	2,419	1,608	-	-	-
Total Principal and Interest.....	1,092,808	816,030	862,127	855,670	830,545	4,405,478	4,410,766
Less: Interest Payments.....	530,712	522,721	513,350	502,118	490,602	2,486,484	2,101,132
TOTAL PRINCIPAL OBLIGATIONS.....	\$ 562,096	\$ 293,309	\$ 348,777	\$ 353,552	\$ 339,943	\$ 1,918,994	\$ 2,309,634
	<u>2027-31</u>	<u>2032-36</u>	<u>2037-41</u>	<u>2042-46</u>	<u>Total</u>		
Philadelphia Regional Port Authority..	\$ -	\$ -	\$ -	\$ -	\$ 48,041		
Pennsylvania Housing Finance Agency	1,249,114	1,099,693	534,340	3,891	6,754,604		
Pennsylvania Industrial Development Authority.....	-	-	-	-	467,427		
Pennsylvania Turnpike Commission....	2,438,134	2,663,721	2,079,895	905,280	15,122,743		
Commonwealth Financing Authority...	305,150	194,156	111,815	-	2,450,804		
Pennsylvania Infrastructure Investment Authority.....	-	-	-	-	14,994		
Total Principal and Interest.....	3,992,398	3,957,570	2,726,050	909,171	24,858,613		
Less: Interest Payments.....	1,666,313	1,187,803	546,230	168,421	10,715,886		
TOTAL PRINCIPAL OBLIGATIONS.....	\$ 2,326,085	\$ 2,769,767	\$ 2,179,820	\$ 740,750	\$ 14,142,727		

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, 2011 (amounts in thousands):

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

	<u>Primary Government</u>		<u>Discretely Presented</u>
	<u>Capital Lease Obligations</u>	<u>Installment Purchase Obligations</u>	<u>Component Unit State System of Higher Education Bonds Payable</u>
Fiscal Year Ending June 30			
2012.....	\$ 6,304	\$ 1,282	\$ 82,829
2013.....	6,234	1,145	82,958
2014.....	6,216	956	87,560
2015.....	6,192	490	91,848
2016.....	6,178	243	89,638
2017-21.....	-	363	413,587
2022-26.....	-	-	268,362
2027-31.....	-	-	112,724
2032-36.....	-	-	53,311
2037-41.....	-	-	5,697
Total minimum lease payments.....	31,124	4,479	1,288,514
Less: amount representing estimated executory cost included in minimum lease payments.....	4,051	-	-
Net minimum lease payments and installment purchases.....	27,073	4,479	1,288,514
Less: amount representing interest.....	4,134	512	403,224
Total Capital Lease and Installment Purchase Obligations and Bonds Payable.....	\$ 22,939	\$ 3,967	\$ 885,290

At June 30, 2011, general capital assets included \$89.7 million of buildings and \$7.3 million of equipment being procured by capital leases. A total of \$18.1 million in general capital assets is being procured by vendor-financed installment purchase arrangements.

Capital lease obligations outstanding as of June 30, 2011 reported by the State System of Higher Education (SSHE), a discretely presented component unit as bonds payable, 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 \$175 million of construction in progress related to capital leases at June 30, 2011. Further, the SSHE, along with its component unit organizations, reported total capital lease obligations of \$64.2 million at June 30, 2011.

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, 2011, the SPSBA had \$2.88 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 reported in the accompanying financial statements.

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

The Pennsylvania Higher Educational Facilities Authority (PHEFA), a discretely presented component unit, finances projects through the issuance of tax-exempt instruments (bonds, notes or 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, 2011, the PHEFA had \$6.53 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 reported in the accompanying financial statements.

The Pennsylvania Housing Finance Agency (PHFA), a discretely presented component unit, is financing a portion of housing projects through the issuance of limited obligation or special limited obligation bonds to provide more affordable housing in the Commonwealth. These bonds are secured solely by the specific housing properties and related revenues or by appropriations to be paid by the U.S. Department of Housing and Urban Development. At June 30, 2011 the PHFA had \$90 million of such bonds outstanding. Neither the PHFA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds payable are reported in the accompanying financial statements.

The Pittsburgh Port Commission (PPC), a discretely presented component unit, is financing an economic development project in its port district through the issuance of tax-exempt bonds for the purpose of making lower cost tax-exempt financing available to the enterprise engaging in the development project. The tax exempt bonds issued by the PPC represent limited obligations and are payable solely from lease payments made by the enterprise and related assets held by trustees. At June 30, 2011, the Commission had \$32.3 million of such bonds outstanding. Neither the PPC nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds payable are reported in the accompanying financial statements.

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 PEDFA financed project revenues. At June 30, 2011, the PEDFA had \$1.248 billion of debt outstanding. Neither the PEDFA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are reported 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. At June 30, 2011, the PEDA had \$14.3 million of revenue bonds outstanding. Neither the PEDA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are reported in the accompanying financial statements.

NOTE L - REFUNDED DEBT**Primary Government**

During the fiscal year ended June 30, 2011, the Commonwealth did not issue any general obligation refunding bonds. 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, 2011, \$1,375.7 million of general obligation bonds outstanding that were previously accounted for in the Commonwealth's financial statements were defeased through advance refundings.

Discretely Presented Component Units

In July 2010 the Pennsylvania Turnpike Commission (PTC) issued Series A Motor License Fund-Enhanced (MLF) Subordinate Special Revenue Bonds; the proceeds of the Series A MLF were used primarily to finance the costs of refunding a portion of the Subordinate Revenue Bond Anticipation Notes and the 2010 Sub Series A-1 bonds. In July 2010 the PTC issued 2010 Series A Multi-Modal Revenue Refunding Bonds primarily to refund the 2008 A-1, A-2 and A-3 bonds. The refunding increased the PTC's total debt service payments by approximately \$5.61 million and resulted in an economic loss of approximately \$2 million. In July 2010 Series B Subordinate Revenue Bonds were issued primarily to finance the costs of refunding a portion of the 2010 Series A-1 Subordinate Revenue Bond Anticipation Notes. In April 2011 the PTC issued 2011 Series B Senior Turnpike Revenue Bonds primarily to current refund the 2001 Series S bonds. The refunding allowed the PTC to reduce its debt service payments by approximately \$4.33 million and resulted in an economic gain of approximately \$3.13 million. In April 2011 the PTC issued Series A Senior Revenue Bonds primarily to partially advance refund the 2001 Series R Bonds which reduced debt service payments by approximately \$6.45 million but actual savings will vary based on the SIFMA rate resets during the term of the 2011 Series Bonds. In May 2011 the PTC issued Series C Multi-Modal Revenue Bonds primarily to refund the 2008 Sub-Series B-2, B-3, B-4, B-5 and B-6 bonds. The refunding did not change the PTC's debt service payments. The transaction resulted in an economic loss of \$.27 million.

During the fiscal year ended June 30, 2011 using new debt proceeds, the Pennsylvania Housing Finance Agency (PHFA) refunded the principal amount of certain Single Family Mortgage Loan Program bonds totaling approximately \$378 million. The PHFA realized an economic gain of \$11 million, and a deferred loss on refunding of \$870 thousand and decreased its aggregate debt service payments by \$34 million over the next 30 years. The PHFA also refunded the principal amount of certain Single Family Mortgage Loan Program bonds totaling approximately \$215 million resulting in an economic loss of \$8 million, a deferred loss of \$1 million and increased its aggregate debt service payments by \$19 million. In prior years, the PHFA defeased Multifamily Residential Development Bonds, Issue H. The result was an in-substance defeasance allowing the Agency to purchase securities, which were deposited into an irrevocable trust. The defeased principal outstanding was \$3 million as of June 30, 2011.

In July 2010 the State System of Higher Education issued Series AL bonds totaling \$135.4 million. A portion of the proceeds (\$31.2 million) was used to advance refund Series T revenue bonds. The refunding was completed to reduce debt service payments by approximately \$2.6 million and resulted in an economic gain of approximately \$2.6 million.

The Pennsylvania Convention Center Authority (PCCA) fully defeased Refunding Revenue Bonds, Series A of 2005 in April 2010. The bonds were issued in October 2005 primarily to refund outstanding Revenue Bonds Series A of 1994. The proceeds of the 1994 bonds were deposited in an irrevocable trust to provide for all future debt service payments on the 1989 bonds. As of June 30, 2011 the outstanding balance of the defeased 1989 bonds was \$157 million.

At June 30, 2010, \$22.4 million of bonds that were previously reported by the Pennsylvania Infrastructure Investment Authority have been defeased through refundings. At June 30, 2011 the amount of defeased debt was \$16 million.

In prior years the Pennsylvania Industrial Development Authority defeased revenue bonds and placed the proceeds in an irrevocable trust to provide for future debt service payments. At June 30, 2011 the balance of the defeased bond outstanding was \$3.4 million.

NOTE M – SELF-INSURANCE LIABILITIES

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 \$500 million per occurrence, as of September 19, 2010. 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. Accrued liabilities for statutory workers’ compensation and annuitant medical/hospital claims are established based on reserves computed from the Commonwealth’s claim experience; such claims are not discounted and do not include non-incremental claims adjustment expenses.

There were no reductions in commercial insurance coverage during the fiscal year ended June 30, 2011. 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 and do not include non-incremental claims adjustment expenses. 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, 2011. No accrued liability has been reported for property losses under self-insurance.

At June 30, 2011, 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 \$705,228 and \$232,774. Business-type activities liabilities are primarily owed by the **State Lottery Fund** (\$2,799), the **State Workers’ Insurance Fund** (\$2,655) and the State Stores Fund (\$31,732), all Enterprise Funds. All accrued self-insurance liabilities at June 30, 2011 are summarized as follows (amounts in thousands):

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Fiduciary Fund Types</u>	
	<u>Current</u>	<u>Non-Current</u>	<u>Current</u>	<u>Non-Current</u>	<u>Current</u>	<u>Non-Current</u>
Employee disability.....	\$ 87,818	\$ 595,866	\$ 5,021	\$ 34,074	\$ 72	\$ 485
Annuitant medical/hospital.	37,404	-	-	-	-	-
Automobile tort.....	3,250	12,794	-	-	-	-
Employee tort.....	5,750	55,336	-	-	-	-
General tort.....	500	38,394	-	-	-	-
Transportation.....	12,500	123,292	-	-	-	-
Totals.....	<u>\$ 147,222</u>	<u>\$ 825,682</u>	<u>\$ 5,021</u>	<u>\$ 34,074</u>	<u>\$ 72</u>	<u>\$ 485</u>

The following summary provides aggregated information on June 30, 2010 reported self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2011 and reported self-insurance liabilities at June 30, 2011 (amounts in thousands):

	<u>June 30, 2010</u>	<u>Incurred Claims</u>			<u>Payments</u>		<u>June 30, 2011</u>
		<u>Liability</u>	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	
Employee disability.....	\$ 634,497	\$ 92,204	\$ 79,326	\$ 10,240	\$ 72,417	\$ 723,370	
Annuitant medical/hospital.	30,712	493,929	-	456,525	30,712	37,404	
Automobile tort.....	19,059	2,649	(1,769)	1,199	2,696	16,044	
Employee tort.....	58,731	1,457	5,071	6	4,167	61,086	
General tort.....	35,973	808	2,902	30	759	38,894	
Transportation.....	139,640	6,894	(3,662)	626	6,454	135,792	
Totals.....	<u>\$ 918,612</u>	<u>\$ 597,941</u>	<u>\$ 81,868</u>	<u>\$ 468,626</u>	<u>\$ 117,205</u>	<u>\$ 1,012,590</u>	

NOTE M – SELF-INSURANCE LIABILITIES (continued)

The following summary provides aggregated information on June 30, 2009 self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2010 and reported self-insurance liabilities at June 30, 2010 (amounts in thousands):

	June 30, 2009	Incurred Claims		Payments		June 30, 2010
	<u>Liability</u>	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	<u>Liability</u>
Employee disability.....	\$ 501,886	\$ 93,836	\$ 122,119	\$ 11,155	\$ 72,189	\$634,497
Annuitant medical/hospital.	31,351	446,293	-	415,581	31,351	30,712
Automobile tort.....	19,353	4,378	(1,793)	1,591	1,288	19,059
Employee tort.....	57,583	5,090	1,305	519	4,728	58,731
General tort.....	35,784	1,192	75	100	978	35,973
Transportation.....	141,258	8,390	(6,288)	521	3,199	139,640
Totals.....	<u>\$ 787,215</u>	<u>\$ 559,179</u>	<u>\$ 115,418</u>	<u>\$ 429,467</u>	<u>\$ 113,733</u>	<u>\$918,612</u>

NOTE N – COMMITMENTS AND CONTINGENCIES

Construction and Other Commitments: At June 30, 2011, the Department of Transportation (DOT) had contractual commitments of approximately \$1.1 billion, for various DOT 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 \$5.1 billion at June 30, 2011. Actual expenditures are contingent upon approved spending authority and/or availability of financial resources. Also, at May 31, 2011 the Pennsylvania Turnpike Commission, a discretely presented component unit, had open purchase order commitments of \$694 million.

Investment Commitments: At December 31, 2010, the State Employees Retirement System (SERS) had contractual commitments totaling approximately \$2.3 billion to fund future alternative investments and \$203 million to fund future real estate investments. At June 30, 2011, the Treasury Commonwealth Investment Program had capital commitments of \$75 million to fund alternative investments, of which \$33.9 million was unfunded. At June 30, 2011, the **Tuition Payment Fund** had capital commitments of \$135 million to fund alternative investments, of which \$78 million was unfunded. At June 30, 2011, the **Tobacco Settlement Fund** had capital commitments of \$290.9 million to fund private equity investments, of which \$82.1 million was unfunded.

Loan Commitments: At June 30, 2011, primary government funds had approved \$56.6 million in loans that had not been disbursed. Also at June 30, 2011, the following discretely presented component units had approved loans that had not been disbursed (amounts in millions):

Pennsylvania Housing Finance Agency	\$	25
Pennsylvania Infrastructure Investment Authority.....		412
Commonwealth Financing Authority		48
Pennsylvania Industrial Development Authority		71

Operating Lease Commitments: As of June 30, 2011, the Commonwealth has commitments to lease certain buildings and equipment. Future minimum rental commitments for non-cancelable operating leases as of June 30, 2011 were as follows (amounts in thousands):

Fiscal year ending June 30:	<u>Amount</u>
2012.....	\$ 219,813
2013.....	159,801
2014.....	132,866
2015.....	105,118
2016.....	81,055
2017-21.....	270,514
2022-26.....	136,484
2027-31.....	82,392
2032-37.....	23,901
Total Minimum Lease Payments.....	<u>\$ 1,211,944</u>

Rental expenditures/expenses for all operating leases for the fiscal year ended June 30, 2011 amounted to \$312.1 million.

Child Support Payments: At June 30, 2011, the Commonwealth was contingently liable for approximately \$21 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 reported accrued liabilities at June 30, 2011 with respect to torts as described in Note

NOTE N – COMMITMENTS AND CONTINGENCIES (continued)

M for probable losses, and, separately, other General Long-Term Obligations with respect to litigation cases in the amount of \$220 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 recorded as of June 30, 2011. Unfavorable outcomes for such cases, which the Commonwealth is vigorously contesting, could range from approximately \$98 million to \$1.9 billion for the **General Fund**; \$1 million to \$186 million for the **Motor License Fund**, a Special Revenue Fund; and \$.1 million to \$1.1 billion of possible additional liabilities for the State Employees’ Retirement System, a fiduciary fund. The range of potential liability for governmental activities is from \$99 million to \$2.1 billion.

Among the **General Fund** cases for which an unfavorable outcome is reasonably possible, the Commonwealth is defendant against plaintiff organizations’ claims which seek the repayment of funds paid from the Healthcare Providers Retention Account and the Medical Care Availability and Reduction of Error Fund (amounting to \$800 million) to the **General Fund** through October 2009, in accordance with Act 50 of 2009 (Act 50). Plaintiff organizations allege, among other things, that the sections of Act 50 which mandated that the amounts be paid to the **General Fund** are unconstitutional. On September 14, 2011, oral arguments were presented to the Pennsylvania Supreme Court. A decision is pending. It is the Commonwealth’s best judgment, including that of outside counsel, based on the latest available information to the Commonwealth that it will ultimately prevail in this matter. The Commonwealth cannot, and does not, assure or guarantee that it will ultimately prevail in this matter.

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 \$18 million to \$1.2 billion at June 30, 2011. The Commonwealth’s management believes ultimate disallowances and sanctions, if any, will not have a material effect on the basic financial statements.

Loan Guarantees: The Pennsylvania Higher Education Assistance Agency (PHEAA), a discretely presented component unit, guarantees Federal Stafford, PLUS and consolidation loans which were originated prior to July 1, 2010. Total original principal of outstanding guarantees issued by PHEAA approximated \$45.1 billion at June 30, 2011. Under the Federal Family Education Loan Program, as amended, PHEAA has entered into agreements with the U.S. Department of Education (DOE) 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.

The Commonwealth Financing Agency (CFA), a discretely presented component unit, through various economic development programs, provided loan guarantees as of June 30, 2011 as follows (amounts in thousands):

First Industries loan guarantees.....	\$	47,994
Tax increment financing guarantees.....		48,412
Second stage loan guarantees		3,360
Venture capital guarantees.....		197,500
Total loan guarantees	\$	<u>297,266</u>

Through June 30, 2011 the CFA has been required, from time to time with respect to loan guarantees, to make principal or interest payments on behalf of the ultimate borrowers. Accordingly, expenses totaling \$482 have been reported in the CFA’s financial statements during its fiscal year ended June 30, 2011 (amount in thousands).

NOTE N – COMMITMENTS AND CONTINGENCIES (continued)

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, 2011, the amount of future payments owed to prizewinners was \$848 million. 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, 2011, prizewinners had voluntarily assigned future payments of \$518 million.

Primary Government Contingent Liability for Certain Pennsylvania Turnpike Commission Revenue Bonds Payable: In July 2007, Act 44 was signed into law creating a "public-public partnership" between the Pennsylvania Turnpike Commission (PTC) and the Pennsylvania Department of Transportation (PennDOT) to provide funding for roads, bridges and transit throughout the Commonwealth. Under Act 44 a 50 year Lease and Funding Agreement (Agreement) was entered into by the PTC and PennDOT. Act 44 requires the PTC to make scheduled annual payment to PennDOT in quarterly installments. In the four years ended June 30, 2011 the PTC transferred \$3.0 billion to PennDOT.

As part of its operating plan, the PTC plans to continue to increase toll rates to meet its obligations. However, because of the significance of the quarterly payments that are due to PennDOT, and insufficient sources of cash flows from current operations, the PTC plans to issue debt for the foreseeable future to finance its required payments.

Under Act 44 the Pennsylvania Turnpike Commission (PTC) is authorized to issue Special Revenue Bonds up to an aggregate principal amount of \$5 billion (not to exceed \$600 million per year). In the event the PTC does not make a required deposit for debt service on the Special Revenue Bonds with the bond Trustee, such deposit is to be made from funds available for such purpose on deposit in the Commonwealth's **Motor License Fund (MLF)**. In order to clarify the requirements of Act 44, the Department of Transportation (DOT), Office of the Budget (OB), and the State Treasurer entered into a Memorandum of Agreement (MOA) that went into effect on July 28, 2010. The MOA established a special account in the **MLF** and the State Treasurer agreed to use its best efforts to maintain in such account an amount equal to the maximum annual debt service on outstanding Special Revenue Bonds. The account has not been legally pledged to secure the bonds, but the account is intended to be available to allow the Commonwealth to issue payment in the event that the PTC fails to make its monthly deposit for debt service on the Special Revenue Bonds with the bond Trustee and there are no other funds available in the **MLF**. The special account cannot be used for any other purpose unless there are no other funds available for the operations of the **MLF**. If utilized the account must be restored with first available designated **MLF** funds. The PTC is also required under its subordinate bond indenture to repay the **MLF** for such payments to the extent that PTC payments are available. As of May 31, 2011, the PTC's fiscal year end, the PTC issued an amount of \$401 million of Special Revenue Bonds that are outstanding and are subject to the provisions of the MOA and for which payment the Commonwealth is contingently liable as of June 30, 2011. Further, as disclosed in Note R to the Financial Statements, the PTC issued Special Revenue Bonds on October 27, 2011 in the amount of \$98.9 million, for which payment the Commonwealth is also contingently liable.

Primary Government Commitment for the Pennsylvania Convention Center Authority: According to a contractual arrangement (Operating Agreement) among the Commonwealth, the City of Philadelphia, and the Pennsylvania Convention Center Authority (PCCA), a discretely presented component unit, the Commonwealth is required to make payments to PCCA to finance PCCA operating deficits. Such payments are to be primarily financed using the Gaming Fund. The Gaming Fund is used to finance a variety of programs and/or projects and the Gaming Fund itself may be unable to finance all PCCA operating deficits during the term of the Operating Agreement, which expires in 2039. In that event, primary government payments to PCCA based on the Operating Agreement must be financed using funds separate from the Gaming Fund; such amounts are subject to annual appropriation by the General Assembly.

Primary Government Commitment for the Commonwealth Financing Authority: According to a contractual arrangement (Service Agreement) among the Department of Community and Economic Development, the Office of the Budget and the Commonwealth Financing Authority (CFA), a discretely presented component unit, the primary government is required to request sufficient annual appropriations from the General Assembly (to be funded by the **General Fund** and the Gaming

NOTE N – COMMITMENTS AND CONTINGENCIES (continued)

Fund) to finance the Service Fee established in the Service Agreement. The service fee is the only significant source of funds the CFA has to pay its debt service obligations. The amount of such Service Fee is to be requested by October 1, each year, for the succeeding fiscal year budget effective July 1 of the following year. During the term of the Service Agreement, there can be no assurance that 1) the General Assembly will annually appropriate sufficient amounts to fund the annual Service Fee, or 2) funds will be available to finance such annual appropriations. During the fiscal year ended June 30, 2011 the primary government paid a Service Fee in the amount of \$109 million; also, during the fiscal year the CFA used \$38 million of proceeds from bonds it issued during the fiscal year (amounting to approximately \$150 million) to pay the Department of Environmental Protection (\$25 million) and the Ben Franklin Technology Development Authority (\$13 million), a discretely presented component unit, as prescribed by applicable legislation. Disclosures related to the CFA's \$1.4 billion revenue bonds payable are provided in Note K to the basic financial statements.

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 to claimants which exceed basic liability coverage carried by healthcare providers practicing in the Commonwealth. The Fund collects statutory healthcare provider surcharges, as a percentage of insurance premiums for basic liability coverage, and collects certain statutory motorist moving vehicle violation assessment surcharges; in turn, the Fund pays claimants on behalf of healthcare providers. The Fund has assets of \$.20 billion at June 30, 2011. The actuarially computed liability for outstanding claims for injuries caused by alleged negligence by certain healthcare providers totaled \$1.23 billion at June 30, 2011. The claims will be funded exclusively through statutory surcharge assessments 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 estimated actuarial liability for existing and potential future claims totaled \$1.9 billion at June 30, 2011. 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, 2011. The fund has assets of \$.2 billion at June 30, 2011. 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 PLAN

The Commonwealth sponsors a deferred compensation plan (the Deferred Compensation Program) for its employees, which is a defined contribution benefit 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. The Commonwealth makes no contributions to the plan; contributions are limited to voluntary, participating employee salary deferrals, and/or employee transfers from other plans.

Of the \$2,073 million in net assets reported in the Deferred Compensation Fund, a Pension Trust Fund, at December 31, 2010, \$1,968 million relates to primary government employees and \$95 million relates to employees of discretely presented component units. The remaining balance of \$10 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 collective bargaining employees participate in a joint venture, the Pennsylvania Employees Benefit Trust Fund (PEBTF). The PEBTF was established in 1988 through an Agreement and Declaration of Trust (Agreement), which has been modified from time to time. The PEBTF establishes and provides healthcare benefits for active Commonwealth employees and is the Commonwealth's third party administrator for paying retiree healthcare benefits for the Commonwealth Retired Employee Health Program and the Retired Pennsylvania State Police Plan. The Commonwealth has, in its collective bargaining agreements with unions participating in the Agreement, obligated itself to provide certain contributions on behalf of nearly all active collective bargaining employees. The Commonwealth also remits contractually established contributions on behalf of active non-union employees and other active employees covered by contracts between the Commonwealth and other unions. Effective July 1, 2007 nearly all active employees contribute established percentages of their salaries and wages received, constituting an 'employee share,' to finance active employee benefits. During the fiscal year ended June 30, 2011, total employer contributions for active employees amounted to approximately \$897 million; active employee contributions amounted to approximately \$89 million. Neither the Commonwealth nor the unions have an equity interest in the PEBTF.

During the fiscal year ended June 30, 2011 the Commonwealth and nearly all of its various labor unions, through negotiations, agreed that all previously deferred amounts otherwise payable from the Commonwealth to the PEBTF, based on previous Memoranda of Agreement, at both June 30, 2010 and June 30, 2011 (amounting to \$158 million and \$223 million at June 30, 2010 and 2011, respectively), were no longer owed and payable to the PEBTF. These newer terms were agreed-to by 97 percent of the labor unions by June 30, 2011 and made part of collective bargaining agreements between the Commonwealth and the various affected labor unions which became effective July 1, 2011. In its June 30, 2011 financial statements, the PEBTF has reduced reported Commonwealth deferred contributions and Commonwealth deferred amounts owed to the PEBTF by \$152 million, 97 percent of what was previously owed by the Commonwealth to the PEBTF at June 30, 2010. Also, the PEBTF has not reported Commonwealth deferred amounts owed or Commonwealth deferred contributions to the PEBTF based on the Memoranda of Understanding, amounting to \$47 million, as of and for the fiscal year ended June 30, 2011. As of June 30, 2011, the Commonwealth has reduced its June 30, 2010 previously-reported liability to the PEBTF and reported expenditures during the fiscal year ended June 30, 2011 in the amount of \$152 million.

At June 30, 2011, for the active employees benefit program, the PEBTF reported total assets of over \$430 million, total liabilities of more than \$1.6 million, total benefit obligations of \$83 million, and an excess of net assets over benefit obligations \$346 million. The financial status of the PEBTF is monitored on a continuing basis; financial stress is not evident. During the fiscal year ended June 30, 2011 the PEBTF reported a decrease in net assets over benefit obligations of over \$63 million for the active employees benefit program.

Audited financial statements for the active employee healthcare plans are available, by request, from:

Pennsylvania Employees Benefit Trust Fund
150 South 43rd Street
Harrisburg, Pennsylvania 17111-5700

NOTE R – SUBSEQUENT EVENTS**Debt Issuances****Primary Government**

On August 4, 2011, the Commonwealth initiated a temporary interfund advance of \$500 million from the PA Treasury Department's Short Term Investment pool to the Capital Facilities Fund. This advance was made to remedy cash flow imbalances and so work can continue on state-supported construction and improvement projects. Repayment was made on October 27, 2011, following the issuance of an \$811.6 million general obligation bond issue.

On October 27, 2011, the Commonwealth issued \$811.6 million of general obligation bonds consisting of \$650 million First Series of 2011 and \$161.6 million of First Refunding Series Bonds. The First Series Bonds are being issued to finance various Commonwealth capital projects and voter approved projects. The First Refund Series Bonds are being issued to refund certain outstanding bond issues of the Commonwealth.

Discretely Presented Component Units

In July 2011 the Pennsylvania Higher Educational Facilities Authority (PHEFA) issued Series AM tax-exempt revenue bonds in the amount of \$119 million. The net proceeds were used to finance various capital projects at certain PA State System of Higher Education (SSHE) Universities. In connection with the bond issuance, the SSHE entered into a loan agreement with the PHEFA under which SSHE pledged its full faith and credit for repayment of the PHEFA bonds.

On July 14 2011 the Pennsylvania Higher Education Assistance Agency (PHEAA) purchased and cancelled \$1.9 billion of taxable auction rate security bonds and \$433.6 million of tax-exempt auction rate security bonds from the 1997 Master Trust for \$2.1 billion that resulted in a \$221.1 million deferred gain on tender. PHEAA also issued \$1.7 billion of floating rate notes with a final maturity date of June 25, 2038. The notes were secured by cash and a pool of student loans that were originated under the FFEL program and the Federal Health Education Assistance Loan Program. PHEAA sold \$462.9 million of student loans to a financial institution for \$452.8 million that resulted in a loss on sale of approximately \$10.1 million.

The Pennsylvania Housing Finance Agency (PHFA) issued \$82 million Single Family Mortgage Revenue Bonds, Series 2011-13 to refund Series 2011-11 in September 2011. The bonds have a final maturity date of October 1, 2041. HEMAP, a fund of the PHFA received an appropriation of \$2 million in the State budget for the fiscal year ending June 30, 2012. The PHFA has determined that this is insufficient for continued full operation of HEMAP. A "Notice of Unavailability of Funds" was published in the Pennsylvania Bulletin announcing that HEMAP would be unable to approve any more loans under the HEMAP program effective July 1, 2011. HEMAP will continue to process loan assistance to approved homeowners and review annual recertification's to establish repayments schedules as required. Cash flows from Commonwealth appropriations, repayment and prepayments of emergency assistance loans and other government grants are expected to fund HEMAP operations into the foreseeable future.

On September 30, 2011 by Settlement Agreement and Mutual Release Regarding Lease Payments, PennDOT and the Office of the Budget, each acting individually and on behalf of the Commonwealth with regards to the Act 44 payments required by the Pennsylvania Turnpike Commission (PTC) to the PennDOT: (1) agreed that the amounts previously paid to the PTC for fiscal year 2010-11 on account of its Funding Agreement obligation constituted full payment of that obligation; (2) agreed that the PTC payment obligation under the Funding Agreement for fiscal year 2010-11 had been fully discharged; and (3) released the PTC of any further payment obligation under the Funding Agreement with respect to fiscal year 2010-11.

On October 24, 2011 the Pennsylvania Turnpike Commission (PTC) issued \$98.9 million Motor License Fund-Enhanced Turnpike Subordinate Special Revenue Bonds Series B of 2011. The bonds will bear interest at fixed rates from 3% to 5% and will mature on December 1, 2041. The bonds were issued to make payments to the Pennsylvania Department of Transportation in accordance with Act 44. The Commission also reported that on September 21, 2011 Moody's Investors Service, Inc, lowered the long-term issuer rating and long-term senior unsecured debt rating of Merrill Lynch & Co., Inc. from A2 to Baa1.

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Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2011

Required Supplementary Information

Commonwealth of Pennsylvania
Schedules of Funding Progress and Employer Contributions
 Retired Employees Health Plan (REHP)
 Retired Pennsylvania State Police Program (RPSPP)
 PA Judiciary
 PA House of Representatives
 PA Senate
 For the Fiscal Year Ended June 30, 2011
 (\$ amounts in millions)

Funding Progress:						Total
	REHP	RPSPP	PA Judiciary	PA House of Representatives	PA Senate	Primary Government
As of and for the fiscal year ended June 30, 2011						
Actuarial Valuation Date.....	July 1, 2011	July 1, 2011	July 1, 2010	July 1, 2010	July 1, 2010	
Actuarial Value of Assets.....	\$ 70.740	\$ 59.900	\$ -	\$ -	\$ -	\$ 130.640
Actuarial Accrued Liability (AAL).....	\$ 12,907.790	\$ 2,492.280	\$ 442.300	\$ 352.269	\$ 222.167	\$ 16,416.806
Unfunded Actuarial Accrued Liability (UAAL).....	\$ 12,837.050	\$ 2,432.380	\$ 442.300	\$ 352.269	\$ 222.167	\$ 16,286.166
Funded Ratio (assets as % of AAL).....	0.548%	2.403%	0.000%	0.000%	0.000%	0.796%
Estimated Annual Covered Payroll.....	\$ 3,839.000	\$ 447.000	\$ 196.300	\$ 96.164	\$ 48.446	\$ 4,626.910
UAAL as a Percentage of Covered Payroll.....	334.4%	544.2%	225.3%	366.3%	458.6%	352.0%
As of and for the fiscal year ended June 30, 2010						
Actuarial Valuation Date.....	July 1, 2008	July 1, 2008	July 1, 2010	July 1, 2008	July 1, 2009	
Actuarial Value of Assets.....	\$ 47.920	\$ 40.570	\$ -	\$ -	\$ -	\$ 88.490
Actuarial Accrued Liability (AAL).....	\$ 13,257.570	\$ 2,104.240	\$ 423.300	\$ 308.459	\$ 210.048	\$ 16,303.617
Unfunded Actuarial Accrued Liability (UAAL).....	\$ 13,209.650	\$ 2,063.670	\$ 423.300	\$ 308.459	\$ 210.048	\$ 16,215.127
Funded Ratio (assets as % of AAL).....	0.361%	1.928%	0.000%	0.000%	0.000%	0.543%
Estimated Annual Covered Payroll.....	\$ 4,093.000	\$ 337.000	\$ 189.600	\$ 102.701	\$ 49.712	\$ 4,772.013
UAAL as a Percentage of Covered Payroll.....	322.7%	612.4%	223.3%	300.3%	422.5%	339.8%
As of and for the fiscal year ended June 30, 2009						
Actuarial Valuation Date.....	July 1, 2008	July 1, 2008	December 31, 2007	July 1, 2008	July 1, 2007	
Actuarial Value of Assets.....	\$ 47.920	\$ 40.570	\$ -	\$ -	\$ -	\$ 88.490
Actuarial Accrued Liability (AAL).....	\$ 13,257.570	\$ 2,104.240	\$ 426.700	\$ 308.459	\$ 252.329	\$ 16,349.298
Unfunded Actuarial Accrued Liability (UAAL).....	\$ 13,209.650	\$ 2,063.670	\$ 426.700	\$ 308.459	\$ 252.329	\$ 16,260.808
Funded Ratio (assets as % of AAL).....	0.361%	1.928%	0.000%	0.000%	0.000%	0.541%
Estimated Annual Covered Payroll.....	\$ 4,093.000	\$ 337.000	\$ 185.300	\$ 102.701	\$ 49.712	\$ 4,772.013
UAAL as a Percentage of Covered Payroll.....	322.7%	612.4%	230.3%	300.3%	507.6%	341.1%
Employer Contributions:						
For the fiscal year ended June 30, 2011						
Annual required contribution.....	\$ 879.210	\$ 158.330	\$ 35.958	\$ 41.327	\$ 17.698	\$ 1,132.523
Percentage contributed.....	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
For the fiscal year ended June 30, 2010						
Annual required contribution.....	\$ 848.530	\$ 151.150	\$ 34.252	\$ 38.231	\$ 16.834	\$ 1,088.997
Percentage contributed.....	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
For the fiscal year ended June 30, 2009						
Annual required contribution.....	\$ 818.510	\$ 143.350	\$ 38.483	\$ 38.231	\$ 26.206	\$ 1,064.780
Percentage contributed.....	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%

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

Commonwealth of Pennsylvania
Budgetary Comparison Schedule
 Budgeted Major Funds
 General Fund
 For the Fiscal Year Ended June 30, 2011
 (Amounts 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.....	\$ 24,561,300	\$ (25,000)	\$ 24,536,300	\$ 774,321	\$ 25,310,621
Liquor store profits transfer.....	105,000	-	105,000	-	105,000
Licenses and fees.....	139,200	(8,815)	130,385	(5,013)	125,372
Fines, penalties and interest.....	20,200	(2,848)	17,352	(1,619)	15,733
Investment income.....	(15,600)	-	(15,600)	50,640	35,040
Unclaimed property.....	118,300	(7,287)	111,013	(4,143)	106,870
Departmental services.....	2,685,174	302,983	2,988,157	-	2,988,157
Miscellaneous.....	658,300	(6,196)	652,104	(3,523)	648,581
TOTAL STATE PROGRAMS.....	28,271,874	252,837	28,524,711	810,663	29,335,374
Federal Programs.....	25,141,987	618,177	25,760,164	(1,101,908)	24,658,256
TOTAL REVENUES.....	53,413,861	871,014	54,284,875	(291,245)	53,993,630
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	1,004,360	20,244	1,024,604	(8,968)	1,015,636
Protection of persons and property.....	3,125,660	514,190	3,639,850	(43,767)	3,596,083
Health and human services.....	10,855,969	50,575	10,906,544	(66,980)	10,839,564
Public education.....	11,290,637	(276,716)	11,013,921	(19,725)	10,994,196
Recreation and cultural enrichment.....	249,133	(5,058)	244,075	(3,674)	240,401
Debt service.....	977,564	(2,620)	974,944	-	974,944
Economic development.....	459,904	(22,183)	437,721	(38,240)	399,481
Transportation.....	2,379	(345)	2,034	(111)	1,923
TOTAL STATE PROGRAMS.....	27,965,606	278,087	28,243,693	(181,465)	28,062,228
Federal Programs.....	25,141,987	618,177	25,760,164	(1,101,908)	24,658,256
TOTAL EXPENDITURES.....	53,107,593	896,264	54,003,857	(1,283,373)	52,720,484
REVENUES OVER/(UNDER) EXPENDITURES.....	306,268	(25,250)	281,018	992,128	1,273,146
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	93,700	93,700	-	93,700
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....	306,268	68,450	374,718	992,128	1,366,846
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2010, REVISED.....	(293,983)	-	(293,983)	-	(293,983)
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2011.....	\$ 12,285	\$ 68,450	\$ 80,735	\$ 992,128	\$ 1,072,863

Budgetary Compliance

A separately available budgetary report, the "Status of Appropriations" (General Fund), demonstrates budgetary expenditure compliance for the General Fund for the fiscal year ended June 30, 2011 and is available at the following web address:
www.portal.state.pa.us/portal/server.pt?open=512&objID=4574&PageID=473531&mode=2 (At the website, click on June 2011.)

Traceability from the " Status of Appropriations " Column Totals:

	<i>General Fund "Status of Appropriations" Report Page Reference</i>	
Total State Programs-Actual (Budgetary Basis) Expenditures		
Appropriations (Column A).....	7 ¹	\$ 25,255,536
plus Actual Augmentations (Column B).....	7 ¹	2,988,157
less Lapses (Column C).....	7 ¹	181,465
TOTAL STATE PROGRAMS Actual (Budgetary Basis) Expenditures		\$ 28,062,228
Total Federal Programs-Actual (Budgetary Basis) Expenditures		
Appropriations (Column A).....	227 ²	\$ 25,760,164
less Expirations (Column C).....	227 ²	1,101,908
TOTAL FEDERAL PROGRAMS Actual (Budgetary Basis) Expenditures		\$ 24,658,256

¹ Page no. 7, June 30, 2011 "Status of Appropriations" -Fund 001-General Fund -Summary of All Current State Ledgers by Character of Expenditure - Column Totals before "Tax Refunds"

² Page no. 227, June 30, 2011 "Status of Appropriations" -Fund 001-General Fund -Summary of All Current Federal Ledgers by Character of Expenditure

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

Commonwealth of Pennsylvania
Budgetary Comparison Schedule
Budgeted Major Funds
Special Revenue Fund-Motor License
For the Fiscal Year Ended June 30, 2011

(Amounts 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.....	\$ 1,181,510	\$ -	\$ 1,181,510	\$ 37,125	\$ 1,218,635
Licenses and fees.....	855,650	-	855,650	35,901	891,551
Fines, penalties and interest.....	30,740	-	30,740	174	30,914
Investment income.....	30,890	-	30,890	128,002	158,892
Departmental services.....	268,636	(217,785)	50,851	-	50,851
Act 44 Receipts *.....	200,000	-	200,000	-	200,000
Miscellaneous.....	24,850	-	24,850	(3,567)	21,283
TOTAL STATE PROGRAMS.....	2,592,276	(217,785)	2,374,491	197,635	2,572,126
Federal Programs.....	1,932,183	29,563	1,961,746	(594,135)	1,367,611
TOTAL REVENUES.....	4,524,459	(188,222)	4,336,237	(396,500)	3,939,737
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	75,806	(5,885)	69,921	(2,844)	67,077
Protection of persons and property.....	697,498	(1,656)	695,842	(18,373)	677,469
Public education.....	1,103	-	1,103	-	1,103
Recreation and cultural enrichment.....	1,000	-	1,000	-	1,000
Debt service.....	24,998	-	24,998	-	24,998
Transportation.....	1,893,699	(210,244)	1,683,455	(1,400)	1,682,055
TOTAL STATE PROGRAMS.....	2,694,104	(217,785)	2,476,319	(22,617)	2,453,702
Federal Programs.....	1,932,183	29,563	1,961,746	(594,135)	1,367,611
TOTAL EXPENDITURES.....	4,626,287	(188,222)	4,438,065	(616,752)	3,821,313
REVENUES OVER/(UNDER) EXPENDITURES.....	(101,828)	-	(101,828)	220,252	118,424
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	34,427	34,427	-	34,427
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....	(101,828)	34,427	(67,401)	220,252	152,851
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2010.....					
	165,145	-	165,145	-	165,145
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2011.....					
	<u>\$ 63,317</u>	<u>\$ 34,427</u>	<u>\$ 97,744</u>	<u>\$ 220,252</u>	<u>\$ 317,996</u>

* Act 44 receipts were received from the Pennsylvania Turnpike Commission (PTC) for the first time during the fiscal year ended June 30, 2008. Such receipts were received pursuant to Act 44 of 2007 and the related Lease and Funding Agreement between the PTC and the PA Department of Transportation.

Budgetary Compliance

A separately available budgetary report, the "*Status of Appropriations*" (Special Funds), demonstrates budgetary expenditure compliance for the Motor License Fund for the fiscal year ended June 30, 2011 and is available at the following web address:

<http://www.portal.state.pa.us/portal/server.pt?open=512&objID=4574&&PageID=473560&mode=2> (At the website, click on June 2011.)

A separately available revenue report, the "*Report of Revenue and Receipts*" for the Motor License Fund for the fiscal year ended June 30, 2011 and is available at the following web address: http://www.portal.state.pa.us/portal/server.pt/community/revenue___receipts_reports/14825/FY%202009-10/993360 (At the website, click on June 2011 and go to page 94)

(continued)

Traceability to the " *Status of Appropriations* " Column Totals

Special Funds
"Status of
Appropriations"
Report Page

Total State Programs-Actual (Budgetary Basis) Expenditures: Reference

Column: Appropriations or Balance Carried Forward.....	56 ¹	\$ 3,304,256	Caption: Total All Current State Ledgers
less 010-78-571-10-16 Airport Development.....	59 ²	\$ 8,500	
less 010-78-572-10-16 Real Estate Tax Rebate.....	59 ²	\$ 250	
less 010-78-579-10-16 Aviation Operations.....	59 ²	\$ 4,134	
less 010-73-132-10-26 Capital Bridge Debt Service.....	61 ³	\$ 42,574	
less 010-38-226-10-26 Forestry Bridges-Excise Tax.....	61 ³	\$ 7,000	
less 010-78-172-10-26 Annual Maint Payments-Highway Transfer....	62 ³	\$ 18,752	
less 010-78-173-10-26 Payment to Municipalities.....	62 ³	\$ 36,523	
less 010-78-174-10-26 Highway Maintenance Enhancement.....	62 ³	\$ 264,928	
less 010-78-177-10-26 Highway Capital Projects-Excise Tax.....	62 ³	\$ 74,127	
less 010-78-178-10-26 Bridges-Excise Tax.....	62 ³	\$ 56,685	
less 010-78-179-10-26 County Bridges Excise Tax.....	62 ³	\$ 10,000	
less 010-78-180-10-26 Local Road Payments-Excise Tax.....	62 ³	\$ 51,823	
less 010-78-181-10-26 Highway Maintenance-Excise Tax.....	62 ³	\$ 179,496	
less 010-78-182-10-26 Toll Roads-Excise Tax.....	62 ³	\$ 60,996	
less 010-78-183-10-26 Local Grants for Bridge Projects.....	63 ³	\$ 25,000	
less 010-78-184-10-26 Restoration Projects-Highway Transfer.....	63 ³	\$ 8,000	
less 010-78-185-10-26 Highway Bridge Projects.....	63 ³	\$ 30,000	
Total Appropriations or Balance Carried Forward.....		<u>\$ 2,425,468</u>	
plus Column: Actual Augmentations.....	56 ¹	\$ 1,559,565	Caption: Total All Current State Ledgers
less 010-78-579-10-16 Aviation Operations.....	59 ²	\$ 493	
less 010-78-179-10-26 County Bridges Excise Tax.....	62 ³	\$ 44	
less 010-78-183-10-26 Local Grants for Bridge Projects.....	63 ³	\$ 1,133	
less 010-78-185-10-26 Highway Bridge Projects.....	63 ³	\$ 527,378	
less Report of Revenues and Receipts ⁵		<u>\$ 979,666</u>	
Total Actual Augmentations.....		<u>\$ 50,851</u>	
less Column: Lapses.....	56 ¹	\$ 32,303	Caption: Total All Current State Ledgers
less 010-78-571-10-16 Airport Development.....	59 ²	\$ 1,500	
less 010-73-132-10-26 Capital Bridge Debt Service.....	61 ³	\$ 8,186	
Total Lapses.....		<u>\$ 22,617</u>	
TOTAL STATE PROGRAMS Actual (Budgetary Basis) Expenditures		<u><u>\$ 2,453,702</u></u>	

Total Federal Programs-Actual (Budgetary Basis) Expenditures

Column: Commitments (Column D).....	86 ⁴	\$ 2,861	Caption: Total All Current Federal Ledgers
plus Column: Expenditures (Column E).....	86 ⁴	19,119	
plus Column: Appropriations Balance.....		11,336	
plus Report of Revenues and Receipts ⁵		<u>1,334,295</u>	
TOTAL FEDERAL PROGRAMS Actual (Budgetary Basis) Expenditures		<u><u>\$ 1,367,611</u></u>	

¹ Page no. 56, June 30, 2011 " *Status of Appropriations* " -**Special Fund** -Fund Summary of State Ledgers by Type

² Page no. 59, June 30, 2011 " *Status of Appropriations* " -**Special Fund** -Current State Appropriations Ledger

³ Page no. 61-63, June 30, 2011 " *Status of Appropriations* " -**Special Fund** -Current State Executive Authorizations Ledger

⁴ Page no. 86, June 30, 2011 " *Status of Appropriations* " -**Special Fund** -Fund Summary of Federal Ledgers by Type

⁵ The amount of \$1,334,295 is found in the Year-to-Date column for "Total Federal Revenue Augmenting Current State Expenditure Symbols" on page 94 of the June 30, 2011 " *Report of Revenues and Receipts* ". This amount, less \$354,629 (for Commitment Items (CI) 4850020; (CI) 4850021; (CI) 4850024; and (CI) 4850025) equals \$979,666, the net reduction of federal funds from **Motor License Fund** Actual Augmentations.

(concluded)

- 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 is enacted and 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.budget.state.pa.us/> and click on Current and Proposed Commonwealth Budgets.

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. Actual budgetary federal program revenues are recorded in amounts equal to federal expenditures. Also, estimated encumbrances and unspent appropriation balances are available 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 paid in the subsequent year. Over-estimates of prior year encumbrances and available appropriation balances 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**, a 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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Nonmajor Funds present 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.

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

	<u>General Fund</u>			<u>Motor License Fund</u>
	<u>General Fund (Budgeted)</u>	<u>General Fund Components (Nonbudgeted)</u>	<u>Total</u>	
Budgetary basis – revenues and other sources under expenditures and other uses.....	\$ 1,366,846	\$ -	\$ 1,366,846	\$ 152,851
Adjustments:				
<u>Basis differences</u>				
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(2,021,677)	-	(2,021,677)	1,044,111
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	1,672,730	-	1,672,730	(1,354,900)
Basis difference adjustments	<u>(348,947)</u>	<u>-</u>	<u>(348,947)</u>	<u>(310,789)</u>
<u>Perspective differences</u>				
Nonbudgeted statutory funds which are financially reported as part of the General Fund.				
Revenues.....	-	611,691	611,691	-
Expenditures.....	-	(573,378)	(573,378)	-
Perspective difference adjustments ...	<u>-</u>	<u>38,313</u>	<u>38,313</u>	<u>-</u>
Net adjustments	<u>(348,947)</u>	<u>38,313</u>	<u>(310,634)</u>	<u>(310,789)</u>
Modified accrual basis – net change in governmental fund balance.....	<u>\$ 1,017,899</u>	<u>\$ 38,313</u>	<u>\$ 1,056,212</u>	<u>\$ (157,938)</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 – Legal Level of Budgetary Control

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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 \$25.1 million in appropriations decreases approved during the fiscal year ended June 30, 2011.

A separately available report, the "*Status of Appropriations*" (*General Fund*), demonstrates budgetary expenditure compliance for the **General Fund** for the fiscal year ended June 30, 2011. 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> and click on Financial Reports. The Governor controls spending by using executive authorizations for Special Revenue funds not controlled by legislatively adopted budgets.



Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2011

Combining Financial Statements

Including
Nonmajor Budgetary Comparison Schedules

Commonwealth of Pennsylvania
Combining Balance Sheet-Nonmajor Governmental Funds

June 30, 2011

(Amounts in thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
ASSETS				
Cash.....	\$ 12,249	\$ 11,888	\$ 247	\$ 24,384
Temporary investments.....	1,804,932	5,151	367,782	2,177,865
Long-term investments.....	582,633	-	-	582,633
Receivables, net:				
Taxes.....	-	-	20,000	20,000
Accounts.....	6,531	3,222	56	9,809
Investment income.....	4,577	1	59	4,637
Loans.....	-	-	61,075	61,075
Lease rentals.....	-	427	-	427
Investment sale proceeds.....	4,723	-	-	4,723
Other.....	25,250	-	-	25,250
Due from other funds.....	66,407	-	40,666	107,073
Due from component units.....	3,334	-	1,301	4,635
Due from Federal government.....	28,945	-	-	28,945
Due from political subdivisions.....	-	-	1,193	1,193
Advances to other funds.....	4,500	-	-	4,500
TOTAL ASSETS.....	\$ 2,544,081	\$ 20,689	\$ 492,379	\$ 3,057,149
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities.....	\$ 144,289	\$ -	\$ 213,990	\$ 358,279
Investment purchases payable.....	21,593	-	-	21,593
Securities lending obligations.....	88,762	-	4,006	92,768
Due to other funds.....	12,980	-	17,899	30,879
Due to component units.....	27	-	-	27
Due to pension trust funds.....	673	-	-	673
Due to political subdivisions.....	51,733	-	38,015	89,748
Due to other governments.....	888	-	-	888
Unearned revenue.....	43,471	3,649	-	47,120
TOTAL LIABILITIES.....	364,416	3,649	273,910	641,975
Fund balances:				
Restricted.....	2,164,250	-	-	2,164,250
Committed.....	18,252	17,040	239,180	274,472
Unassigned deficit.....	(2,837)	-	(20,711)	(23,548)
TOTAL FUND BALANCES.....	2,179,665	17,040	218,469	2,415,174
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 2,544,081	\$ 20,689	\$ 492,379	\$ 3,057,149

Commonwealth of Pennsylvania
Combining Statement of Revenues, Expenditures, and Changes in Fund
Balances-Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2011

(Amounts in thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
REVENUES:				
Taxes.....	\$ 1,810,313	\$ -	\$ 220,845	\$ 2,031,158
Licenses and fees.....	441,454	-	-	441,454
Intergovernmental.....	450,324	20,187	-	470,511
Charges for sales and services.....	136,194	246	16,197	152,637
Investment income.....	107,638	428	4,568	112,634
Lease rental principal and interest.....	-	44	-	44
Interest on notes and loans.....	-	-	1,292	1,292
Other.....	26,505	5,320	-	31,825
TOTAL REVENUES	2,972,428	26,225	242,902	3,241,555
EXPENDITURES:				
Current:				
Direction and supportive services.....	435,348	15,715	283,423	734,486
Protection of persons and property.....	363,231	-	10,420	373,651
Health and human services.....	100,125	-	-	100,125
Public education.....	627,772	-	10,314	638,086
Recreation and cultural enrichment.....	152,929	-	63,545	216,474
Economic development.....	313,689	-	317,586	631,275
Transportation.....	755,845	-	484,591	1,240,436
Capital outlay.....	4,627	-	408,963	413,590
Debt service:				
Principal retirement.....	-	697,510	-	697,510
Interest and fiscal charges.....	-	477,751	-	477,751
TOTAL EXPENDITURES	2,753,566	1,190,976	1,578,842	5,523,384
EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER) EXPENDITURES	218,862	(1,164,751)	(1,335,940)	(2,281,829)
OTHER FINANCING SOURCES (USES):				
Bonds issued.....	-	-	650,000	650,000
Premium on bonds/refunding bonds/TANS issued.....	-	15,580	22,159	37,739
Discount on bonds issued.....	-	-	(4,724)	(4,724)
Transfers in.....	162,145	1,119,358	-	1,281,503
Transfers out.....	(539,177)	-	(25,384)	(564,561)
NET OTHER FINANCING SOURCES.....	(377,032)	1,134,938	642,051	1,399,957
NET CHANGE IN FUND BALANCES.....	(158,170)	(29,813)	(693,889)	(881,872)
FUND BALANCES JULY 1, 2010 (restated).....	2,337,835	46,853	912,358	3,297,046
FUND BALANCES JUNE 30, 2011.....	\$ 2,179,665	\$ 17,040	\$ 218,469	\$ 2,415,174

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Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2011

Special Revenue Funds

Including
Nonmajor Budgetary Comparison Schedules

**SPECIAL REVENUE FUNDS
DESCRIPTION
NONMAJOR FUNDS**

Account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

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.

Workers' Compensation Administration Fund — to account for the administration of the Pennsylvania Workers' 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.

Workers' Compensation Security Fund — to account for the payment of workers' 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 workers' compensation insurance in the Commonwealth.

Environmental Stewardship Fund — to account for revenues from certain landfill fees and expenditures for farmland preservation projects, open space protection, abandoned mine reclamation, watershed protection and restoration, water and sewer infrastructure, and the improvement of conservation of Commonwealth and community parks and recreational facilities.

Public Transportation Trust Fund — to provide dedicated funding for public transportation in the Commonwealth. Revenues come from scheduled payments by the Pennsylvania Turnpike Commission, a portion of the Sales and Use Tax, and transfers from the Public Transportation Assistance Fund and the Lottery Fund. Monies in this fund are disbursed as grants to public transit agencies for operating costs (including Shared Ride and Free Transit for Older Pennsylvanians), capital and asset improvements, and programs of statewide significance.

Gaming Fund — to account for the administration of the Race Horse Development and Gaming Act. Revenue is received from license fees and a percentage of the gross terminal revenue (GTR) generated by licensed gaming facilities.

Other — to account for programs related to restoration, conservation, protection, and management of natural resources; the payment of prescription drugs for eligible citizens 65 years or older; the preservation of historical landmarks; vocational rehabilitation services; administrative and regulatory activities of various departmental programs; and miscellaneous Commonwealth activities. This "Other" category is an aggregation of thirty-four individual special revenue funds.

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

Commonwealth of Pennsylvania
Combining Balance Sheet-Nonmajor Governmental Funds

Special Revenue Funds
 June 30, 2011

(Amounts in thousands)

	Budgeted Funds							Total	
	Banking Department	Milk Marketing	Workers' Compensation Admin.	Workers' Compensation Security	Environmental Stewardship	Public Transportation Trust	Gaming		Other
ASSETS									
Cash.....	\$ 4	\$ 396	\$ -	\$ 7	\$ -	\$ 143	\$ 8,694	\$ 3,005	\$ 12,249
Temporary investments.....	15,641	3,511	119,226	100,880	71,792	118,746	802,427	572,709	1,804,932
Long-term investments.....	-	-	-	582,633	-	-	-	-	582,633
Receivables, net:									
Accounts.....	6,428	-	6	1	-	-	5	91	6,531
Investment income.....	1	-	-	4,397	1	11	131	36	4,577
Investment sale proceeds.....	-	-	-	4,723	-	-	-	-	4,723
Other.....	-	-	-	-	-	-	-	25,250	25,250
Due from other funds.....	2	1	-	-	-	46,644	2	19,758	66,407
Due from component units.....	-	-	-	-	-	-	3,334	-	3,334
Due from Federal government.....	-	-	-	-	-	-	-	28,945	28,945
Advances to other funds.....	-	-	-	1,500	-	-	-	3,000	4,500
TOTAL ASSETS.....	\$ 22,076	\$ 3,908	\$ 119,232	\$ 694,141	\$ 71,793	\$ 165,544	\$ 814,593	\$ 652,794	\$ 2,544,081
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable and accrued liabilities.....	\$ 1,191	\$ 136	\$ 4,867	\$ 1,905	\$ 11,260	\$ 9,162	\$ 30,762	\$ 85,006	\$ 144,289
Investment purchases payable.....	-	-	-	21,593	-	-	-	-	21,593
Securities lending obligations.....	534	-	-	63,225	3,205	4,006	-	17,792	88,762
Due to other funds.....	28	73	85	322	-	4	849	11,619	12,980
Due to component units.....	-	-	-	-	12	-	-	15	27
Due to pension trust funds.....	24	4	63	1	-	6	133	442	673
Due to political subdivisions.....	-	-	-	-	852	17,261	24,703	8,917	51,733
Due to other governments.....	26	5	129	1	-	7	63	657	888
Unearned revenue.....	-	1,142	-	-	-	-	26,566	15,763	43,471
TOTAL LIABILITIES.....	1,803	1,360	5,144	87,047	15,329	30,446	83,076	140,211	364,416
Fund balances:									
Restricted.....	20,273	2,548	114,088	607,094	56,464	135,098	731,517	497,168	2,164,250
Committed.....	-	-	-	-	-	-	-	18,252	18,252
Unassigned deficit.....	-	-	-	-	-	-	-	(2,837)	(2,837)
TOTAL FUND BALANCES.....	20,273	2,548	114,088	607,094	56,464	135,098	731,517	512,583	2,179,665
TOTAL LIABILITIES AND FUND BALANCES..	\$ 22,076	\$ 3,908	\$ 119,232	\$ 694,141	\$ 71,793	\$ 165,544	\$ 814,593	\$ 652,794	\$ 2,544,081

Commonwealth of Pennsylvania
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-Nonmajor Governmental Funds
Nonmajor Governmental Funds
Special Revenue Funds
For the Fiscal Year Ended June 30, 2011

(Amounts in thousands)

	Budgeted Funds								Total
	Banking Department	Milk Marketing	Workers' Compensation Admin.	Workers' Compensation Security	Environmental Stewardship	Public Transportation Trust	Gaming	Other	
REVENUES:									
Taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 398,778	\$ 1,340,714	\$ 70,821	\$ 1,810,313
Licenses and fees.....	6,440	2,823	-	28,665	63,736	-	69,046	270,744	441,454
Intergovernmental.....	-	-	-	-	-	250,000	9,497	190,827	450,324
Charges for sales and services.....	12,548	-	53,083	-	-	-	-	70,563	136,194
Investment income.....	1,606	218	362	42,436	7,816	8,784	1,538	44,878	107,638
Other.....	17	-	104	1,029	-	-	-	25,355	26,505
TOTAL REVENUES	20,611	3,041	53,549	72,130	71,552	657,562	1,420,795	673,188	2,972,428
EXPENDITURES:									
Current:									
Direction and supportive services.....	-	-	4	-	-	-	434,857	487	435,348
Protection of persons and property.....	18,043	2,354	-	34,318	12,084	-	3,518	292,914	363,231
Health and human services.....	-	-	52,434	-	-	-	4,101	43,590	100,125
Public education.....	-	-	-	-	-	-	616,500	11,272	627,772
Recreation and cultural enrichment.....	-	-	-	-	8,735	-	9,320	134,874	152,929
Economic development.....	-	-	120	-	7,439	-	116,172	189,958	313,689
Transportation.....	-	-	-	-	-	755,845	-	-	755,845
Capital outlay.....	-	-	-	-	1,004	-	-	3,623	4,627
TOTAL EXPENDITURES	18,043	2,354	52,558	34,318	29,262	755,845	1,184,468	676,718	2,753,566
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2,568	687	991	37,812	42,290	(98,283)	236,327	(3,530)	218,862
OTHER FINANCING SOURCES (USES):									
Transfers in.....	-	-	-	-	-	109,679	-	52,466	162,145
Transfers out.....	-	-	(2,200)	-	(41,814)	-	(286,216)	(208,947)	(539,177)
NET OTHER FINANCING SOURCES (USES)	-	-	(2,200)	-	(41,814)	109,679	(286,216)	(156,481)	(377,032)
NET CHANGE IN FUND BALANCES	2,568	687	(1,209)	37,812	476	11,396	(49,889)	(160,011)	(158,170)
FUND BALANCES, JULY 1, 2010 (restated)	17,705	1,861	115,297	569,282	55,988	123,702	781,406	672,594	2,337,835
FUND BALANCES, JUNE 30, 2011	\$ 20,273	\$ 2,548	\$ 114,088	\$ 607,094	\$ 56,464	\$ 135,098	\$ 731,517	\$ 512,583	\$ 2,179,665

Commonwealth of Pennsylvania
Budgetary Comparison Schedule
 Budgeted Nonmajor Funds
 Special Revenue Fund-Banking Department
 For the Fiscal Year Ended June 30, 2011

(Amounts in thousands)

	<u>Original Budget</u>	<u>Difference</u>	<u>Final Budget</u>	<u>Difference</u>	<u>Actual (Budgetary Basis)</u>
REVENUES:					
State Programs:					
Licenses and fees.....	\$ 15,320	\$ 850	\$ 16,170	\$ 732	\$ 16,902
Fines, penalties and interest.....	750	750	1,500	334	1,834
Investment income.....	350	1,270	1,620	49	1,669
TOTAL REVENUES.....	16,420	2,870	19,290	1,115	20,405
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	5	-	5	-	5
Protection of persons and property.....	20,833	-	20,833	-	20,833
TOTAL EXPENDITURES.....	20,838	-	20,838	-	20,838
REVENUES UNDER EXPENDITURES.....	(4,418)	2,870	(1,548)	1,115	(433)
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	2,698	2,698	5	2,703
REVENUES AND OTHER SOURCES OVER (UNDER)					
EXPENDITURES.....	(4,418)	5,568	1,150	1,120	2,270
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2010.....	8,681	-	8,681	-	8,681
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2011.....	\$ 4,263	\$ 5,568	\$ 9,831	\$ 1,120	\$ 10,951

Budgetary Compliance

A separately available budgetary report, the "Status of Appropriations" (Special Funds), demonstrates budgetary expenditure compliance for the Banking Department for the fiscal year ended June 30, 2011 and is available at the following web address:
<http://www.portal.state.pa.us/portal/server.pt?open=512&objID=4574&&PageID=473560&mode=2> (At the website, click on June 2011.)

Total Actual (Budgetary Basis) Expenditures of \$20,838 are traceable from page 104, Column A 'Appropriations' in the June 30, 2011 "Status of Appropriations" (Special Funds).

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 under expenditures (from Actual column above).....	<u>\$ 2,270</u>
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(2,497)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	<u>2,795</u>
Net adjustments.....	<u>298</u>
Modified accrual basis — net change in governmental fund balance.....	<u>\$ 2,568</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 158 to 160 are an integral part of this schedule. -

Commonwealth of Pennsylvania
Budgetary Comparison Schedule
 Budgeted Nonmajor Funds
 Special Revenue Fund-Milk Marketing
 For the Fiscal Year Ended June 30, 2011

(Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Licenses and fees.....	\$ 2,450	\$ 125	\$ 2,575	\$ 241	\$ 2,816
Fines, penalties and interest.....	50	(40)	10	(3)	7
Investment income.....	10	321	331	(44)	287
TOTAL REVENUES.....	2,510	406	2,916	194	3,110
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	5	-	5	-	5
Protection of persons and property.....	2,836	-	2,836	-	2,836
TOTAL EXPENDITURES.....	2,841	-	2,841	-	2,841
REVENUES OVER (UNDER)					
EXPENDITURES.....	(331)	406	75	194	269
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	372	372	-	372
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....	(331)	778	447	194	641
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2010.....	1,422	-	1,422	-	1,422
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2011.....	\$ 1,091	\$ 778	\$ 1,869	\$ 194	\$ 2,063

A separately available report, the "Status of Appropriations" (Special Funds), demonstrates budgetary expenditure compliance for the Milk Marketing Fund for the fiscal year ended June 30, 2011 and is available at the following web address:

<http://www.portal.state.pa.us/portal/server.pt?open=512&objID=4574&&PageID=473560&mode=2> (At the website, click on June 2011.)

Total Actual (Budgetary Basis) Expenditures of \$2,841 are traceable from page 111, Column A 'Appropriations' in the June 30, 2011 "Status of Appropriations" (Special Funds).

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 over expenditures (from Actual column above).....	\$ 641
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(441)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	487
Net adjustments.....	46
Modified accrual basis — net change in governmental fund balance.....	\$ 687

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 158 to 160 are an integral part of this schedule. -

Commonwealth of Pennsylvania
 Budgetary Comparison Schedule
 Budgeted Nonmajor Funds
 Special Revenue Fund-Workers' Compensation Administration
 For the Fiscal Year Ended June 30, 2011

(Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Taxes, net of refunds.....	\$ 72,615	\$ (15,093)	\$ 57,522	\$ 40	\$ 57,562
Fines, penalties and interest.....	25	(5)	20	67	87
Investment income.....	600	(290)	310	52	362
Departmental services.....	190	-	190	-	190
Miscellaneous.....	260	(100)	160	(54)	106
TOTAL REVENUES.....	73,690	(15,488)	58,202	105	58,307
EXPENDITURES:					
State Programs:					
Health and human services.....	74,951	285	75,236	-	75,236
Economic development.....	190	-	190	-	190
TOTAL EXPENDITURES.....	75,141	285	75,426	-	75,426
REVENUES OVER (UNDER) EXPENDITURES.....	(1,451)	(15,773)	(17,224)	105	(17,119)
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	20,372	20,372	-	20,372
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....	(1,451)	4,599	3,148	105	3,253
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2010.....	92,592	-	92,592	-	92,592
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2011.....	\$ 91,141	\$ 4,599	\$ 95,740	\$ 105	\$ 95,845

Budgetary Compliance

A separately available budgetary report, the "Status of Appropriations" (Special Funds), demonstrates budgetary expenditure compliance for the Workers' Compensation Administration Fund for the fiscal year ended June 30, 2011 and is available at the following web address:
<http://www.portal.state.pa.us/portal/server.pt?open=512&objID=4574&&PageID=473560&mode=2> (At the website, click on June 2011.)

Traceability to the " Status of Appropriations " Column Totals <u>Total State Programs-Actual (Budgetary Basis) Expenditures</u>	<i>Special Funds "Status of Appropriations" Report Page Reference</i>	
Appropriations (Column A).....	281	\$ 74,951
plus Actual Augmentations (Column B).....	281	475
less Lapses (Column C).....	281	-
TOTAL STATE PROGRAMS Actual (Budgetary Basis) Expenditures		\$ 75,426

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 under expenditures (from Actual column above).....	\$ 3,253
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(25,130)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	20,668
Net adjustments.....	(4,462)
Modified accrual basis — net change in governmental fund balance.....	\$ (1,209)

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 158 to 160 are an integral part of this schedule. -

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Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2011

Debt Service Funds

**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, 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, compensation to Vietnam conflict veterans, finance of various environmental initiatives, and for water and wastewater infrastructure projects related to economic development. Funding consists of transfers from the General Fund, Environmental Stewardship Fund, and investment income. This other category is an aggregation of thirteen individual debt service funds.

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

Commonwealth of Pennsylvania
Combining Balance Sheet-Nonmajor Governmental Funds
 Debt Service Funds
 June 30, 2011

(Amounts 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								
Cash.....	\$ -	\$ -	\$ 11,888	\$ -	\$ -	\$ -	\$ -	\$ 11,888
Temporary investments.....	-	1,786	1,543	-	-	354	1,468	5,151
Receivables, net:								
Accounts.....	-	-	3,222	-	-	-	-	3,222
Investment income.....	-	-	1	-	-	-	-	1
Lease rentals.....	-	-	427	-	-	-	-	427
TOTAL ASSETS.....	\$ -	\$ 1,786	\$ 17,081	\$ -	\$ -	\$ 354	\$ 1,468	\$ 20,689
LIABILITIES AND FUND BALANCES								
Liabilities:								
Unearned revenue.....	\$ -	\$ -	\$ 3,649	\$ -	\$ -	\$ -	\$ -	\$ 3,649
TOTAL LIABILITIES.....	-	-	3,649	-	-	-	-	3,649
Fund balances:								
Committed.....	-	1,786	13,432	-	-	354	1,468	17,040
TOTAL FUND BALANCES.....	-	1,786	13,432	-	-	354	1,468	17,040
TOTAL LIABILITIES AND FUND BALANCES.....	\$ -	\$ 1,786	\$ 17,081	\$ -	\$ -	\$ 354	\$ 1,468	\$ 20,689

Commonwealth of Pennsylvania
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
 Debt Service Funds
 For the Fiscal Year Ended June 30, 2011

(Amounts 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
REVENUES:								
Intergovernmental.....	\$ -	\$ -	\$ 20,187	\$ -	\$ -	\$ -	\$ -	\$ 20,187
Charges for sales and services.....	-	-	246	-	-	-	-	246
Investment income.....	-	2	8	-	-	369	49	428
Lease rental principal and interest.....	-	-	44	-	-	-	-	44
Other.....	-	5,320	-	-	-	-	-	5,320
TOTAL REVENUES	<u>-</u>	<u>5,322</u>	<u>20,485</u>	<u>-</u>	<u>-</u>	<u>369</u>	<u>49</u>	<u>26,225</u>
EXPENDITURES:								
Current:								
Direction and supportive services.....	-	-	-	-	-	-	15,715	15,715
Debt service:								
Principal retirement.....	155	6,065	661,545	430	1,585	220	27,510	697,510
Interest and fiscal charges.....	8	4,369	438,435	73	267	37	34,562	477,751
TOTAL EXPENDITURES	<u>163</u>	<u>10,434</u>	<u>1,099,980</u>	<u>503</u>	<u>1,852</u>	<u>257</u>	<u>77,787</u>	<u>1,190,976</u>
EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER) EXPENDITURES	<u>(163)</u>	<u>(5,112)</u>	<u>(1,079,495)</u>	<u>(503)</u>	<u>(1,852)</u>	<u>112</u>	<u>(77,738)</u>	<u>(1,164,751)</u>
OTHER FINANCING SOURCES (USES):								
Premium on refunding bonds/TANS.....	-	-	-	-	-	-	15,580	15,580
Transfers in.....	163	5,122	1,049,927	503	1,852	241	61,550	1,119,358
NET OTHER FINANCING SOURCES	<u>163</u>	<u>5,122</u>	<u>1,049,927</u>	<u>503</u>	<u>1,852</u>	<u>241</u>	<u>77,130</u>	<u>1,134,938</u>
NET CHANGE IN FUND BALANCES	-	10	(29,568)	-	-	353	(608)	(29,813)
FUND BALANCES, JULY 1, 2010	-	1,776	43,000	-	-	1	2,076	46,853
FUND BALANCES, JUNE 30, 2011	<u>\$ -</u>	<u>\$ 1,786</u>	<u>\$ 13,432</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 354</u>	<u>\$ 1,468</u>	<u>\$ 17,040</u>



Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2011

Capital Projects Funds

**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. Projects fall within six broad categories: public improvements, public improvement-original furniture and equipment, transportation assistance, redevelopment assistance, flood control and highway projects. Such projects include those of the primary government and also grants to non-primary government recipients.

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.

Growing Greener Bond Fund — to account for the proceeds of bonds issued. The money will be used to finance various environmental projects such watershed protection, mine drainage remediation, advanced energy, flood protection and various capital improvement projects including county environmental initiatives.

Water Supply and Wastewater Treatment Fund — funding for this program is generated from the \$250 million bond issue approved by the electorate in April of 2004. Funds are allocated to the Commonwealth Financing Authority and the Pennsylvania Infrastructure Investment Authority (PennVest) to be used for grants and loans for new and existing water supply and wastewater system projects in the Commonwealth.

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.

Public Transportation Assistance Fund — This fund was established to help provide for the capital asset maintenance and certain other transportation needs of the Commonwealth's transit entities. Act 44 of 2007 revised the purpose of this fund by transferring programs to the new Public Transportation Trust Fund.

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

Commonwealth of Pennsylvania
Combining Balance Sheet-Nonmajor Governmental Funds

Capital Project Funds

June 30, 2011

(Amounts in thousands)

	Capital Facilities	Keystone Recreation, Park and Conservation	Local Criminal Justice	Growing Greener Bond	Water Supply and Wastewater Treatment	Land and Water Development	Public Transportation Assistance	Total
ASSETS								
Cash.....	\$ -	\$ 217	\$ -	\$ -	\$ 23	\$ -	\$ 7	\$ 247
Temporary investments.....	202,979	95,719	-	28,652	32,924	522	6,986	367,782
Receivables, net:								
Taxes.....	-	-	-	-	-	-	20,000	20,000
Accounts.....	56	-	-	-	-	-	-	56
Investment income.....	41	4	-	5	6	-	3	59
Notes and loans.....	-	-	-	-	61,075	-	-	61,075
Due from other funds.....	25,734	5,075	-	-	-	-	9,857	40,666
Due from component units.....	1,301	-	-	-	-	-	-	1,301
Due from political subdivisions.....	1,193	-	-	-	-	-	-	1,193
TOTAL ASSETS.....	\$ 231,304	\$ 101,015	\$ -	\$28,657	\$94,028	\$ 522	\$ 36,853	\$ 492,379
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable and accrued liabilities.....	\$ 200,038	\$ 4,268	\$ -	\$ 3,022	\$ 444	\$ 80	\$ 6,138	\$ 213,990
Securities lending obligations.....	-	4,006	-	-	-	-	-	4,006
Due to other funds.....	17,023	28	-	-	-	-	848	17,899
Due to political subdivisions.....	34,954	1,298	-	-	1,763	-	-	38,015
TOTAL LIABILITIES.....	252,015	9,600	-	3,022	2,207	80	6,986	273,910
Fund balances:								
Committed.....	-	91,415	-	25,635	91,821	442	29,867	239,180
Unassigned deficit.....	(20,711)	-	-	-	-	-	-	(20,711)
TOTAL FUND BALANCES.....	(20,711)	91,415	-	25,635	91,821	442	29,867	218,469
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 231,304	\$ 101,015	\$ -	\$28,657	\$94,028	\$ 522	\$ 36,853	\$ 492,379

Commonwealth of Pennsylvania
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
 Capital Projects Funds
 For the Fiscal Year Ended June 30, 2011
 (Amounts in thousands)

	Capital Facilities	Keystone Recreation, Park and Conservation	Local Criminal Justice	Growing Greener Bond	Water Supply and Wastewater Treatment	Land and Water Development	Public Transportation Assistance	Total
REVENUES:								
Taxes.....	\$ -	\$ 49,136	\$ -	\$ -	\$ -	\$ -	\$ 171,709	\$ 220,845
Charges for sales and services.....	16,197	-	-	-	-	-	-	16,197
Investment income.....	1,455	2,871	1	124	75	-	42	4,568
Interest on notes and loans.....	-	-	-	1	1,291	-	-	1,292
TOTAL REVENUES	<u>17,652</u>	<u>52,007</u>	<u>1</u>	<u>125</u>	<u>1,366</u>	<u>-</u>	<u>171,751</u>	<u>242,902</u>
EXPENDITURES:								
Current:								
Direction and supportive services.....	283,394	-	-	16	13	-	-	283,423
Protection of persons and property.....	-	-	-	10,209	-	211	-	10,420
Public education.....	-	-	-	10,314	-	-	-	10,314
Recreation and cultural enrichment.....	7,869	47,372	-	8,304	-	-	-	63,545
Economic development.....	298,487	-	-	6,995	12,104	-	-	317,586
Transportation.....	329,588	-	-	-	-	-	155,003	484,591
Capital outlay.....	393,499	3,898	-	11,566	-	-	-	408,963
TOTAL EXPENDITURES	<u>1,312,837</u>	<u>51,270</u>	<u>-</u>	<u>47,404</u>	<u>12,117</u>	<u>211</u>	<u>155,003</u>	<u>1,578,842</u>
EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER) EXPENDITURES	<u>(1,295,185)</u>	<u>737</u>	<u>1</u>	<u>(47,279)</u>	<u>(10,751)</u>	<u>(211)</u>	<u>16,748</u>	<u>(1,335,940)</u>
OTHER FINANCING SOURCES:								
Bonds issued.....	610,225	-	-	19,500	20,275	-	-	650,000
Premium on bonds issued.....	22,128	-	-	-	31	-	-	22,159
Discount on bonds issued.....	(4,436)	-	-	(199)	(89)	-	-	(4,724)
Transfers out.....	-	(9,227)	(1)	-	-	-	(16,156)	(25,384)
NET OTHER FINANCING SOURCES	<u>627,917</u>	<u>(9,227)</u>	<u>(1)</u>	<u>19,301</u>	<u>20,217</u>	<u>-</u>	<u>(16,156)</u>	<u>642,051</u>
NET CHANGE IN FUND BALANCES	<u>(667,268)</u>	<u>(8,490)</u>	<u>-</u>	<u>(27,978)</u>	<u>9,466</u>	<u>(211)</u>	<u>592</u>	<u>(693,889)</u>
FUND BALANCES JULY 1, 2010 (restated)	<u>646,557</u>	<u>99,905</u>	<u>-</u>	<u>53,613</u>	<u>82,355</u>	<u>653</u>	<u>29,275</u>	<u>912,358</u>
FUND BALANCES JUNE 30, 2011	<u>\$ (20,711)</u>	<u>\$ 91,415</u>	<u>\$ -</u>	<u>\$25,635</u>	<u>\$ 91,821</u>	<u>\$ 442</u>	<u>\$ 29,867</u>	<u>\$ 218,469</u>



Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2011

Enterprise Funds

**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 and financing 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 and financing include loan principal and interest payments, transfers from the General Fund, 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 Fund (PIB)— to account for and provide low-interest loans to, or enter into leases with, qualified borrowers to finance the costs of construction and capital transportation projects within Pennsylvania. Acts 165 and 7A of 2004 expanded this program to include financing of rail freight infrastructure. Eligible borrowers include local governments, transportation authorities, economic development agencies, not-for-profit organizations, and private corporations. The interest rate on PIB loans is fixed at one-half the prime lending rate with terms up to 10 years.

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 and financing include loan principal and interest payments, 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.

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Commonwealth of Pennsylvania
Combining Statement of Net Assets-Nonmajor Proprietary Funds
 Enterprise Funds
 June 30, 2011

(Amounts in thousands)

	State Stores	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Minority Business Development	Other	Total
ASSETS									
Current assets:									
Cash	\$ 15,831	\$ 234	\$ 637	\$ 183	\$ 36	\$ 153	\$ 6	\$ 130	\$ 17,210
Temporary investments.....	92,384	74,592	49,033	98,055	92,161	62,568	4,150	11,262	484,205
Receivables:									
Accounts	1,168	-	-	-	-	-	-	230	1,398
Investment income.....	-	4	3	7	3	1	1	1	20
Interest on loans.....	-	-	217	-	-	568	-	-	785
Loans.....	-	11,891	16,779	14,936	-	7,354	1,605	345	52,910
Due from other funds	24	-	-	-	-	162	-	7,210	7,396
Due from Federal government.....	-	-	-	-	-	-	-	332	332
Other-Advances to other funds.....	-	-	-	-	-	1,400	-	-	1,400
Inventory.....	265,860	-	-	-	-	-	-	4	265,864
Prepaid expenses.....	2,336	-	-	-	-	-	-	-	2,336
Total current assets	<u>377,603</u>	<u>86,721</u>	<u>66,669</u>	<u>113,181</u>	<u>92,200</u>	<u>72,206</u>	<u>5,762</u>	<u>19,514</u>	<u>833,856</u>
Noncurrent assets:									
Receivables:									
Loans.....	-	51,941	79,859	55,068	-	49,402	2,284	884	239,438
Non-depreciable capital assets:									
Land.....	323	-	-	-	-	-	-	-	323
Construction in progress.....	-	-	-	-	-	-	-	2,886	2,886
Depreciable or amortizable capital assets:									
Buildings and building improvements.....	22,761	-	-	-	-	-	-	25,335	48,096
Machinery and equipment.....	78,761	-	-	-	125	-	-	3,993	82,879
Intangible assets.....	12,688	-	-	-	-	-	-	-	12,688
Less: accumulated depreciation and amortization.....	(54,341)	-	-	-	(24)	-	-	(20,191)	(74,556)
Net depreciable or amortizable capital assets.....	<u>59,869</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>101</u>	<u>-</u>	<u>-</u>	<u>9,137</u>	<u>69,107</u>
Total noncurrent assets	<u>60,192</u>	<u>51,941</u>	<u>79,859</u>	<u>55,068</u>	<u>101</u>	<u>49,402</u>	<u>2,284</u>	<u>12,907</u>	<u>311,754</u>
TOTAL ASSETS.....	<u>437,795</u>	<u>138,662</u>	<u>146,528</u>	<u>168,249</u>	<u>92,301</u>	<u>121,608</u>	<u>8,046</u>	<u>32,421</u>	<u>1,145,610</u>

Commonwealth of Pennsylvania
Combining Statement of Net Assets-Nonmajor Proprietary Funds
 Enterprise Funds
 June 30, 2011

(Amounts in thousands)

	State Stores	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Minority Business Development	Other	Total
LIABILITIES									
Current liabilities:									
Accounts payable and accrued liabilities.....	260,882	1,303	-	19	224	-	11	2,707	265,146
Securities lending obligations.....	-	2,670	1,602	2,938	3,739	2,670	-	-	13,619
Due to other funds.....	8,200	-	-	1	7	-	-	76	8,284
Due to pension trust funds.....	582	1	-	1	3	-	1	1	589
Due to political subdivisions.....	-	-	-	-	-	-	-	17	17
Due to other governments.....	649	1	-	1	3	-	1	5	660
Unearned revenue.....	-	-	92	-	2,256	-	-	2	2,350
Self insurance liabilities.....	4,076	3	-	5	23	-	2	211	4,320
Compensated absences.....	5,721	-	-	-	78	-	-	363	6,162
Advances from other funds.....	110,000	3,000	-	-	-	-	-	-	113,000
Total current liabilities.....	390,110	6,978	1,694	2,965	6,333	2,670	15	3,382	414,147
Non-current liabilities:									
Insurance loss liability.....	-	-	-	-	311	-	-	-	311
Compensated absences.....	21,519	-	-	-	295	-	-	1,366	23,180
Self insurance liabilities.....	27,656	23	-	34	159	-	17	1,431	29,320
Other postemployment benefit obligations.....	37,149	59	-	67	269	-	32	1,744	39,320
Total non-current liabilities.....	86,324	82	-	101	1,034	-	49	4,541	92,131
TOTAL LIABILITIES.....	476,434	7,060	1,694	3,066	7,367	2,670	64	7,923	506,278
NET ASSETS									
Invested in capital assets, net of related debt.....	60,192	-	-	-	101	-	-	12,023	72,316
Restricted for:									
Health-related programs.....	-	-	-	-	-	-	-	2,323	2,323
Transportation.....	-	-	-	-	-	118,938	-	-	118,938
Economic development.....	-	131,602	-	165,183	-	-	7,982	-	304,767
Emergency support.....	-	-	144,834	-	-	-	-	-	144,834
Other purposes.....	-	-	-	-	84,833	-	-	10,152	94,985
Deficit.....	(98,831)	-	-	-	-	-	-	-	(98,831)
TOTAL NET ASSETS.....	\$ (38,639)	\$ 131,602	\$ 144,834	\$ 165,183	\$ 84,934	\$ 118,938	\$ 7,982	\$ 24,498	\$ 639,332

Commonwealth of Pennsylvania

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets-Nonmajor Proprietary Funds

Enterprise Funds

For the Fiscal Year Ended June 30, 2011

(Amounts in thousands)

	State Stores	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Minority Business Development	Other	Total
OPERATING REVENUES:									
Sales and services.....	\$ 1,586,394	\$ -	\$ -	\$ 25	\$ 4,975	\$ -	\$ 6	\$ 6,964	\$ 1,598,364
Interest on loans.....	-	2,804	2,043	3,532	-	1,373	131	33	9,916
Other.....	-	3	-	2	-	-	-	518	523
OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTIBLE ACCOUNTS.....	1,586,394	2,807	2,043	3,559	4,975	1,373	137	7,515	1,608,803
Provision for uncollectible accounts.....	-	(484)	59	(4,193)	-	-	(701)	(120)	(5,439)
NET OPERATING REVENUES.....	1,586,394	2,323	2,102	(634)	4,975	1,373	(564)	7,395	1,603,364
OPERATING EXPENSES:									
Cost of sales and services.....	1,492,328	1,872	-	525	2,990	-	254	10,679	1,508,648
Depreciation.....	12,185	-	-	-	-	-	-	1,876	14,061
TOTAL OPERATING EXPENSES.....	1,504,513	1,872	-	525	2,990	-	254	12,555	1,522,709
OPERATING INCOME (LOSS).....	81,881	451	2,102	(1,159)	1,985	1,373	(818)	(5,160)	80,655
NONOPERATING REVENUES (EXPENSES):									
Investment income.....	259	6,819	3,848	7,716	9,312	6,530	237	936	35,657
Grants and other revenues.....	-	19	-	-	2	-	-	2,019	2,040
Other expenses.....	(4)	-	-	-	-	-	-	-	(4)
TOTAL NONOPERATING REVENUES (EXPENSES).....	255	6,838	3,848	7,716	9,314	6,530	237	2,955	37,693
INCOME (LOSS) BEFORE TRANSFERS.....	82,136	7,289	5,950	6,557	11,299	7,903	(581)	(2,205)	118,348
TRANSFERS:									
Transfers in.....	-	-	-	-	-	48	-	-	48
Transfers out.....	(106,674)	(4,000)	-	-	-	-	-	(1,000)	(111,674)
TOTAL TRANSFERS.....	(106,674)	(4,000)	-	-	-	48	-	(1,000)	(111,626)
CHANGE IN NET ASSETS.....	(24,538)	3,289	5,950	6,557	11,299	7,951	(581)	(3,205)	6,722
TOTAL NET ASSETS, JULY 1, 2010.....	(14,101)	128,313	138,884	158,626	73,635	110,987	8,563	27,703	632,610
TOTAL NET ASSETS, JUNE 30, 2011.....	\$ (38,639)	\$ 131,602	\$ 144,834	\$ 165,183	\$ 84,934	\$ 118,938	\$ 7,982	\$ 24,498	\$ 639,332

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Commonwealth of Pennsylvania
Combining Statement of Cash Flows-Nonmajor Proprietary Funds
 Enterprise Funds
 For the Fiscal Year Ended June 30, 2011

(Amounts in thousands)

	State Stores	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Minority Business Development	Other	Total
CASH FLOWS FROM OPERATING ACTIVITIES:									
Receipts from customers.....	\$ 1,588,157	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,014	\$ 1,607,171
Receipts from borrowers.....	-	19,747	18,552	36,341	-	15,962	1,192	581	92,375
Receipt of premiums.....	-	-	-	-	4,773	-	-	-	4,773
Payments to claimants.....	-	-	-	-	(676)	-	-	-	(676)
Payments to borrowers.....	-	(8,049)	(13,007)	(15,645)	-	(12,678)	(608)	(165)	(50,152)
Payments for vendors, employees and other costs.....	(1,410,413)	(559)	-	(507)	(2,182)	-	(230)	(24,528)	(1,438,419)
Other receipts (payments).....	-	-	567	-	-	-	-	(308)	259
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	177,744	11,139	6,112	20,189	1,915	3,284	354	(5,406)	215,331
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:									
Transfers out.....	(106,050)	(4,000)	-	-	-	-	-	(1,000)	(111,050)
Grants and other revenues.....	-	-	-	-	2	-	-	1,810	1,812
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES.....	(106,050)	(4,000)	-	-	2	-	-	810	(109,238)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:									
Acquisition and construction of capital assets.....	(20,014)	-	-	-	(35)	-	-	(155)	(20,204)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....	(20,014)	-	-	-	(35)	-	-	(155)	(20,204)
CASH FLOWS FROM INVESTING ACTIVITIES:									
Purchase of investments.....	(1,070,990)	(73,990)	(47,493)	(101,528)	(83,087)	(70,073)	(4,020)	(38,008)	(1,489,189)
Sales and maturities of investments.....	1,023,796	60,203	38,028	74,143	71,617	59,684	3,355	41,507	1,372,333
Investment income.....	259	6,727	3,881	7,178	9,621	7,101	309	1,250	36,326
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	(46,935)	(7,060)	(5,584)	(20,207)	(1,849)	(3,288)	(356)	4,749	(80,530)
NET INCREASE (DECREASE) IN CASH.....	4,745	79	528	(18)	33	(4)	(2)	(2)	5,359
CASH AT JULY 1, 2010.....	11,086	155	109	201	3	157	8	132	11,851
CASH AT JUNE 30, 2011.....	\$ 15,831	\$ 234	\$ 637	\$ 183	\$ 36	\$ 153	\$ 6	\$ 130	\$ 17,210

Commonwealth of Pennsylvania
Combining Statement of Cash Flows-Nonmajor Proprietary Funds
 Enterprise Funds
 For the Fiscal Year Ended June 30, 2011

(Amounts in thousands)

	State Stores	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Minority Business Development	Other	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES									
Operating income (loss).....	\$ 81,881	\$ 451	\$ 2,102	\$ (1,159)	\$ 1,985	\$ 1,373	\$ (818)	\$ (5,160)	\$ 80,655
Depreciation and amortization.....	12,185	-	-	-	-	-	-	1,876	14,061
Provision for uncollectible accounts.....	-	484	(59)	4,193	-	-	701	120	5,439
Non-operating revenues (expenses).....	-	19	-	-	-	-	-	-	19
Change in assets and liabilities:									
Accounts receivable.....	1,763	-	-	-	-	-	-	(124)	1,639
Interest on loans receivable.....	-	-	(31)	-	-	(40)	-	-	(71)
Loans receivable.....	-	8,874	4,974	17,136	-	2,451	448	383	34,266
Due from other funds.....	(11)	-	-	-	-	-	-	(2,996)	(3,007)
Inventory.....	38,959	-	-	-	-	-	-	-	38,959
Prepaid expenses.....	2,094	-	-	-	-	-	-	-	2,094
Accounts payable and accrued liabilities.....	22,501	1,296	(885)	(1)	18	(500)	4	(233)	22,200
Due to other funds.....	4,317	(1)	-	(1)	(10)	-	(2)	(26)	4,277
Due to pension trust funds.....	215	1	-	-	2	-	1	-	219
Due to political subdivisions.....	-	-	-	-	-	-	-	10	10
Due to other governments.....	9	-	-	-	-	-	1	3	13
Unearned revenue.....	-	-	11	-	(202)	-	-	(16)	(207)
Self insurance liabilities.....	3,715	1	-	3	31	-	8	190	3,948
Compensated absences.....	(1,627)	-	-	-	12	-	-	(215)	(1,830)
Insurance loss liability.....	-	-	-	-	(23)	-	-	-	(23)
Other postemployment benefit obligations.....	11,743	14	-	18	102	-	11	782	12,670
Total Adjustments.....	95,863	10,688	4,010	21,348	(70)	1,911	1,172	(246)	134,676
NET CASH PROVIDED BY (USED FOR)									
OPERATING ACTIVITIES.....	\$ 177,744	\$ 11,139	\$ 6,112	\$ 20,189	\$ 1,915	\$ 3,284	\$ 354	\$ (5,406)	\$ 215,331
Increase (decrease) in fair value of investments during the fiscal year.....	\$ -	\$ 1,228	\$ (33)	\$ -	\$ (307)	\$ 11,793	\$ -	\$ (256)	\$ 12,425

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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Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2011

Internal Service Funds

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. This fund is also used to account for all Commonwealth telecommunication activities, which are accounted for by the Governor's Executive Offices. Revenue is derived from reimbursements from Commonwealth agencies that use Fund services or products.

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

There are a total of two individual internal service funds.

Commonwealth of Pennsylvania
Combining Statement of Net Assets-Nonmajor Proprietary Funds
Internal Service Funds
June 30, 2011

(Amounts in thousands)	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<u>ASSETS</u>			
Current assets:			
Cash.....	\$ 7,650	\$ 1,052	\$ 8,702
Temporary investments.....	30,754	27,644	58,398
Receivables:			
Accounts.....	1,392	2,933	4,325
Investment income.....	6	2	8
Due from other funds.....	25,651	835	26,486
Due from pension trust funds.....	1,346	5,784	7,130
Due from component units.....	275	3	278
Due from political subdivisions.....	1	-	1
Due from other governments.....	-	16	16
Inventory.....	254	10,728	10,982
Other assets.....	-	9	9
Total current assets.....	<u>67,329</u>	<u>49,006</u>	<u>116,335</u>
Noncurrent assets:			
Depreciable capital assets:			
Land improvements.....	192	819	1,011
Buildings and building improvements.....	-	7,462	7,462
Machinery and equipment.....	70,456	22,879	93,335
Less: accumulated depreciation.....	(59,435)	(16,118)	(75,553)
Net depreciable capital assets.....	<u>11,213</u>	<u>15,042</u>	<u>26,255</u>
Total noncurrent assets.....	<u>11,213</u>	<u>15,042</u>	<u>26,255</u>
TOTAL ASSETS.....	<u>78,542</u>	<u>64,048</u>	<u>142,590</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable and accrued liabilities.....	34,477	5,184	39,661
Securities lending obligations.....	-	801	801
Due to other funds.....	3,726	162	3,888
Due to pension trust funds.....	21	52	73
Due to component units.....	17	-	17
Due to political subdivisions.....	88	-	88
Due to other governments.....	23	43	66
Self insurance liabilities.....	109	267	376
Compensated absences.....	137	357	494
Total current liabilities.....	<u>38,598</u>	<u>6,866</u>	<u>45,464</u>
Non-current liabilities:			
Installment purchase.....	397	-	397
Compensated absences.....	516	1,342	1,858
Self insurance liabilities.....	742	1,812	2,554
Other postemployment benefit obligations.....	1,059	2,532	3,591
Total non-current liabilities.....	<u>2,714</u>	<u>5,686</u>	<u>8,400</u>
TOTAL LIABILITIES.....	<u>41,312</u>	<u>12,552</u>	<u>53,864</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt.....	10,816	15,042	25,858
Restricted for:			
Correctional industries and procurement.....	26,414	36,454	62,868
TOTAL NET ASSETS.....	<u>\$ 37,230</u>	<u>\$ 51,496</u>	<u>\$ 88,726</u>

Commonwealth of Pennsylvania
Combining Statement of Revenues, Expenses, and Changes in Fund
Net Assets-Nonmajor Proprietary Funds
Internal Service Funds
For the Fiscal Year Ended June 30, 2011

(Amounts in thousands)	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
OPERATING REVENUES:			
Sales and services.....	\$ 19,529	\$ 66,353	\$ 85,882
Other.....	1	-	1
NET OPERATING REVENUES.....	<u>19,530</u>	<u>66,353</u>	<u>85,883</u>
OPERATING EXPENSES:			
Cost of sales and services.....	11,350	60,822	72,172
Depreciation.....	6,626	2,403	9,029
TOTAL OPERATING EXPENSES	<u>17,976</u>	<u>63,225</u>	<u>81,201</u>
OPERATING INCOME.....	<u>1,554</u>	<u>3,128</u>	<u>4,682</u>
NONOPERATING REVENUES (EXPENSES):			
Investment income.....	81	2,561	2,642
Other expenses.....	(741)	(101)	(842)
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	<u>(660)</u>	<u>2,460</u>	<u>1,800</u>
CHANGE IN NET ASSETS.....	894	5,588	6,482
TOTAL NET ASSETS, JULY 1, 2010.....	<u>36,336</u>	<u>45,908</u>	<u>82,244</u>
TOTAL NET ASSETS, JUNE 30, 2011.....	<u>\$ 37,230</u>	<u>\$ 51,496</u>	<u>\$ 88,726</u>

Commonwealth of Pennsylvania
Combining Statement of Cash Flows-Nonmajor Proprietary Funds
Internal Service Funds
For the Fiscal Year Ended June 30, 2011

(Amounts in thousands)	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers.....	\$ 19,111	\$ 60,962	\$ 80,073
Payments for vendors, employees and other costs.....	(7,721)	(61,177)	(68,898)
Other receipts.....	1	-	1
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	<u>11,391</u>	<u>(215)</u>	<u>11,176</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Net borrowings (repayments) under advances from other funds.....	(14,300)	-	(14,300)
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES.....	<u>(14,300)</u>	<u>-</u>	<u>(14,300)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets.....	(139)	(2,813)	(2,952)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES..	<u>(139)</u>	<u>(2,813)</u>	<u>(2,952)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments.....	(330,002)	(63,262)	(393,264)
Sales and maturities of investments.....	338,586	62,684	401,270
Investment income.....	84	3,543	3,627
NET CASH PROVIDED BY INVESTING ACTIVITIES.....	<u>8,668</u>	<u>2,965</u>	<u>11,633</u>
NET INCREASE (DECREASE) IN CASH.....	<u>5,620</u>	<u>(63)</u>	<u>5,557</u>
CASH AT JULY 1, 2010.....	<u>2,030</u>	<u>1,115</u>	<u>3,145</u>
CASH AT JUNE 30, 2011.....	<u>\$ 7,650</u>	<u>\$ 1,052</u>	<u>\$ 8,702</u>

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES**

Operating income.....	\$ 1,554	\$ 3,128	\$ 4,682
Depreciation and amortization.....	6,626	2,403	9,029
Change in assets and liabilities:			
Accounts receivable.....	(729)	(2,086)	(2,815)
Due from other funds.....	(860)	(102)	(962)
Due from pension trust funds.....	(1,101)	(3,273)	(4,374)
Due from component units.....	18	-	18
Due from other governments.....	-	70	70
Inventory.....	(56)	606	550
Other current assets.....	-	3	3
Accounts payable and accrued liabilities.....	2,826	(2,282)	544
Due to other funds.....	2,461	(5)	2,456
Due to pension trust funds.....	10	22	32
Due to component units.....	17	-	17
Due to political subdivisions.....	88	-	88
Due to other governments.....	4	3	7
Self insurance liabilities.....	168	483	651
Compensated absences.....	(79)	174	95
Other postemployment benefit obligations.....	444	641	1,085
Total Adjustments.....	<u>9,837</u>	<u>(3,343)</u>	<u>6,494</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	<u>\$ 11,391</u>	<u>\$ (215)</u>	<u>\$ 11,176</u>
Decrease in fair value of investments during the fiscal year.....	\$ -	\$ (2,567)	\$ (2,567)

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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Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2011

Pension (and Other Employee Benefit) Trust Funds

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 post employment benefit plans and are held by the Commonwealth in a trustee capacity.

PENSION TRUST FUNDS

State Employees' Retirement System (SERS) — a component unit organization reported as a Pension Trust Fund that administers and provides retirement, disability, and death benefits to members of the SERS and their beneficiaries.

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

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

OTHER EMPLOYEE BENEFIT TRUST FUNDS

Public School Employees' Retirement System-Postemployment Healthcare — a component unit organization reported as an other employee benefit trust fund that administers and provides retirement, disability, and death benefits to members of the PSERS and their beneficiaries.

Other Postemployment Benefits Investment Pool — an other employee benefit trust fund that holds and invests amounts contributed by the Commonwealth of Pennsylvania for the sole purpose of providing post retirement healthcare benefits to retired employees and retired Pennsylvania State Police.

Commonwealth of Pennsylvania
Combining Statement of Fiduciary Net Assets
Pension (and Other Employee Benefit) Trust Funds
June 30, 2011

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust					
	State Employees'	Deferred	Public School Employees'	Other		Total
	Retirement System (December 31, 2010)	Compensation (December 31, 2010)	Retirement System Pension	Postemployment Healthcare	Postemployment Benefits Investment Pool	
ASSETS						
Cash.....	\$ -	\$ 4,487	\$ 206,340	\$ -	\$ 121	\$ 210,948
Temporary investments.....	-	7,507	-	-	71,229	78,736
Long-term investments.....	-	45,494	-	-	130,510	176,004
Short-term funds.....	983,899	45,890	4,474,903	168,564	-	5,673,256
Corporate obligations.....	693,812	277,995	1,724,823	-	-	2,696,630
Collective trust funds.....	5,839,446	-	8,606,526	-	-	14,445,972
Real estate.....	2,361,712	-	5,263,467	-	-	7,625,179
Alternative.....	10,263,106	-	12,585,166	-	-	22,848,272
Securities lending collateral.....	293,365	30,926	761,805	-	-	1,086,096
Asset-backed securities.....	49,484	38,033	922,173	-	-	1,009,690
Certificates of deposit.....	-	-	68,200	-	-	68,200
Commercial paper.....	-	-	20,432	-	-	20,432
Derivatives.....	-	-	193,820	-	-	193,820
Domestic equities.....	747,482	820,215	5,280,081	-	-	6,847,778
International equities.....	2,202,496	110,523	5,752,870	-	-	8,065,889
International private debt securities.....	-	-	793,644	-	-	793,644
International public debt securities.....	396,334	10,983	821,867	-	-	1,229,184
Mortgage-backed securities.....	132,329	356,735	2,496,523	-	-	2,985,587
Private placements.....	532,139	3,643	-	-	-	535,782
Repurchase agreements.....	-	-	16,170	57,924	-	74,094
State and municipal obligations.....	-	11,853	-	-	-	11,853
U.S. Treasury obligations.....	1,159,131	249,164	2,036,572	-	-	3,444,867
U.S. government agency debt securities.....	141,688	88,406	339,099	-	-	569,193
Receivables, net:						
Accounts.....	-	-	-	-	34	34
Investment income.....	46,974	18	314,822	-	-	361,814
Pension contributions.....	-	5,215	492,378	31,830	-	529,423
Investment sale proceeds.....	462,830	-	313,512	-	-	776,342
Other.....	6,338	-	642	7,921	-	14,901
Due from other funds.....	3,006	-	2,370	-	-	5,376
Due from pension trust funds.....	5,608	-	4,443	-	-	10,051
Due from component units.....	5,654	-	-	-	-	5,654
Due from political subdivisions.....	5,093	-	-	-	-	5,093
Due from other governments.....	-	-	-	6,639	-	6,639
Depreciable or amortizable capital assets:						
Machinery and equipment.....	-	-	12,319	-	-	12,319
Intangible assets.....	-	-	26,918	-	-	26,918
Less: accumulated depreciation and amortization.....	-	-	(18,208)	-	-	(18,208)
Net depreciable or amortizable capital assets.....	-	-	21,029	-	-	21,029
TOTAL ASSETS.....	26,331,926	2,107,087	53,513,677	272,878	201,894	82,427,462
LIABILITIES						
Liabilities:						
Accounts payable and accrued liabilities.....	48,399	950	108,093	1,570	25	159,037
Investment purchases payable.....	88,603	-	786,508	-	-	875,111
Securities lending obligations.....	308,822	32,583	761,805	-	71,174	1,174,384
Due to other funds.....	-	-	932	-	-	932
Due to pension trust funds.....	-	124	9,955	-	-	10,079
Other liabilities.....	-	-	646,390	38,121	-	684,511
TOTAL LIABILITIES.....	445,824	33,657	2,313,683	39,691	71,199	2,904,054
NET ASSETS:						
Held in trust for:						
Pension benefits.....	25,886,102	-	51,199,994	-	-	77,086,096
Postemployment healthcare benefits.....	-	-	-	233,187	130,695	363,882
Employee salary deferrals.....	-	2,073,430	-	-	-	2,073,430
TOTAL NET ASSETS.....	\$ 25,886,102	\$ 2,073,430	\$ 51,199,994	\$ 233,187	\$ 130,695	\$ 79,523,408

Commonwealth of Pennsylvania
Combining Statement of Changes in Fiduciary Net Assets
Pension (and Other Employee Benefit) Trust Funds
For the Fiscal Year Ended June 30, 2011

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust					
	State Employees' Retirement System (December 31, 2010)	Deferred Compensation (December 31, 2010)	Public School Employees' Retirement System		Other Postemployment Benefits Investment Pool	
			Pension	Postemployment Healthcare		
	Total					
ADDITIONS:						
Pension contributions:						
Employer.....	\$ 273,083	\$ -	\$ 658,511	\$ 121,322	\$ 650,472	\$ 1,703,388
Employee.....	349,049	128,727	1,042,707	201,014	-	1,721,497
Transfer in from other plans.....	-	47,848	-	-	-	47,848
Total contributions.....	<u>622,132</u>	<u>176,575</u>	<u>1,701,218</u>	<u>322,336</u>	<u>650,472</u>	<u>3,472,733</u>
Investment income:						
Net appreciation/(depreciation) in fair value of investments.....	3,021,212	159,483	8,494,530	(1,324)	23,087	11,696,988
Interest income.....	146,995	32,701	445,404	2,373	6	627,479
Dividend income.....	61,964	-	368,901	-	3,588	434,453
Rental and other income.....	79,826	-	444,656	-	264	524,746
Total investment activity income.....	<u>3,309,997</u>	<u>192,184</u>	<u>9,753,491</u>	<u>1,049</u>	<u>26,945</u>	<u>13,283,666</u>
Less: investment expenses						
Investment activity expense.....	(235,826)	(2,420)	(514,647)	(48)	-	(752,941)
Net investment earnings.....	<u>3,074,171</u>	<u>189,764</u>	<u>9,238,844</u>	<u>1,001</u>	<u>26,945</u>	<u>12,530,725</u>
Securities lending activities:						
Income.....	2,511	61	8,251	-	-	10,823
Expenses.....	(272)	(9)	(1,004)	-	-	(1,285)
Total securities lending income.....	<u>2,239</u>	<u>52</u>	<u>7,247</u>	<u>-</u>	<u>-</u>	<u>9,538</u>
Total net investment income.....	<u>3,076,410</u>	<u>189,816</u>	<u>9,246,091</u>	<u>1,001</u>	<u>26,945</u>	<u>12,540,263</u>
TOTAL ADDITIONS.....	<u>3,698,542</u>	<u>366,391</u>	<u>10,947,309</u>	<u>323,337</u>	<u>677,417</u>	<u>16,012,996</u>
DEDUCTIONS:						
Benefit payments.....	2,440,246	49,271	5,281,223	308,485	650,472	8,729,697
Refunds of contributions.....	9,007	-	17,695	-	-	26,702
Transfers to other plans.....	-	58,915	9,844	-	-	68,759
Administrative expenses.....	25,136	240	37,028	20,717	4	83,125
Other expenses.....	-	2,209	-	-	275	2,484
TOTAL DEDUCTIONS.....	<u>2,474,389</u>	<u>110,635</u>	<u>5,345,790</u>	<u>329,202</u>	<u>650,751</u>	<u>8,910,767</u>
CHANGE IN PLAN NET ASSETS HELD IN TRUST FOR:						
Pension benefits.....	1,224,153	-	5,601,519	-	-	6,825,672
Postemployment healthcare benefits.....	-	-	-	(5,865)	26,666	20,801
Employee salary deferrals.....	-	255,756	-	-	-	255,756
TOTAL CHANGE IN PLAN NET ASSETS HELD IN TRUST	<u>1,224,153</u>	<u>255,756</u>	<u>5,601,519</u>	<u>(5,865)</u>	<u>26,666</u>	<u>7,102,229</u>
Net assets, July 1, 2010.....	24,661,949	1,817,674	45,598,475	239,052	104,029	72,421,179
Net assets, June 30, 2011.....	<u>\$ 25,886,102</u>	<u>\$ 2,073,430</u>	<u>\$ 51,199,994</u>	<u>\$ 233,187</u>	<u>\$ 130,695</u>	<u>\$ 79,523,408</u>



Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2011

Agency Funds

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 remaining assets of insolvent insurance companies to cash for remittance to creditors, policyholders, and stockholders in accordance with the order of distribution established in Article V of the Pennsylvania Insurance Department Act of 1921 and on a court approved percentage of claim basis. Although not yet determined, the actual amounts to be paid based on the amount of the remaining assets are expected to be less than the amounts actually claimed by 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.

Allegheny Regional Asset District Sales and Use Tax Fund — to collect an additional 1% sales tax remitted by Allegheny County business entities to the Department of Revenue, as established per Act 1993-77. On a monthly basis, the Treasury Department distributes the fund balance to qualified County entities in accordance with the requirements of the Act.

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 a two percent premium tax received from foreign (out-of-state) casualty insurance companies conducting business in the Commonwealth, 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 five 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 fourteen individual agency funds.

Commonwealth of Pennsylvania
Combining Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2011

(Amounts in thousands)

	Statutory Liquidator	Medical Care Availability & Reduction of Error	Allegheny Regional Asset District Sales and Use Tax	Underground Storage Tank Indemnification	Municipal Pension Aid	Fire Insurance Tax	Agency Custodial Accounts	Other	PA Life and Health Insurance Guaranty Association (December 31, 2010)	PA Property and Casualty Insurance Guaranty Association (December 31, 2010)	Total Agency Funds
ASSETS											
Cash.....	\$ -	\$ -	\$ 173	\$ 104	\$ 5	\$ -	\$ 17,022	\$ 308	\$ 2,825	\$ 1,968	\$ 22,405
Cash with fiscal agents.....	21,611	-	-	-	-	-	-	-	-	-	21,611
Temporary investments.....	277,389	206,019	13,954	46,064	355,805	138,631	21,810	33,949	109,638	100,329	1,303,588
Long-term investments.....	2,959,988	-	-	96,998	-	-	-	-	-	-	3,056,986
Receivables, net:											
Taxes.....	-	-	9,849	-	-	-	-	16,713	-	-	26,562
Accounts.....	37,295	6,916	-	5	-	-	5,269	-	-	-	49,485
Investment income.....	10,785	25	1	734	62	-	1	2	-	-	11,610
Investment sale proceeds.....	101,102	-	-	782	-	-	-	-	-	-	101,884
Other.....	-	-	-	-	-	-	-	-	-	141,729	141,729
Advances to other funds.....	-	-	-	67,500	-	-	-	-	-	-	67,500
Other assets.....	3,830,636	-	-	-	-	-	1,012	-	-	218	3,831,866
TOTAL ASSETS.....	\$ 7,238,806	\$ 212,960	\$ 23,977	\$ 212,187	\$ 355,872	\$ 138,631	\$ 45,114	\$ 50,972	\$ 112,463	\$ 244,244	\$ 8,635,226
LIABILITIES											
Accounts payable and accrued liabilities....	\$ -	\$ 7,074	\$ 359	\$ 14,641	\$ -	\$ -	\$ 11,175	\$ 288	\$ -	\$ -	\$ 33,537
Investment purchases payable.....	236,889	-	-	1,470	-	-	-	-	-	-	238,359
Securities lending obligations.....	2,938	2,670	-	12,921	-	-	-	-	-	-	18,529
Due to political subdivisions.....	-	-	23,618	62	355,872	138,631	-	47,495	-	-	565,678
Due to other governments.....	-	12	-	2	-	-	-	-	-	-	14
Interest payable.....	13	-	-	-	-	-	-	-	-	-	13
Compensated absence liability.....	-	418	-	39	-	-	-	-	-	-	457
Self insurance liabilities.....	-	470	-	87	-	-	-	-	-	-	557
Other postemployment benefit obligations	-	732	-	114	-	-	-	-	-	-	846
Other liabilities.....	6,998,966	201,584	-	182,851	-	-	33,939	3,189	112,463	244,244	7,777,236
TOTAL LIABILITIES.....	\$ 7,238,806	\$ 212,960	\$ 23,977	\$ 212,187	\$ 355,872	\$ 138,631	\$ 45,114	\$ 50,972	\$ 112,463	\$ 244,244	\$ 8,635,226

Commonwealth of Pennsylvania
Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds
 For the Fiscal Year Ended June 30, 2011

(Amounts in thousands)	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2011</u>
STATUTORY LIQUIDATOR FUND				
ASSETS				
Cash with fiscal agents.....	\$ 38,128	\$ 2,797	\$ 19,314	\$ 21,611
Temporary investments.....	126,864	277,389	126,864	277,389
Long-term investments.....	2,791,136	873,255	704,403	2,959,988
Receivables, net:				
Accounts.....	40,133	34,457	37,295	37,295
Investment income.....	1	10,785	1	10,785
Investment sale proceeds.....	-	101,102	-	101,102
Other assets.....	3,537,322	2,593,942	2,300,628	3,830,636
TOTAL ASSETS	<u>\$ 6,533,584</u>	<u>\$ 3,893,727</u>	<u>\$ 3,188,505</u>	<u>\$ 7,238,806</u>
LIABILITIES				
Investment purchases payable.....	\$ -	\$ 236,889	\$ -	\$ 236,889
Securities lending obligations.....	11,016	2,938	11,016	2,938
Interest payable.....	-	13	-	13
Other liabilities.....	6,522,568	6,998,966	6,522,568	6,998,966
TOTAL LIABILITIES	<u>\$ 6,533,584</u>	<u>\$ 7,238,806</u>	<u>\$ 6,533,584</u>	<u>\$ 7,238,806</u>
MEDICAL CARE AVAILABILITY AND REDUCTION OF ERROR FUND				
ASSETS				
Cash.....	\$ -	\$ 1,997,246	\$ 1,997,246	\$ -
Temporary investments.....	158,073	304,625	256,679	206,019
Receivables, net:				
Accounts.....	8,365	6,919	8,368	6,916
Investment income.....	20	25	20	25
TOTAL ASSETS	<u>\$ 166,458</u>	<u>\$ 2,308,815</u>	<u>\$ 2,262,313</u>	<u>\$ 212,960</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 5,975	\$ 521,776	\$ 520,677	\$ 7,074
Securities lending obligations.....	9,730	2,670	9,730	2,670
Due to other funds.....	-	41	41	-
Due to political subdivisions.....	-	24	24	-
Due to other governments.....	12	49	49	12
Compensated absence liability.....	370	418	370	418
Self insurance liabilities.....	481	470	481	470
Other postemployment benefit obligations.....	532	763	563	732
Other liabilities.....	149,358	104,527	52,301	201,584
TOTAL LIABILITIES	<u>\$ 166,458</u>	<u>\$ 630,738</u>	<u>\$ 584,236</u>	<u>\$ 212,960</u>

(continued)

Commonwealth of Pennsylvania
Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds (continued)
 For the Fiscal Year Ended June 30, 2011

(Amounts in thousands)	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2011</u>
ALLEGHENY REGIONAL ASSET DISTRICT				
SALES AND USE TAX FUND				
ASSETS				
Cash.....	\$ 54	\$ 856,747	\$ 856,628	\$ 173
Temporary investments.....	14,423	164,594	165,063	13,954
Receivables, net:				
Taxes.....	14,601	9,849	14,601	9,849
Investment income.....	2	1	2	1
TOTAL ASSETS	\$ 29,080	\$ 1,031,191	\$ 1,036,294	\$ 23,977
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 52	\$ 359	\$ 52	\$ 359
Securities lending obligations.....	26	26	52	-
Due to political subdivisions.....	29,002	9,842	15,226	23,618
TOTAL LIABILITIES	\$ 29,080	\$ 10,227	\$ 15,330	\$ 23,977
UNDERGROUND STORAGE TANK				
INDEMNIFICATION FUND				
ASSETS				
Cash.....	\$ -	\$ 638,154	\$ 638,050	\$ 104
Temporary investments.....	43,529	135,164	132,629	46,064
Long-term investments.....	88,341	62,373	53,716	96,998
Receivables, net:				
Accounts.....	-	11	6	5
Investment income.....	711	735	712	734
Interest on notes and loans.....	-	2,150	2,150	-
Loans.....	45	27	72	-
Investment sale proceeds.....	139	782	139	782
Advances to other funds.....	67,500	-	-	67,500
TOTAL ASSETS	\$ 200,265	\$ 839,396	\$ 827,474	\$ 212,187
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 14,923	\$ 194,306	\$ 194,588	\$ 14,641
Investment purchases payable.....	35	1,470	35	1,470
Securities lending obligations.....	16,590	29,709	33,378	12,921
Due to other funds.....	-	135	135	-
Due to political subdivisions.....	50	553	541	62
Due to other governments.....	2	14	14	2
Compensated absence liability.....	36	39	36	39
Self insurance liabilities.....	75	87	75	87
Other postemployment benefit obligations.....	85	119	90	114
Other liabilities.....	168,469	16,080	1,698	182,851
TOTAL LIABILITIES	\$ 200,265	\$ 242,512	\$ 230,590	\$ 212,187

(continued)

Commonwealth of Pennsylvania
Combining Statement of Changes in Fiduciary Net Assets

Agency Funds (continued)
 For the Fiscal Year Ended June 30, 2011

(Amounts in thousands)	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2011</u>
MUNICIPAL PENSION AID FUND				
ASSETS				
Cash.....	\$ 77	\$ 1,513,321	\$ 1,513,393	\$ 5
Temporary investments.....	224,327	366,691	235,213	355,805
Receivables, net:				
Investment income.....	54	62	54	62
TOTAL ASSETS	<u>\$ 224,458</u>	<u>\$ 1,880,074</u>	<u>\$ 1,748,660</u>	<u>\$ 355,872</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ -	\$ 817	\$ 817	\$ -
Due to political subdivisions.....	224,458	370,569	239,155	355,872
TOTAL LIABILITIES	<u>\$ 224,458</u>	<u>\$ 371,386</u>	<u>\$ 239,972</u>	<u>\$ 355,872</u>
FIRE INSURANCE TAX FUND				
ASSETS				
Cash.....	\$ -	\$ 639,474	\$ 639,474	\$ -
Temporary investments.....	88,986	140,134	90,489	138,631
TOTAL ASSETS	<u>\$ 88,986</u>	<u>\$ 779,608</u>	<u>\$ 729,963</u>	<u>\$ 138,631</u>
LIABILITIES				
Securities lending obligations.....	\$ 158	\$ -	\$ 158	\$ -
Due to political subdivisions.....	88,828	49,803	-	138,631
TOTAL LIABILITIES	<u>\$ 88,986</u>	<u>\$ 49,803</u>	<u>\$ 158</u>	<u>\$ 138,631</u>
AGENCY CUSTODIAL ACCOUNTS				
ASSETS				
Cash.....	\$ 12,294	\$ 4,916	\$ 188	\$ 17,022
Temporary investments.....	18,504	3,306	-	21,810
Receivables, net:				
Accounts.....	4,854	415	-	5,269
Investment income.....	-	1	-	1
Interest on notes and loans.....	1	-	1	-
Other assets.....	890	137	15	1,012
TOTAL ASSETS	<u>\$ 36,543</u>	<u>\$ 8,775</u>	<u>\$ 204</u>	<u>\$ 45,114</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 10,783	\$ 543	\$ 151	\$ 11,175
Other liabilities.....	25,760	8,190	11	33,939
TOTAL LIABILITIES	<u>\$ 36,543</u>	<u>\$ 8,733</u>	<u>\$ 162</u>	<u>\$ 45,114</u>

(continued)

Commonwealth of Pennsylvania
Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds (continued)
 For the Fiscal Year Ended June 30, 2011

(Amounts in thousands)	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2011</u>
OTHER FUNDS				
ASSETS				
Cash.....	\$ 591	\$ 3,447,371	\$ 3,447,654	\$ 308
Temporary investments.....	34,038	588,948	589,037	33,949
Receivables, net:				
Taxes.....	23,357	16,713	23,357	16,713
Investment income.....	2	4	4	2
TOTAL ASSETS	<u>\$ 57,988</u>	<u>\$ 4,053,036</u>	<u>\$ 4,060,052</u>	<u>\$ 50,972</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 33	\$ 72,629	\$ 72,374	\$ 288
Securities lending obligations.....	528	529	1,057	-
Due to other funds.....	-	499	499	-
Due to political subdivisions.....	54,237	58,049	64,791	47,495
Other liabilities.....	3,190	6	7	3,189
TOTAL LIABILITIES	<u>\$ 57,988</u>	<u>\$ 131,712</u>	<u>\$ 138,728</u>	<u>\$ 50,972</u>
PENNSYLVANIA LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION*				
ASSETS				
Cash.....	\$ 7,687	\$ 4,386	\$ 9,248	\$ 2,825
Temporary investments.....	107,040	21,334	18,736	109,638
TOTAL ASSETS	<u>\$ 114,727</u>	<u>\$ 25,720</u>	<u>\$ 27,984</u>	<u>\$ 112,463</u>
LIABILITIES				
Other liabilities.....	\$ 114,727	\$ -	\$ 2,264	\$ 112,463
TOTAL LIABILITIES	<u>\$ 114,727</u>	<u>\$ -</u>	<u>\$ 2,264</u>	<u>\$ 112,463</u>
PENNSYLVANIA PROPERTY AND CASUALTY INSURANCE GUARANTY ASSOCIATION*				
ASSETS				
Cash.....	\$ 17,596	\$ 54,312	\$ 69,940	\$ 1,968
Temporary investments.....	60,848	59,481	20,000	100,329
Receivables, net:				
Other.....	179,919	20,000	58,190	141,729
Other assets.....	235	-	17	218
TOTAL ASSETS	<u>\$ 258,598</u>	<u>\$ 133,793</u>	<u>\$ 148,147</u>	<u>\$ 244,244</u>
LIABILITIES				
Other liabilities.....	\$ 258,598	\$ 49,376	\$ 63,730	\$ 244,244
TOTAL LIABILITIES	<u>\$ 258,598</u>	<u>\$ 49,376</u>	<u>\$ 63,730</u>	<u>\$ 244,244</u>

*-Amounts are presented on a calendar year basis.

(continued)

Commonwealth of Pennsylvania
Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds (continued)
 For the Fiscal Year Ended June 30, 2011

(Amounts in thousands)	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2011</u>
TOTAL — AGENCY FUNDS*				
ASSETS				
Cash.....	\$ 38,299	\$ 9,155,927	\$ 9,171,821	\$ 22,405
Cash with fiscal agents.....	38,128	2,797	19,314	21,611
Temporary investments.....	876,632	2,061,666	1,634,710	1,303,588
Long-term investments.....	2,879,477	935,628	758,119	3,056,986
Receivables, net:				
Taxes.....	37,958	26,562	37,958	26,562
Accounts.....	53,352	41,802	45,669	49,485
Investment income.....	790	11,613	793	11,610
Interest on notes and loans.....	1	2,150	2,151	-
Loans.....	45	27	72	-
Investment sale proceeds.....	139	101,884	139	101,884
Other.....	179,919	20,000	58,190	141,729
Advances to other funds.....	67,500	-	-	67,500
Other assets.....	3,538,447	2,594,079	2,300,660	3,831,866
TOTAL ASSETS	<u>\$ 7,710,687</u>	<u>\$ 14,954,135</u>	<u>\$ 14,029,596</u>	<u>\$ 8,635,226</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 31,766	\$ 790,430	\$ 788,659	\$ 33,537
Investment purchases payable.....	35	238,359	35	238,359
Securities lending obligations.....	38,048	35,872	55,391	18,529
Due to other funds.....	-	675	675	-
Due to political subdivisions.....	396,575	488,840	319,737	565,678
Due to other governments.....	14	63	63	14
Interest payable.....	-	13	-	13
Compensated absence liability.....	406	457	406	457
Self insurance liabilities.....	556	557	556	557
Other postemployment benefit obligations.....	617	882	653	846
Other liabilities.....	7,242,670	7,177,145	6,642,579	7,777,236
TOTAL LIABILITIES	<u>\$ 7,710,687</u>	<u>\$ 8,733,293</u>	<u>\$ 7,808,754</u>	<u>\$ 8,635,226</u>

(concluded)

*-Totals include balances for the Pennsylvania Life and Health Insurance Guaranty Association and the Pennsylvania Property and Casualty Insurance Guaranty Association, which are presented on a calendar year basis.



Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2011

Discretely Presented Component Units

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS DESCRIPTION

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable, or other organizations for which the nature and significance of the relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading.

State Public School Building Authority (SPSBA) — issues limited obligation revenue bonds, the proceeds of which are used to finance the construction of facilities for school districts. These bonds are repaid solely from lease/loan payments from the schools.

Philadelphia Shipyard Development Corporation (PSDC) — assists the primary government (PG) and other governmental entities in financing a shipbuilding facility at the former Philadelphia Naval Shipyard. For the purposes of this report, the PSDC has a December 31, 2010 fiscal year end.

Ben Franklin Technology Development Authority (BFTDA) — promotes economic development through interaction of technology development, modernization and training programs. Industrial resource centers and technology centers, established through the BFTDA, also increase Pennsylvania business competitiveness.

Insurance Fraud Prevention Authority (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.

Pennsylvania Higher Educational Facilities Authority (PHEFA) — issues limited obligation revenue bonds, the proceeds of which are used to finance the construction of facilities for public/private colleges and universities. These bonds are repaid solely from lease/loan payments from the colleges and universities.

Patient Safety Trust Authority (PSTA) — takes 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.

Port of Pittsburgh Commission (PPC) — promotes economic development throughout waterways in southwestern Pennsylvania by constructing and/or financing transportation and recreation facilities.

Pennsylvania Industrial Development Authority (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.

Philadelphia Regional Port Authority (PRPA) — operates a port facility and manages port-related activities to promote commerce and economic development in southeastern Pennsylvania.

Commonwealth Financing Authority (CFA) — administers and funds economic stimulus programs through long-term financing arrangements.

Pennsylvania Convention Center Authority — operates the Pennsylvania Convention Center located in the City of Philadelphia.

Thaddeus Stevens College of Technology (College) — presents a financial burden to the PG, as the PG appropriates monies for College operations. The College was financially reported as part of the PG through and including the fiscal year ended June 30, 2003; legislation effective July 1, 2003 made the College a legally separate entity.

There are a total of twenty-three component units; seventeen are discretely presented. The State Employees' Retirement System (SERS) and Public School Employees' Retirement System (PSERS) are reported as Pension Trust Funds in the Statement of Fiduciary Net Assets, while the Pennsylvania Life and Health Insurance Guaranty Association (PLHIGA) and Pennsylvania Property and Casualty Insurance Guaranty Association (PPCIGA) are reported as Agency Funds. The **Pennsylvania Turnpike Commission (PTC)**, **Pennsylvania Housing Finance Agency (PHFA)**, **Pennsylvania Higher Education Assistance Agency (PHEAA)**, **Pennsylvania Infrastructure Investment Authority (PENNVEST)**, and **State System of Higher Education (SSHE)** are reported as major component units. The Pennsylvania Economic Development Financing Authority (PEDFA) and Pennsylvania Energy Development Authority (PEDA) are not reported because their only activities involve conduit debt.

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Commonwealth of Pennsylvania
Combining Statement of Net Assets
 Nonmajor Discretely Presented Component Units
 June 30, 2011

(Amounts in thousands)

	State Public School Building Authority	Philadelphia Shipyards Development Corporation (December 31, 2010)	Ben Franklin Technology Development Authority	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority
ASSETS					
Current assets:					
Cash.....	\$ -	\$ 2,659	\$ -	\$ 4,987	\$ -
Temporary investments.....	3,831	-	25,075	-	-
Receivables:					
Accounts	29	483	-	-	28
Investment income.....	114	-	5	-	-
Interest on notes and loans.....	39	-	-	-	-
Loans.....	3,823	-	102	-	-
Lease rentals.....	-	-	-	-	-
Other	-	-	-	-	-
Due from primary government.....	-	-	-	-	-
Due from Federal government.....	-	-	-	-	-
Inventory.....	-	-	-	-	-
Prepaid and deferred expenses.....	-	22	-	27	-
Other assets.....	-	-	-	4	-
Total current assets	7,836	3,164	25,182	5,018	28
Noncurrent assets:					
Long-term investments.....	17,500	-	-	-	-
Receivables (net):					
Loans.....	5,014	-	30,288	-	-
Non-depreciable capital assets:					
Land.....	-	161	-	-	-
Construction in progress.....	-	-	-	-	-
Depreciable or amortizable capital assets:					
Land improvements.....	-	-	-	-	-
Buildings and building improvements.....	-	-	-	-	-
Machinery and equipment.....	387	2	-	82	-
Library books.....	-	-	-	-	-
Other capital assets.....	-	-	-	-	-
Intangible assets.....	-	-	-	-	-
Less: accumulated depreciation and amortization.....	(353)	-	-	(62)	-
Net depreciable or amortizable capital assets.....	34	2	-	20	-
Other assets.....	-	16,605	-	-	-
Total noncurrent assets	22,548	16,768	30,288	20	-
TOTAL ASSETS	30,384	19,932	55,470	5,038	28
LIABILITIES					
Current liabilities:					
Accounts payable and accrued liabilities.....	87	-	988	199	28
Due to primary government.....	-	-	2	-	-
Due to other governments.....	-	-	2	-	-
Interest payable.....	-	-	-	-	-
Unearned revenue.....	-	-	-	-	-
Notes payable.....	-	-	-	-	-
Revenue bonds payable.....	-	-	-	-	-
Self insurance.....	-	-	5	-	-
Compensated absences.....	32	-	-	-	-
Other postemployment benefit obligations.....	-	-	-	-	-
Other liabilities.....	74	-	-	-	-
Total current liabilities	193	-	997	199	28
Non-current liabilities:					
Notes payable.....	-	-	-	-	-
Revenue bond payable.....	-	-	-	-	-
Compensated absences.....	43	-	-	-	-
Self insurance.....	-	-	29	-	-
Other postemployment benefit obligations.....	191	-	36	-	-
Other liabilities.....	569	16,605	-	-	-
Total non-current liabilities	803	16,605	65	-	-
TOTAL LIABILITIES	996	16,605	1,062	199	28
NET ASSETS					
Invested in capital assets, net of related debt.....	34	163	-	20	-
Restricted for:					
Health-related programs.....	-	-	-	-	-
Capital projects.....	-	-	-	-	-
Debt service.....	-	-	-	-	-
Economic development.....	-	3,164	54,408	-	-
Higher Education.....	-	-	-	-	-
Other purposes.....	29,354	-	-	4,819	-
Unrestricted/(Deficit).....	-	-	-	-	-
TOTAL NET ASSETS	\$ 29,388	\$ 3,327	\$ 54,408	\$ 4,839	\$ -

Patient Safety Trust Authority	Port of Pittsburgh Commission	Pennsylvania Industrial Development Authority	Philadelphia Regional Port Authority	Commonwealth Financing Authority	Pennsylvania Convention Center Authority	Thaddeus Stevens College of Technology	Total
\$ -	\$ 82	\$ 949	\$ 9,381	\$ 649,214	\$ 33,347	\$ 5,372	\$ 705,991
6,837	5,883	204,015	-	-	-	-	245,641
-	1	-	575	-	3,786	160	5,062
1	-	-	-	-	-	-	120
-	-	3,793	-	1,196	-	-	5,028
-	-	44,605	-	15,319	-	-	63,849
-	-	-	953	-	-	-	953
-	-	-	14	-	-	313	327
-	-	-	-	1,230	-	-	1,230
-	374	-	-	-	-	-	374
-	-	-	-	-	-	452	452
-	-	-	480	-	862	60	1,451
-	-	-	-	11,625	-	-	11,629
6,838	6,340	253,362	11,403	678,584	37,995	6,357	1,042,107
-	-	13,500	-	-	-	1,346	32,346
-	88	352,236	-	307,485	-	-	695,111
-	-	-	76,358	-	994	-	77,513
-	-	-	11,413	-	4,878	-	16,291
-	-	-	40,144	-	-	-	40,144
-	-	-	276,758	-	755,499	1,036	1,033,293
-	2,117	-	38,940	-	151,607	3,833	196,968
-	-	-	-	-	-	520	520
-	-	-	-	-	-	337	337
-	33	-	-	-	-	-	33
-	(996)	-	(117,944)	-	(168,315)	(3,949)	(291,619)
-	1,154	-	237,898	-	738,791	1,777	979,676
-	-	2,490	14,683	-	124,327	347	158,452
-	1,242	368,226	340,352	307,485	868,990	3,470	1,959,389
6,838	7,582	621,588	351,755	986,069	906,985	9,827	3,001,496
1,017	425	150	2,406	52	10,748	1,537	17,637
14	4	-	20	612	3,334	-	3,986
4	1	-	10	-	-	-	17
-	-	9,244	-	6,377	-	-	15,621
-	840	-	2,860	388	3,036	192	7,316
-	-	-	188	-	-	-	188
-	-	21,380	2,935	39,285	-	-	63,600
-	-	-	-	-	-	-	5
14	-	-	172	-	-	298	516
-	-	-	-	-	158	-	158
-	-	-	36	-	610	4	724
1,049	1,270	30,774	8,627	46,714	17,886	2,031	109,768
-	-	-	393	-	-	-	393
-	2,000	330,649	32,826	1,395,050	-	-	1,760,525
52	83	-	647	-	-	1,417	2,242
-	-	-	-	-	-	-	29
74	72	-	1,165	-	2,642	1,506	5,686
-	-	-	267	-	127,390	64	144,895
126	2,155	330,649	35,298	1,395,050	130,032	2,987	1,913,770
1,175	3,425	361,423	43,925	1,441,764	147,918	5,018	2,023,538
-	(868)	-	304,011	-	-	1,777	305,137
5,663	-	-	-	-	-	-	5,663
-	-	-	426	-	-	-	426
-	-	-	4,199	-	-	-	4,199
-	5,025	-	-	-	-	-	62,597
-	-	-	-	-	-	3,032	3,032
-	-	-	-	-	-	-	34,173
-	-	260,165	(806)	(455,695)	759,067	-	562,731
\$ 5,663	\$ 4,157	\$ 260,165	\$ 307,830	\$ (455,695)	\$ 759,067	\$ 4,809	\$ 977,958

Commonwealth of Pennsylvania
Combining Statement of Activities
 Nonmajor Discretely Presented Component Units
 For the Fiscal Year Ended June 30, 2011

(Amounts in thousands)

	State Public School Building Authority	Philadelphia Shipyard Development Corporation (December 31, 2010)	Ben Franklin Technology Development Authority	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority
Expenses.....	\$ 1,771	\$ 962	\$ 40,190	\$ 11,703	\$ 1,274
Program revenues:					
Charges for goods and services.....	1,494	-	518	11,736	1,274
Operating grants and contributions.....	517	634	32,834	36	-
Capital grants and contributions.....	-	-	-	-	-
Total program revenues.....	2,011	634	33,352	11,772	1,274
Net (expense) revenue.....	240	(328)	(6,838)	69	-
Change in net assets.....	240	(328)	(6,838)	69	-
Net assets, July 1, 2010 (restated).....	29,148	3,655	61,246	4,770	-
Net assets, June 30, 2011.....	\$ 29,388	\$ 3,327	\$ 54,408	\$ 4,839	\$ -

Patient Safety Trust Authority	Port of Pittsburgh Commission	Pennsylvania Industrial Development Authority	Philadelphia Regional Port Authority	Commonwealth Financing Authority	Pennsylvania Convention Center Authority	Thaddeus Stevens College of Technology	Total
\$ 5,680	\$ 1,597	\$ 21,360	\$ 30,126	\$ 334,042	\$ 52,342	\$ 18,842	\$ 519,889
5,781	5	22,595	8,160	6,413	12,358	5,993	76,327
82	1,929	1,133	8,658	158,981	26,160	12,693	243,657
-	-	-	54,768	-	86,028	-	140,796
<u>5,863</u>	<u>1,934</u>	<u>23,728</u>	<u>71,586</u>	<u>165,394</u>	<u>124,546</u>	<u>18,686</u>	<u>460,780</u>
183	337	2,368	41,460	(168,648)	72,204	(156)	(59,109)
183	337	2,368	41,460	(168,648)	72,204	(156)	(59,109)
5,480	3,820	257,797	266,370	(287,047)	686,863	4,965	1,037,067
<u>\$ 5,663</u>	<u>\$ 4,157</u>	<u>\$ 260,165</u>	<u>\$ 307,830</u>	<u>\$ (455,695)</u>	<u>\$ 759,067</u>	<u>\$ 4,809</u>	<u>\$ 977,958</u>

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Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2011

Statistical Section



Statistical Section Table of Contents

Financial Trends

These tables illustrate how the Commonwealth's financial position has changed over time by providing information on the Commonwealth's net assets, changes in net assets, fund balance, and changes in fund balance.

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These tables contain information on the factors that affect the Commonwealth's ability to generate its own-source revenues. The Commonwealth's largest source of revenues is taxes. Information for the three largest tax types is contained within these tables. Personal income, sales, and corporation taxes account for 77% of all general revenues for the June 30, 2011 fiscal year (as disclosed in the Statement of Activities).

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Commonwealth of Pennsylvania
Financial Trends

Table 1
Net Assets by Component
Last Ten Fiscal Years as of June 30

(Accrual basis of accounting-amounts in thousands)	(Restated)				
	2002	2003	2004	2005	2006
GOVERNMENTAL ACTIVITIES (1)					
Invested in capital assets, net of related debt.....	\$ 14,806,435	\$ 16,106,064	\$ 16,944,913	\$ 18,258,125	\$ 19,068,573
Restricted for:					
General government operations (1).....	N/A	N/A	N/A	N/A	N/A
Health-related programs (2).....	N/A	N/A	N/A	1,215,291	1,320,703
Transportation.....	605,606	553,212	775,900	990,743	1,578,753
Capital projects.....	3,937	301,628	245,926	173,790	196,301
Debt service.....	-	32,685	61,029	83,885	8,118
Unemployment/worker's compensation.....	141,678	48,847	-	-	29,754
Elderly programs.....	1,434	111,659	90,713	92,531	32,327
Environmental and conservation programs.....	480,182	445,350	430,071	420,600	435,976
Economic development (2).....	N/A	N/A	N/A	N/A	18,171
Gaming licensing/regulation (2).....	N/A	N/A	N/A	N/A	2,128
Correctional industries and procurement (2).....	N/A	N/A	N/A	N/A	133,934
Emergency support (2).....	N/A	N/A	N/A	N/A	56,543
Higher education (2).....	N/A	N/A	N/A	N/A	N/A
Other purposes (2).....	384,027	1,003,117	1,366,072	303,409	82,770
Unrestricted (deficit).....	1,312,334	(603,472)	(228,981)	(739,160)	(372,089)
TOTAL GOVERNMENTAL ACTIVITIES NET ASSETS.....	17,735,633	17,999,090	19,685,643	20,799,214	22,591,962
BUSINESS-TYPE ACTIVITIES					
Invested in capital assets, net of related debt.....	30,426	42,421	45,927	46,567	82,694
Restricted for:					
Health-related programs (2).....	N/A	N/A	N/A	-	4,814
Transportation.....	30,336	31,742	33,227	50,433	52,960
Unemployment/worker's compensation.....	2,836,069	1,960,499	1,506,877	1,808,170	2,397,720
Elderly programs.....	180,814	142,284	158,343	291,329	325,925
Economic development (2)(3).....	N/A	N/A	N/A	N/A	212,792
Emergency support (2).....	N/A	N/A	N/A	N/A	126,505
Other purposes (2).....	422,971	361,993	403,527	450,961	152,629
Unrestricted (deficit).....	(26,005)	(71,756)	(47,849)	(43,812)	-
TOTAL BUSINESS-TYPE ACTIVITIES NET ASSETS.....	3,474,611	2,467,183	2,100,052	2,603,648	3,356,039
PRIMARY GOVERNMENT					
Invested in capital assets, net of related debt.....	14,836,861	16,148,485	16,990,840	18,304,692	19,151,267
Restricted for:					
General government operations (1).....	N/A	N/A	N/A	N/A	N/A
Health-related programs (2).....	N/A	N/A	N/A	1,215,291	1,325,517
Transportation.....	635,942	584,954	809,127	1,041,176	1,631,713
Capital projects.....	3,937	301,628	245,926	173,790	196,301
Debt service.....	-	32,685	61,029	83,885	8,118
Unemployment/worker's compensation.....	2,977,747	2,009,346	1,506,877	1,808,170	2,427,474
Elderly programs.....	182,248	253,943	249,056	383,860	358,252
Environmental and conservation programs.....	480,182	445,350	430,071	420,600	435,976
Economic development (2).....	N/A	N/A	N/A	N/A	230,963
Gaming licensing/regulation (2).....	N/A	N/A	N/A	N/A	2,128
Correctional industries and procurement (2).....	N/A	N/A	N/A	N/A	133,934
Emergency support (2).....	N/A	N/A	N/A	N/A	183,048
Higher education (2).....	N/A	N/A	N/A	N/A	N/A
Other purposes (2).....	806,998	1,365,110	1,769,599	754,370	235,399
Unrestricted (deficit).....	1,286,329	(675,228)	(276,830)	(782,972)	(372,089)
TOTAL PRIMARY GOVERNMENT NET ASSETS.....	\$ 21,210,244	\$ 20,466,273	\$ 21,785,695	\$ 23,402,862	\$ 25,948,001

Source: Statement of Net Assets, as presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the applicable fiscal year.

Notes:

(1)-For the 2011 fiscal year, the caption "General government operations" was created specifically for any net assets restrictions reported within that portion of the General Fund not associated with the 38 former Special Revenue funds which were reclassified as components of the General Fund. In past fiscal years, this portion, if not reported as a deficit, was reported within various net assets restriction categories. These changes have not been retroactively applied to prior fiscal years.

(2)-Since the 2002 fiscal year, additional restricted net assets categories have been created to provide a more refined description of the restrictions. These restrictions were not applied retroactively and are marked with N/A in the fiscal years prior to the newer creation of the restricted net asset category. These categories were created either for new funds or funds previously reported in the "Other purposes" category. The "Gaming licensing/regulation" category was created for the Gaming Fund, a governmental fund type, which was established in the 2006 fiscal year. The most significant fund where net assets were previously reported in the "Other purposes" category that is now reported in a different category is the Tobacco Settlement Fund, a major governmental fund type, which beginning with the 2005 fiscal year is reported in the "Health-related programs" category. Other notable funds being reported in different categories are the Internal Service funds-reported in the "Correctional industries and procurement" category; Machinery and Equipment Loan Fund and Small Business First Fund (both Proprietary fund types)-reported in the "Economic development" category; the Volunteer Companies Loan Fund (a Proprietary fund type)-reported in the "Emergency support" category; and the Educational Assistance Program Fund (a component of the General Fund)-reported in the "Higher education" category.

(3)-In the June 30, 2009 CAFR, the beginning net assets balance for Governmental Activities was restated and decreased by \$273,654 as of July 1, 2008. Therefore, the ending net assets balance (for both Governmental and Total Primary Government Net Assets) shown in this table as of June 30, 2008 plus the change in net assets shown in Table 2 for the June 30, 2009 fiscal year will differ from the ending net assets balance (for both Governmental and Total Primary Government Net Assets) shown in this table as of June 30, 2009. Note B in the Notes to the Financial Statements in the June 30, 2009 CAFR provides additional details on this restatement.

2007	2008 (3)	2009 (3)	2010	2011
\$ 20,015,677	\$ 21,482,118	\$ 22,821,832	\$ 24,102,905	\$ 25,352,588
N/A	N/A	N/A	N/A	672,834
1,454,502	1,410,932	1,291,318	1,048,684	61,785
1,266,928	1,520,801	1,342,189	1,318,358	1,000,129
213,556	-	-	11	-
20,474	27,458	16,834	46,853	-
104,579	120,181	125,515	301,372	367,006
10,808	38,264	62,183	50,213	-
473,210	457,726	529,274	592,672	331,102
16,217	22,530	23,576	25,312	-
299,396	947,145	917,466	771,616	720,578
30,348	46,541	37,701	49,467	62,868
60,917	58,063	57,324	58,209	51,926
N/A	7,023	8,985	7,715	-
87,077	88,580	58,842	55,616	40,078
343,162	(648,689)	(4,053,146)	(4,881,426)	(4,407,594)
24,396,851	25,578,673	23,239,893	23,547,577	24,253,300
56,010	72,668	78,561	74,392	84,065
2,413	1,942	1,059	2,837	2,323
58,085	103,274	103,652	110,987	118,938
2,547,726	2,378,092	342,098	-	-
340,836	124,351	-	-	-
288,246	299,924	283,012	295,502	304,767
129,546	132,837	134,685	138,884	144,834
165,168	126,799	76,573	85,177	94,985
-	(73,973)	(403,122)	(1,916,364)	(2,314,339)
3,588,030	3,165,914	616,518	(1,208,585)	(1,564,427)
20,071,687	21,554,786	22,900,393	24,177,297	25,436,653
N/A	N/A	N/A	N/A	672,834
1,456,915	1,412,874	1,292,377	1,051,521	64,108
1,325,013	1,624,075	1,445,841	1,429,345	1,119,067
213,556	-	-	11	-
20,474	27,458	16,834	46,853	-
2,652,305	2,498,273	467,613	301,372	367,006
351,644	162,615	62,183	50,213	-
473,210	457,726	529,274	592,672	331,102
304,463	322,454	306,588	320,814	304,767
299,396	947,145	917,466	771,616	720,578
30,348	46,541	37,701	49,467	62,868
190,463	190,900	192,009	197,093	196,760
N/A	7,023	8,985	7,715	-
252,245	215,379	135,415	140,793	135,063
343,162	(722,662)	(4,456,268)	(6,797,790)	(6,721,933)
\$ 27,984,881	\$ 28,744,587	\$ 23,856,411	\$ 22,338,992	\$ 22,688,873

Commonwealth of Pennsylvania

Financial Trends

Table 2

Changes in Net Assets

For the Last Ten Fiscal Years Ended June 30

(Accrual basis of accounting-amounts in thousands)

	(Restated) 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GOVERNMENTAL ACTIVITIES										
Expenses:										
Direction and supportive services.....	\$ 1,262,359	\$ 1,024,071	\$ 2,034,883	\$ 2,229,850	\$ 2,162,552	\$ 1,208,409	\$ 1,479,962	\$ 1,492,541	\$ 1,950,908	\$ 2,052,743
Protection of persons and property	3,758,867	3,921,413	3,873,972	4,244,332	4,439,794	4,487,633	4,922,684	5,480,770	5,682,950	5,384,710
Public education.....	9,642,272	10,219,211	10,571,307	11,428,452	11,816,608	12,464,663	13,107,648	14,045,890	14,520,733	14,864,360
Health and human services.....	18,893,434	20,454,323	21,750,153	24,166,791	24,139,762	24,264,933	25,215,388	26,615,566	28,321,389	30,388,529
Economic development.....	1,416,557	1,455,272	1,340,015	1,314,636	1,409,506	1,738,172	1,720,992	1,614,214	1,580,654	1,598,596
Transportation.....	2,581,898	2,998,824	3,164,086	3,261,642	3,229,351	3,922,517	4,182,916	4,278,022	4,951,010	4,465,639
Recreation and cultural enrichment.....	481,948	435,864	394,273	448,585	520,330	569,510	571,009	602,365	559,311	491,082
Interest.....	344,482	370,284	341,455	296,267	337,142	344,557	371,249	382,065	395,305	440,428
Total expenses.....	38,381,817	40,879,262	43,470,144	47,390,555	48,055,045	49,000,394	51,571,848	54,511,433	57,962,260	59,686,087
Program revenues:										
Charges for sales and services:										
Direction and supportive services.....	393,856	347,910	1,097,730	1,377,293	991,541	143,290	143,933	74,320	216,188	252,572
Protection of persons and property	373,329	627,529	925,502	831,785	1,080,708	1,309,256	1,214,038	1,083,889	1,331,281	1,034,481
Public education.....	6,043	-	3,514	1,702	13,161	14,793	17,641	15,756	18,201	14,928
Health and human services.....	2,095,669	2,049,640	1,297,338	2,871,487	1,913,377	1,730,965	1,800,212	1,559,638	1,134,144	1,597,599
Economic development.....	145,119	142,914	1,011	11,028	16,373	12,277	11,379	15,553	12,317	11,812
Transportation.....	956,406	914,129	1,008,886	1,029,406	949,533	952,866	945,536	944,486	910,721	976,705
Recreation and cultural enrichment.....	188,829	143,221	138,750	153,641	166,750	162,168	162,013	312,287	416,053	181,373
Operating grants and contributions.....	13,122,608	14,574,283	16,556,717	16,773,012	16,532,924	17,229,000	17,936,693	20,370,216	25,620,597	26,071,112
Capital grants and contributions.....	125,502	136,140	30,473	14,944	55,761	23,495	4,610	47,320	57,628	221,195
Total program revenues.....	17,407,361	18,935,766	21,059,921	23,064,298	21,720,128	21,578,110	22,236,055	24,423,465	29,717,130	30,361,777
Total governmental activities net program revenues/(expenses).....	(20,974,456)	(21,943,496)	(22,410,223)	(24,326,257)	(26,334,917)	(27,422,284)	(29,335,793)	(30,087,968)	(28,245,130)	(29,324,310)
General revenues and other changes in net assets:										
General revenues:										
Taxes:										
Personal income.....	6,713,861	6,691,957	7,352,877	8,312,440	9,093,338	9,951,585	10,438,976	9,553,538	9,414,864	9,771,269
Sales and use.....	7,419,373	7,511,233	7,654,405	7,917,396	8,381,262	8,629,815	8,779,768	8,417,292	8,309,905	8,610,603
Corporation.....	3,160,714	3,418,599	4,004,112	4,400,995	5,074,730	4,985,031	5,157,589	4,209,705	4,146,477	4,469,094
Liquid fuels and motor carriers.....	1,696,418	1,666,795	1,723,816	1,863,223	2,033,227	2,072,442	2,024,045	1,975,678	2,045,505	2,092,645
Gaming (1).....	N/A	N/A	N/A	N/A	N/A	251,059	769,064	999,247	1,232,829	1,409,388
Inheritance (2).....	N/A	634,365	726,605	668,992	793,279	716,788	802,865	733,405	698,980	783,824
Cigarette (2).....	N/A	N/A	933,973	811,578	1,033,099	983,580	1,026,125	1,000,987	1,088,405	1,104,355
Realty transfer (2).....	N/A	N/A	N/A	N/A	646,870	583,991	500,786	348,003	346,094	328,997
Other (2).....	1,642,731	1,616,368	893,589	992,343	418,110	475,197	592,744	492,420	1,035,935	1,167,804
Total taxes.....	20,633,097	21,539,317	23,289,377	24,966,967	27,473,915	28,649,488	30,091,962	27,730,275	28,318,994	29,737,979
Investment income.....	15,394	115,829	199,151	131,629	188,750	320,342	128,722	(137,831)	15,099	52,129
Total general revenues.....	20,648,491	21,655,146	23,488,528	25,098,596	27,662,665	28,969,830	30,220,684	27,592,444	28,334,093	29,790,108
Special item-revenues from component unit.....	256,206	-	-	-	-	-	-	-	-	-
Transfers from business-type activities.....	481,022	551,807	422,786	341,232	465,000	257,343	296,931	430,398	218,721	239,925
Net general revenues, special items and transfers.....	21,385,719	22,206,953	23,911,314	25,439,828	28,127,665	29,227,173	30,517,615	28,022,842	28,552,814	30,030,033
Total governmental activities change in net assets.....	\$ 411,263	\$ 263,457	\$ 1,501,091	\$ 1,113,571	\$ 1,792,748	\$ 1,804,889	\$ 1,181,822	\$ (2,065,126)	\$ 307,684	\$ 705,723

Commonwealth of Pennsylvania

Financial Trends

Table 2

Changes in Net Assets

For the Last Ten Fiscal Years Ended June 30

(Accrual basis of accounting-amounts in thousands)

	(Restated) 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
BUSINESS-TYPE ACTIVITIES										
Expenses										
State lottery.....	\$ 1,682,675	\$ 1,827,306	\$ 2,051,646	\$ 2,298,417	\$ 2,704,265	\$ 3,100,523	\$ 3,157,593	\$ 3,173,322	\$ 3,079,381	\$ 3,155,903
State workers' insurance.....	174,929	225,483	435,429	449,880	412,104	553,512	616,256	388,424	338,229	306,318
Tuition payment.....	191,188	288,118	293,737	192,802	138,275	267,941	224,791	100,028	235,876	259,069
Unemployment compensation (3).....	2,819,878	3,470,257	2,563,318	1,774,676	1,998,613	2,074,382	2,289,977	6,250,213	8,741,990	7,460,707
Liquor control.....	907,261	954,763	1,024,365	1,088,875	1,178,434	1,277,871	1,318,503	1,437,168	1,478,971	1,504,517
Economic development and other.....	16,820	12,663	13,980	16,456	18,433	14,470	3,148	14,171	13,706	23,635
Total expenses.....	5,792,751	6,778,590	6,382,475	5,821,106	6,450,124	7,288,699	7,610,268	11,363,326	13,888,153	12,710,149
Program revenues										
Charges for sales and services:										
State lottery.....	1,955,820	2,103,644	2,349,644	2,644,407	3,047,978	3,076,013	3,100,962	3,088,231	3,052,097	3,206,933
State workers' insurance.....	149,688	180,664	266,551	355,883	427,970	374,088	384,301	291,677	223,458	173,571
Tuition payment.....	151,149	234,460	206,739	141,817	113,831	151,121	138,361	153,892	157,336	165,157
Unemployment compensation (3).....	1,862,530	1,532,213	1,628,215	1,961,085	2,373,163	2,172,900	2,061,780	2,423,125	2,328,099	2,579,252
Liquor control.....	975,300	1,025,813	1,121,853	1,183,667	1,272,101	1,364,524	1,428,638	1,507,512	1,527,998	1,586,394
Economic development and other.....	24,031	15,878	21,467	17,201	17,585	20,068	20,149	19,067	22,254	24,449
Operating grants and contributions.....	463,554	1,223,591	840,763	361,874	414,887	619,319	350,892	1,760,824	4,970,529	4,858,476
Capital grants and contributions.....	-	6,706	1,121	-	-	-	-	-	-	-
Total program revenues.....	5,582,072	6,322,969	6,436,353	6,665,934	7,667,515	7,778,033	7,485,083	9,244,328	12,281,771	12,594,232
Total business-type activities net program revenues/(expenses).....	(210,679)	(455,621)	53,878	844,828	1,217,391	489,334	(125,185)	(2,118,998)	(1,606,382)	(115,917)
Other changes in net assets										
Transfers to governmental activities.....	(481,022)	(551,807)	(422,786)	(341,232)	(465,000)	(257,343)	(296,931)	(430,398)	(218,721)	(239,925)
Total business-type activities change in net assets.....	(691,701)	(1,007,428)	(368,908)	503,596	752,391	231,991	(422,116)	(2,549,396)	(1,825,103)	(355,842)
Total primary government change in net assets.....	\$ (280,438)	\$ (743,971)	\$ 1,132,183	\$ 1,617,167	\$ 2,545,139	\$ 2,036,880	\$ 759,706	\$ (4,614,522)	\$ (1,517,419)	\$ 349,881

Source: Statement of Activities, as presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the applicable fiscal year.

Notes:

(1)-During the 2007 fiscal year, the first licensed gaming facilities opened and the resulting taxes from their activities were reported in the Gaming Fund, a special revenue fund.

(2)-Since the 2002 fiscal year, additional captions were created in the Statement of Activities to provide a more refined description of the Commonwealth's taxes. In the 2002 fiscal year, inheritance, cigarette and realty transfer taxes were reported within the "Other" taxes category. Beginning with the 2003 fiscal year, inheritance taxes were reported separately; in the 2004 fiscal year, cigarette taxes were reported separately; and in the 2006 fiscal year, realty transfer taxes were reported separately. These captions are marked with N/A in the fiscal years prior to when the particular tax was reported separate from the "Other" taxes category. Beginning with the June 30, 2010 CAFR, the "Real estate" taxes caption reported in previous CAFRS has been changed to "Realty transfer" to better reflect the nature of the tax.

(3)-In the Unemployment Compensation Fund, the June 30, 2010 fiscal year amounts for expenses and program revenues were reduced by \$3,008,615 in order to present a reclassification made in the June 30, 2011 fiscal year. The June 30, 2010 CAFR was not restated to reflect these amounts.

**Commonwealth of Pennsylvania
Financial Trends**

Table 3

**Governmental Fund Type Fund Balances
Last Ten Fiscal Years as of June 30**

(Modified accrual basis of accounting-amounts in thousands)	(Restated) 2002	2003	2004	2005	2006	2007	2008 (2)	2009 (2)	2010 (3)	2011 (3)
GENERAL FUND (1)										
Reserved for:										
Encumbrances.....	\$ 479,314	\$ 341,881	\$ 259,178	\$ 617,861	\$ 709,115	\$ 570,027	\$ 568,678	\$ 785,864	\$ 806,181	N/A
Advances.....	29,111	114,108	114,108	114,108	114,108	114,108	114,108	139,108	139,108	N/A
Loans receivable.....	-	9,470	6,283	4,496	10,953	11,113	8,358	9,924	9,989	N/A
Budget Stabilization Reserve.....	-	-	-	70,303	171,362	538,764	745,949	745,949	-	N/A
Other.....	286,711	307,974	501,901	621,004	454,639	844,229	1,148,218	1,375,432	764,206	N/A
Unreserved:										
Designated for:										
Budget Stabilization Reserve Fund.....	300,000	-	70,303	-	-	-	-	-	-	N/A
Other.....	323,884	269,775	421,415	514,174	719,414	923,966	379,169	-	-	N/A
Undesignated.....	1,603,822	1,314,505	1,633,326	927,163	789,958	368,659	9,621	(2,541,099)	(1,434,681)	N/A
Nonspendable.....	N/A	123,156								
Restricted.....	N/A	756,141								
Committed.....	N/A	1,063,613								
Unassigned/(deficit).....	N/A	(321,475)								
TOTAL GENERAL FUND.....	3,022,842	2,357,713	3,006,514	2,869,109	2,969,549	3,370,866	2,974,101	515,178	284,803	1,621,435
ALL OTHER GOVERNMENTAL FUNDS (1)										
Reserved for:										
Encumbrances.....	1,336,227	1,168,535	1,444,875	1,454,129	1,630,382	1,927,151	2,057,615	2,085,395	2,329,299	N/A
Advances.....	3,000	3,000	223,000	210,000	3,000	3,000	3,000	3,000	3,000	N/A
Loans receivable.....	39,963	38,186	39,804	32,065	32,684	39,859	73,628	83,100	79,315	N/A
Other.....	407,029	445,411	560,284	817,668	857,253	1,329,707	940,263	916,713	907,005	N/A
Unreserved:										
Designated for, reported in:										
Highways.....	175,249	215,946	209,647	218,885	203,118	235,730	689,288	700,018	768,710	N/A
Special Revenue funds.....	12	-	-	4,355	4,528	11,268	9,341	8,666	2,218	N/A
Debt Service funds.....	21,887	32,685	61,029	83,885	8,118	20,474	27,458	16,834	46,853	N/A
Capital Projects funds.....	79,286	54,026	96,787	133,024	131,026	65,455	54,631	33,527	32,879	N/A
Unreserved: Undesignated, reported in:										
Special Revenue funds.....	1,791,400	1,703,534	1,520,236	1,631,980	2,412,047	1,971,829	2,630,277	2,448,383	2,421,257	N/A
Debt Service funds (deficit).....	(3,782)	-	-	-	-	-	-	-	-	N/A
Capital Projects funds (deficit).....	(494,795)	(398,644)	(368,295)	(473,110)	(601,823)	(449,622)	(629,686)	(721,365)	(524,465)	N/A
Restricted reported in:										
Special Revenue funds.....	N/A	3,711,994								
Committed reported in:										
Special Revenue funds.....	N/A	426,391								
Debt Service funds.....	N/A	17,040								
Capital Projects funds.....	N/A	239,180								
Unassigned reported in:										
Special Revenue funds (deficit).....	N/A	(2,837)								
Capital Projects funds (deficit).....	N/A	(20,711)								
TOTAL ALL OTHER GOVERNMENTAL FUNDS.....	\$ 3,355,476	\$ 3,262,679	\$ 3,787,367	\$ 4,112,881	\$ 4,680,333	\$ 5,154,851	\$ 5,855,815	\$ 5,574,271	\$ 6,066,071	\$ 4,371,057

Source: The Balance Sheet-Governmental Funds statement, as presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the applicable fiscal year.

Notes:

(1)-As discussed in Notes A, and B the Commonwealth implemented GASB Statement 54 with the 2011 fiscal year. As a result, existing categories have been changed from Reserved and Unreserved fund balances to Nonspendable and Spendable (Restricted, Committed, Assigned and Unassigned) fund balances. Also, this implementation resulted in the reclassification of 41 Special Revenue Funds. As discussed in Note B, 38 of the 41 Special Revenue funds were reclassified as components of the General Fund, and the remaining three were reclassified as Capital Projects funds.

(2)-In the June 30, 2009 CAFR, the beginning fund balance for the Motor License fund (a governmental fund type) was restated and increased by \$30,059 as of July 1, 2008. Therefore, the combined ending fund balance (for the General Fund and all other governmental fund types) shown in this table as of June 30, 2008 plus the change in fund balances shown in Table 4 for the June 30, 2009 fiscal year will differ from the combined ending fund balance (for the General Fund and all other governmental fund types) shown in this table as of June 30, 2009. Note B in the Notes to the Financial Statements in the June 30, 2009 CAFR provides additional details on this restatement.

(3)-As discussed in Note B, the implementation of GASB Statement 54 required the restatement of the General Fund fund balance and All Other Governmental Funds fund balances. In the June 30, 2011 CAFR the beginning fund balance of the General Fund was restated and increased by \$280,420 and All Other Governmental Funds combined fund balances were restated and decreased by \$280,420. Therefore, in the June 30, 2011 CAFR the beginning fund balance for the General Fund was \$565,223 and the beginning fund balance for All Other Governmental Funds combined was \$5,785,651. The restatement has not been retroactively applied to prior fiscal years; therefore the fund balances shown for the 2010 fiscal year in this table is the total reported in the June 30, 2010 CAFR.

Commonwealth of Pennsylvania

Financial Trends

Table 4

Revenues by Source and Expenditures by Function-All Governmental Fund Types
For the Last Ten Fiscal Years Ended June 30

(Modified accrual basis of accounting-amounts in thousands)	(Restated) 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
REVENUES BY SOURCE										
Taxes, net of refunds.....	\$ 20,636,762	\$ 21,469,170	\$ 23,237,117	\$ 24,973,125	\$ 27,117,823	\$ 28,548,280	\$ 29,909,880	\$ 27,773,110	\$ 28,229,235	\$ 30,007,455
Licenses and fees.....	1,246,232	1,350,016	1,475,948	1,568,659	1,611,868	1,954,788	1,913,154	1,674,804	1,951,683	1,806,751
Intergovernmental.....	13,259,463	14,575,716	16,379,096	16,585,336	16,347,975	16,891,212	17,911,839	20,619,848	25,256,164	26,029,290
Charges for sales and services.....	2,535,775	2,019,842	2,068,019	4,027,745	2,970,585	1,598,564	1,641,937	1,597,751	1,501,109	1,688,449
Investment income.....	29,615	249,791	402,132	322,199	425,356	769,820	166,522	(306,524)	344,936	326,021
Other (1).....	755,226	837,918	957,494	552,422	576,180	607,201	752,308	715,425	686,069	632,670
TOTAL REVENUES	38,463,073	40,502,453	44,519,806	48,029,486	49,049,787	50,369,865	52,295,640	52,074,414	57,969,196	60,490,636
EXPENDITURES BY FUNCTION										
Direction and supportive services	968,563	914,794	1,538,729	2,134,421	2,337,112	1,104,793	1,385,760	1,375,399	1,779,748	1,622,374
Protection of persons and property.....	3,876,449	3,882,843	3,886,666	3,892,572	4,410,969	4,621,119	4,861,363	5,169,377	5,359,792	5,307,198
Health and human services.....	18,990,802	20,510,849	21,689,392	24,118,288	24,103,077	24,293,011	25,141,836	26,549,790	28,340,751	30,435,510
Public education.....	8,814,273	10,198,076	10,529,504	11,400,985	11,731,884	12,439,920	13,076,308	14,019,470	14,492,845	14,836,658
Recreation and cultural enrichment.....	480,245	471,920	382,179	442,783	447,264	544,117	557,387	570,177	506,737	463,501
Economic development.....	1,245,292	1,507,584	1,334,071	1,310,093	1,413,995	1,736,388	1,721,634	1,605,513	1,582,097	1,596,548
Transportation.....	4,003,291	3,935,785	2,310,434	2,607,793	2,448,165	3,089,544	3,292,279	3,321,647	3,833,745	3,129,306
Capital outlay.....	694,219	407,080	2,008,141	1,805,913	2,082,644	2,121,632	2,273,290	2,812,788	3,144,349	3,248,174
Debt service:										
Principal retirement.....	479,395	998,396	455,890	478,112	492,355	521,773	555,337	598,850	626,090	697,510
Interest and fiscal charges.....	278,428	313,681	311,686	320,887	348,418	361,088	388,722	402,653	406,414	477,751
TOTAL EXPENDITURES	39,830,957	43,141,008	44,446,692	48,511,847	49,815,883	50,833,385	53,253,916	56,425,664	60,072,568	61,814,530
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(1,367,884)	(2,638,555)	73,114	(482,361)	(766,096)	(463,520)	(958,276)	(4,351,250)	(2,103,372)	(1,323,894)
OTHER FINANCING SOURCES/(USES)										
Bonds issued.....	1,042,813	1,324,167	625,247	401,816	914,000	1,008,104	913,119	1,064,103	1,900,401	650,000
Refunding bonds issued.....	376,854	837,991	459,223	1,468,439	-	250,557	194,471	155,642	695,945	-
Premium on bonds/refunding bonds issued.....	-	-	88,006	197,291	54,420	58,166	61,277	88,921	203,601	37,739
Discount on bonds issued.....	-	-	-	-	-	(157)	-	-	(2,924)	(4,724)
Transfers in.....	2,272,414	1,729,539	1,337,090	1,276,443	1,408,351	1,463,620	1,614,938	1,693,343	2,251,986	2,344,796
Transfers out.....	(1,791,392)	(1,177,733)	(914,304)	(1,035,211)	(943,351)	(1,188,779)	(1,318,226)	(1,257,945)	(1,888,368)	(2,062,410)
Transfers from component units (2).....	256,206	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Transfers to component units (2).....	(1,079,197)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Payment to refunded bond escrow agent.....	(376,854)	(837,991)	(511,884)	(1,639,510)	-	(253,892)	(203,633)	(166,978)	(795,844)	-
Capital lease and installment purchase obligations.....	5,767	4,656	1,535	1,202	568	1,736	529	3,638	-	111
TOTAL OTHER FINANCING SOURCES/(USES)	706,611	1,880,629	1,084,913	670,470	1,433,988	1,339,355	1,262,475	1,580,724	2,364,797	965,512
NET CHANGE IN FUND BALANCES.....	\$ (661,273)	\$ (757,926)	\$ 1,158,027	\$ 188,109	\$ 667,892	\$ 875,835	\$ 304,199	\$ (2,770,526)	\$ 261,425	\$ (358,382)
Debt Service as a Percentage of Noncapital Expenditures (3).....	1.94%	3.07%	1.81%	1.71%	1.76%	1.81%	1.85%	1.87%	1.81%	2.01%

Source: The Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds statement, as presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the applicable fiscal year

Notes:

(1)-Other revenues include immaterial amounts of lease rentals revenues and interest on notes and loans.

(2)-With the implementation of GASB Statement 34, the Commonwealth was required to begin reporting transfers from and to component units as ordinary revenues and expenditures. These changes were made to the Commonwealth's accounting system beginning with the 2003 fiscal year and were not retroactively applied. Subsequent fiscal years are marked with a N/A.

(3)-Ratio is calculated as Principal Retirement plus Interest and Fiscal Charges expenditures divided by Total Expenditures less Capital Outlay expenditures. There are no expenditures for capitalized assets contained within the functional expenditure categories.

Commonwealth of Pennsylvania
Revenue Capacity-Personal Income Tax

Table 5
 Personal Income by Industry
 For the Last Ten Calendar Years

(Amounts in millions)	2001(1)	2002(1)	2003(1)	2004(1)	2005(1)	2006(1)	2007(1)	2008(1)	2009	2010
TOTAL PERSONAL INCOME BY INDUSTRY (2)										
Workplace Earnings:										
Farm Earnings	\$ 997	\$ 622	\$ 1,213	\$ 1,484	\$ 1,342	\$ 1,053	\$ 1,230	\$ 1,200	\$ 911	\$ 1,225
Nonfarm Earnings:										
Private earnings:										
Forestry, fishing/hunting, agriculture.....	461	415	394	403	414	438	455	443	404	389
Mining.....	1,530	1,342	1,455	1,714	1,911	2,250	2,156	3,214	1,942	2,497
Utilities.....	3,019	3,138	2,972	2,853	2,750	2,901	2,953	3,226	2,930	2,991
Construction.....	18,231	18,604	19,788	21,040	22,044	23,206	23,007	22,709	20,030	20,167
Manufacturing.....	43,431	42,928	41,835	42,107	42,627	44,190	43,786	44,226	39,466	39,735
Wholesale trade.....	13,378	13,739	14,448	15,683	16,645	17,850	19,009	19,291	18,344	18,758
Retail trade.....	19,555	19,927	20,904	21,068	21,624	21,908	22,187	21,385	21,316	21,960
Transportation and warehousing.....	10,903	10,917	11,223	12,023	12,408	12,777	12,951	12,740	12,460	12,735
Broadcasting/publishing/internet technology.....	8,500	8,124	8,619	8,754	8,942	9,356	9,697	10,776	9,954	10,001
Finance and insurance.....	18,929	19,772	20,558	21,890	22,793	24,440	25,020	25,402	24,596	25,187
Real estate and rental and leasing.....	5,751	5,815	6,173	6,405	6,219	6,082	5,168	5,554	4,636	4,851
Professional and technical services.....	24,643	24,927	25,565	27,621	29,437	31,852	34,310	37,003	34,649	35,547
Management of companies and enterprises.....	5,044	5,445	7,098	8,034	9,355	10,590	13,156	13,087	13,471	14,313
Administrative services.....	9,009	9,307	9,221	9,954	10,399	10,958	11,358	11,640	10,965	11,713
Educational services.....	6,871	7,575	7,959	8,546	8,876	9,425	9,906	10,584	11,119	11,480
Health care and social assistance.....	31,972	34,514	36,633	39,563	40,772	43,386	45,765	49,202	51,226	52,779
Arts, entertainment, and recreation.....	2,486	2,658	2,924	3,021	3,071	3,288	3,596	3,648	3,765	4,028
Accommodation and food services.....	6,806	7,143	7,311	7,658	7,883	8,065	8,794	8,658	8,428	9,000
Other services, except public administration.....	10,720	11,954	11,780	12,279	13,124	13,544	13,488	13,043	12,966	13,363
Total private earnings	241,239	248,244	256,860	270,616	281,294	296,506	306,762	315,831	302,667	311,494
Government:										
Federal, civilian.....	7,641	7,973	8,198	8,810	9,164	9,545	9,846	10,090	10,463	10,851
Military.....	966	1,189	1,595	1,677	1,855	1,822	1,809	1,921	2,090	2,088
State government.....	7,508	7,939	8,413	8,555	8,690	9,033	9,646	9,840	10,323	10,489
Local government.....	19,527	20,537	21,655	22,677	23,389	24,007	25,013	26,213	27,351	27,966
Total government earnings	35,642	37,638	39,861	41,719	43,098	44,407	46,314	48,064	50,227	51,394
Total nonfarm earnings	276,881	285,882	296,721	312,335	324,392	340,913	353,076	363,895	352,894	362,888
Total workplace earnings	277,878	286,504	297,934	313,819	325,734	341,966	354,306	365,095	353,805	364,113
Other earnings/deductions (3)	99,496	101,160	101,613	103,971	106,514	120,738	134,770	147,865	145,526	151,888
Total personal income	\$ 377,374	\$ 387,664	\$ 399,547	\$ 417,790	\$ 432,248	\$ 462,704	\$ 489,076	\$ 512,960	\$ 499,331	\$ 516,001
Total personal income subject to the direct personal income tax rate (4)(5)	\$ 230,926	\$ 229,685	\$ 237,961	\$ 250,921	266,800	288,043	317,393	314,872	N/A	N/A
Direct personal income tax rate	2.80%	2.80%	2.80%	3.07%	3.07%	3.07%	3.07%	3.07%	3.07%	3.07%

Sources:

Personal income by industry is provided by the Bureau of Economic Analysis, US Department of Commerce (www.bea.gov/index.htm) through estimates released September 2011. Total personal income subject to the direct tax rate was obtained from the Pennsylvania Department of Revenue. The information for the 2008 calendar year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium for 2009-10. The direct personal income tax rate was obtained from the Pennsylvania Tax Compendium for December 2010. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at www.revenue.state.pa.us.

Notes:

- (1)-Various calendar years differ from the totals shown in the Commonwealth's Comprehensive Annual Financial Report for June 30, 2010. The amounts shown in the prior year were based on estimates released by the Bureau of Economic Analysis, U.S. Department of Commerce in September 2010. These estimates have subsequently been revised (as provided in the September 2011 release).
- (2)-Personal income by industry is reported under the North American Industry Classification System.
- (3)-Other earnings/deductions include dividends, interest and miscellaneous employee/employer contributions/deductions.
- (4)-Total personal income subject to the direct personal income tax rate consists of taxable compensation, interest, dividends, net profits and other income, prior to the application of various tax credits. This amount is self-assessed by the taxpayer on their tax returns for the tax year. Due to the complexity and length of the tax return filing and review process, the total compilation is not yet available for release by the Pennsylvania Department of Revenue for the 2009 and 2010 tax years.
- (5)-This information is presented by tax year, rather than by calendar year, as the personal income by industry is presented. An individual filer's tax year is defined as that period for which that person must file a tax return. Generally, many filers have the last day of their filing year fall on December 31st; however, for various reasons, other filers have a filing year that falls on a different date (e.g. March 31st). The information presented is based on those returns of the filers whose tax year ended during the the applicable calendar year.

Commonwealth of Pennsylvania
Revenue Capacity-Personal Income Tax

Table 6

Personal Income Tax Filers and Liability by Income Level
 1999 and 2008 Tax Years

Liability amounts in thousands					Liability amounts in thousands				
1999 Tax Year (1)(2)(3)					2008 Tax Year (1)(2)(3)				
Taxable Income Level	Number of Filers	Percentage of Total (5)	Personal Income Tax Liability(4)	Percentage of Total	Taxable Income Level	Number of Filers	Percentage of Total (5)	Personal Income Tax Liability(4)	Percentage of Total
\$0	58,254	1.03%	\$ -	0.00%	\$0	129,481	2.13%	\$ -	0.00%
\$1-999	371,588	6.58%	4,597	0.07%	\$1-999	377,588	6.21%	4,506	0.05%
\$1,000-2,999	465,691	8.24%	25,707	0.41%	\$1,000-2,999	407,454	6.71%	24,323	0.25%
\$3,000-4,999	351,935	6.23%	39,529	0.63%	\$3,000-4,999	320,880	5.28%	39,034	0.40%
\$5,000-6,999	280,649	4.97%	47,502	0.76%	\$5,000-6,999	263,961	4.34%	48,293	0.50%
\$7,000-8,999	228,897	4.05%	51,807	0.82%	\$7,000-8,999	218,115	3.59%	53,361	0.55%
\$9,000-10,999	200,926	3.56%	56,951	0.91%	\$9,000-10,999	191,085	3.14%	58,529	0.61%
\$11,000-12,999	184,027	3.26%	62,626	1.00%	\$11,000-12,999	174,050	2.86%	64,071	0.66%
\$13,000-14,999	173,981	3.08%	69,031	1.10%	\$13,000-14,999	163,767	2.69%	70,292	0.73%
\$15,000-16,999	166,233	2.94%	75,286	1.20%	\$15,000-16,999	154,021	2.53%	75,592	0.78%
\$17,000-18,999	159,044	2.81%	81,026	1.29%	\$17,000-18,999	145,447	2.39%	80,340	0.83%
\$19,000-21,999	225,356	3.99%	130,439	2.07%	\$19,000-21,999	212,244	3.49%	133,541	1.38%
\$22,000-24,999	207,609	3.67%	137,595	2.19%	\$22,000-24,999	203,464	3.35%	146,705	1.52%
\$25,000-29,999	314,272	5.56%	242,972	3.86%	\$25,000-29,999	314,047	5.17%	264,715	2.74%
\$30,000-34,999	274,253	4.85%	250,468	3.98%	\$30,000-34,999	281,392	4.63%	280,237	2.90%
\$35,000-39,999	244,653	4.33%	257,694	4.10%	\$35,000-39,999	247,769	4.08%	284,800	2.95%
\$40,000-49,999	411,559	7.28%	517,917	8.24%	\$40,000-49,999	411,569	6.77%	565,797	5.85%
\$50,000-74,999	663,443	11.74%	1,137,047	18.08%	\$50,000-74,999	718,003	11.82%	1,354,908	14.02%
\$75,000-99,999	304,068	5.38%	731,739	11.64%	\$75,000-99,999	434,406	7.15%	1,152,382	11.92%
\$100,000-149,999	206,513	3.65%	691,731	11.00%	\$100,000-149,999	392,996	6.47%	1,452,857	15.03%
\$150,000 or more	158,477	2.80%	1,676,885	26.67%	\$150,000 or more	315,038	5.18%	3,512,275	36.33%
Total (5)	<u>5,651,428</u>	100.00%	<u>\$ 6,288,550</u>	100.00%	Total	<u>6,076,777</u>	100.00%	<u>\$ 9,666,559</u>	100.00%

Sources:

For the 1999 tax year, all of the information was provided directly by the Pennsylvania Department of Revenue. For the 2008 tax year, the number of filers per taxable income level and the personal income subject to the direct personal income tax rate per income level (used in the Personal Income Tax Liability estimation) were obtained from the Statistical Supplement for the Pennsylvania Tax Compendium for 2009-10. The direct personal income tax rate was obtained from the Pennsylvania Tax Compendium for December 2010. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at www.revenue.state.pa.us.

Notes:

- (1)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest personal income tax filers. Therefore, this schedule is presented as an alternative comparison regarding the sources of the Commonwealth's personal income tax revenue.
- (2)-An individual filer's tax year is defined as that period for which that person must file a tax return. Generally, many filers have the last day of their filing year fall on December 31st; however, for various reasons, other filers have a filing year that falls on a different date (e.g. March 31st). This table presents information based on all filers whose tax year ended during the the 1999 or 2008 calendar years.
- (3)-Due to the complexity and length of the tax return filing and review process, the total compilation of personal income subject to the direct tax rate per income level was not yet available for release by the Pennsylvania Department of Revenue for the 2009 and 2010 tax years. This compilation is used in the calculation of the estimated personal income tax liability. Therefore, the 1999 and 2008 tax years are presented as an alternative comparison.
- (4)-The estimated total personal income tax liability is calculated by multiplying the total personal income (as self-assessed by the individual tax filer) for the income level by the tax rate applicable during the tax year. The estimated liability is presented before any applicable tax credits were applied. For the 1999 tax year, the direct tax rate in effect was 2.80% for all income levels. Beginning with the 2004 tax year, the rate increased to 3.07%. This rate has been in effect for all subsequent tax years.
- (5)-Totals may not foot due to rounding.

Commonwealth of Pennsylvania

Revenue Capacity-Sales Tax

Table 7

Estimated Taxable Sales by Industry Classification of the Vendor
For the Last Ten Fiscal Years Ended June 30

(Amounts in thousands)	2001	2002 (3)	2003	2004	2005	2006	2007	2008	2009	2010(4)
Estimated Taxable Sales by Industry (1)(2)										
Manufacturing.....	\$ 6,241,417	\$ 5,712,633	\$ 6,222,633	\$ 6,386,100	\$ 6,858,033	\$ 7,107,483	\$ 7,083,150	\$ 7,199,717	\$ 6,952,853	\$ 6,310,433
Public utilities.....	3,991,083	3,920,667	3,981,383	4,229,717	4,473,817	4,667,117	4,816,533	4,763,633	4,832,233	4,750,250
Wholesale trade.....	10,142,600	9,687,583	7,625,950	7,987,583	9,112,350	11,407,750	12,320,033	12,239,917	10,215,170	10,492,100
Building materials.....	6,654,533	6,969,217	7,216,967	8,209,967	8,719,850	9,607,267	9,263,467	8,908,483	8,422,183	8,140,533
General merchandise.....	9,039,983	16,724,483	17,595,700	18,383,833	18,243,083	18,766,300	19,275,267	18,959,267	19,171,045	18,601,350
Food and beverage stores.....	12,875,267	5,353,500	5,602,267	5,770,967	5,764,533	5,859,017	6,090,033	6,023,083	6,197,422	6,416,383
Automotive dealers.....	4,994,600	3,163,400	3,329,383	3,487,217	3,691,150	3,761,500	3,865,533	3,834,950	3,709,158	3,753,567
Furniture and appliances.....	2,544,383	5,231,483	5,553,117	5,844,450	6,338,250	6,148,383	6,334,000	6,018,133	5,572,460	4,931,917
Other retail stores.....	13,929,117	5,054,200	5,022,117	5,212,517	5,376,183	5,529,683	5,802,417	5,764,733	5,598,740	5,580,450
Agriculture and mining.....	22,357,250	509,467	484,717	559,400	644,983	717,950	726,367	666,967	685,577	773,133
Construction.....	N/A	2,076,850	2,171,750	2,342,833	2,742,150	3,010,383	3,077,033	3,050,933	2,880,480	2,595,217
Service.....	N/A	34,221,217	35,405,917	35,164,650	37,378,583	39,336,950	41,230,817	41,914,783	40,875,482	40,899,250
Transportation, delivery, and warehousing..	N/A	272,833	275,150	312,250	330,783	420,617	363,450	374,133	356,542	365,150
Other.....	6,484,767	N/A								
Government.....	298,483	264,517	280,250	278,833	296,717	294,600	289,767	211,100	285,217	383,150
Unclassified.....	1,457,483	1,911,367	2,538,850	2,228,010	1,472,017	1,442,950	1,532,250	1,627,583	2,036,060	1,363,333
Motor vehicle.....	18,000,200	19,362,581	20,764,773	21,144,925	20,506,470	19,484,594	19,481,964	18,346,914	15,992,425	16,595,200
Liquor sales.....	1,051,300	1,105,526	1,254,926	1,265,798	1,383,587	1,341,449	1,627,333	1,704,846	1,808,735	1,868,083
Total sales tax estimated base (5).....	\$ 120,062,467	\$ 121,541,524	\$ 125,325,849	\$ 128,809,049	\$ 133,332,540	\$ 138,903,993	\$ 143,179,414	\$ 141,609,177	\$ 135,591,782	\$ 133,819,500
Total direct sales tax rate.....	6.0%									

Sources:

Sales tax remittances by industry and total direct sales tax rate (both used in the calculation of estimated taxable sales by industry) are provided by the Pennsylvania Department of Revenue. Sales tax remittances by industry for the 2010 fiscal year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium for 2009-10. The total direct sales tax rate was obtained from the Pennsylvania Tax Compendium for December 2010. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at www.revenue.state.pa.us.

Notes:

- (1)-Estimated taxable sales are calculated based on sales tax remittances (made by vendors with their tax returns processed during the fiscal year) divided by the direct sales tax rate of 6%.
- (2)-Estimated taxable sales are organized by major industrial activity of the vendor and do not represent sales by product type. These are presented based on the North American Industry Classification System.
- (3)-Beginning with the 2002 fiscal year, the Pennsylvania Department of Revenue reclassified various subcategories within major industrial activity into either a different major industrial activity or a new major industrial activity. New major industrial activities are "Construction", "Service", and "Transportation, delivery, and warehousing". The "Other" category was eliminated. This reclassification had the most effect on the "General merchandise", "Food and beverage stores", "Other retail stores", and "Agriculture and mining" major industrial activity categories.
- (4)-Due to the complexity and length of the tax return filing and review process, the total compilation of sales tax remittances was not yet available for release by the Pennsylvania Department of Revenue for the 2011 fiscal year. Therefore, fiscal years 2001 through 2010 are presented as an alternative comparison.
- (5)-Totals may not foot due to rounding.

Commonwealth of Pennsylvania

Revenue Capacity-Sales Tax

Table 8

Sales Tax Remittances by Major Industry Classification

Fiscal Years Ended June 30, 2001 and June 30, 2010

(Amounts in thousands)

June 30, 2001 (1)(2)			June 30, 2010 (1)(2)		
Industry (4)	Sales(3) Tax Remittances Liability	Percentage of Total	Industry (4)	Sales(3) Tax Remittances Liability	Percentage of Total
Manufacturing.....	\$ 374,485	5.20%	Manufacturing.....	\$ 378,626	4.72%
Public utilities.....	239,465	3.32%	Public utilities.....	285,015	3.55%
Wholesale trade.....	608,556	8.45%	Wholesale trade.....	629,526	7.84%
Building materials.....	399,272	5.54%	Building materials.....	488,432	6.08%
General merchandise.....	542,399	7.53%	General merchandise.....	1,116,081	13.90%
Food and beverage stores.....	772,516	10.72%	Food and beverage stores.....	384,983	4.79%
Automotive dealers.....	299,676	4.16%	Automotive dealers.....	225,214	2.80%
Furniture and appliances.....	152,663	2.12%	Furniture and appliances.....	295,915	3.69%
Other retail stores.....	835,747	11.60%	Other retail stores.....	334,827	4.17%
Agriculture and mining.....	1,341,435	18.62%	Agriculture and mining.....	46,388	0.58%
Construction.....	N/A	N/A	Construction.....	155,713	1.94%
Service.....	N/A	N/A	Service.....	2,453,955	30.56%
Transportation, delivery, and warehousing.....	N/A	N/A	Transportation, delivery, and warehousing.....	21,909	0.27%
Other.....	389,086	5.40%	Other.....	N/A	N/A
Government.....	17,909	0.25%	Government.....	22,989	0.29%
Unclassified.....	87,449	1.21%	Unclassified.....	81,800	1.02%
Motor vehicle.....	1,080,012	14.99%	Motor vehicle.....	995,712	12.40%
Liquor sales.....	63,078	0.88%	Liquor sales.....	112,085	1.40%
Total (5).....	<u>\$ 7,203,748</u>	100.00%	Total (5).....	<u>\$ 8,029,170</u>	100.00%
Sales Tax Licenses (6).....	261,855		Sales Tax Licenses (6).....	233,910	

Sources:

Sales tax remittances by industry and the number of sales tax licenses are provided by the Pennsylvania Department of Revenue. Sales tax remittances by industry for the 2010 fiscal year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium for 2009-10. This publication was obtained from the Pennsylvania Department of Revenue's website which is located at www.revenue.state.pa.us.

Notes:

- (1)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest sales tax filers. Therefore, this schedule is presented as an alternative comparison regarding the sources of the Commonwealth's sales tax revenue.
- (2)-Due to the complexity and length of the tax return filing and review process, the total compilation of sales tax remittances was not yet available for release by the Pennsylvania Department of Revenue for the 2011 fiscal year. Therefore, fiscal years 2001 and 2010 are presented as an alternative comparison.
- (3)-Sales tax liability is based on sales tax remittances made with tax returns processed during the fiscal year. The direct sales tax rate applicable to both years is 6%.
- (4)-Sales tax remittances are organized by major industrial activity of the vendor and does not represent sales by product type. Both years are presented using the North American Industry Classification System (N.A.I.C.S.) Group.
- (5)-Totals may not foot due to rounding.
- (6)-The Commonwealth does not maintain a list of sales tax filers by the N.A.I.C.S. standard industry grouping, and as noted in Note (1), can not disclose the names of the ten largest sales tax filers. Therefore, the number of sales tax licenses is presented to indicate the potential number of filers during the applicable fiscal year.

**Commonwealth of Pennsylvania
Revenue Capacity-Corporate Tax**

Table 9
Corporate Net Income Tax
For the Last Ten Tax Years

	1999	2000	2001	2002	2003	2004	2005	2006 (6)	2007 (6)	2008 (6)
ESTIMATED CORPORATE NET INCOME TAXABLE BASE (1)(2)										
Corporate Tax Report Compilation (amounts in thousands).....	\$ 15,304,130	\$ 14,164,465	\$ 12,367,911	\$ 13,280,711	\$ 13,446,684	\$ 17,648,755	\$ 20,312,660	\$ 23,247,419	\$ 20,576,194	\$ 18,991,360
NUMBER OF FILERS BY CORPORATE NET INCOME TAX LIABILITY RANGE (3)										
\$0.....	89,482	98,121	96,637	102,333	97,391	95,306	94,827	94,119	97,096	87,239
\$1-300.....	12,364	11,746	11,128	10,832	10,625	10,096	9,830	8,668	7,934	7,448
\$301-500.....	3,319	3,038	2,900	2,875	2,694	2,660	2,662	2,319	2,145	1,960
\$501-1,000.....	6,297	5,808	4,768	4,345	4,279	4,119	3,981	3,417	3,263	3,014
\$1,001-5,000.....	13,136	12,354	11,060	10,665	10,173	10,355	10,277	8,577	8,195	7,573
\$5,001-10,000.....	4,532	4,058	3,741	3,456	3,301	3,596	3,600	3,334	3,127	2,771
\$10,001-25,000.....	3,485	3,116	2,751	2,760	2,695	2,863	3,022	2,884	2,850	2,555
\$25,001-50,000.....	1,653	1,480	1,413	1,319	1,384	1,489	1,550	1,582	1,521	1,393
\$50,001-100,000.....	1,172	1,053	903	945	943	1,086	1,208	1,244	1,171	1,121
\$100,001-250,000.....	916	880	756	763	797	954	1,005	1,082	1,035	969
\$250,001-500,000.....	370	332	313	309	395	443	475	520	486	459
\$500,001-1,000,000.....	195	201	162	178	177	264	294	344	307	273
>\$1,000,000.....	191	201	184	192	220	262	307	341	327	280
Total corporate net income tax filers (4)(5).....	137,112	142,388	136,716	140,972	135,074	133,493	133,038	128,431	129,457	117,055
Total direct corporate net income tax rate.....	9.99%									

Sources:
Information provided by the Pennsylvania Department of Revenue. The number of filers by corporate net income tax liability range for the 2006-2008 tax years can be found in the Statistical Supplement for the Pennsylvania Tax Compendium for 2009-10. The direct corporate net income tax rate was obtained from the Pennsylvania Tax Compendium for December 2010. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at www.revenue.state.pa.us.

Notes:
(1)-Pennsylvania is one of only a few states that levy a tax on corporate net income (corporate net income tax - CNIT) as well as capital stock (capital stock/foreign franchise tax - CSFT). The capital stock tax is being phased out so that the last year for which a tax will apply will be the 2013 tax year. This table presents the positive corporate net income tax base, as well as the number of filers associated with this tax by liability range. It also presents the statutory corporate net income tax rate.
(2)-The CNIT is based on separate company Federal taxable income and includes a number of additions to/subtractions from that base. This table shows the compilation of all reported taxable income (Federal income adjusted to the PA base and then apportioned). Many corporations report negative federal taxable income. In addition, the net operating loss deductions that Pennsylvania allows reduce otherwise profitable corporations' incomes below \$0.
(3)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest corporate net income tax filers. Therefore, the schedule of the number of filers by corporate net income tax liability range is presented as an alternative comparison regarding the sources of the Commonwealth's corporate net income tax revenue. Those filers that report negative state taxable income are reported in the tax liability range of \$0, which accounts for the large number of filers within that range.
(4)-Due to the complexity and length of the tax return filing and review process, the total compilation of corporate net income subject to the direct corporate tax rate was not yet available for release by the Pennsylvania Department of Revenue for the 2009 and 2010 tax years. Therefore, tax years 1999 through 2008 are presented as an alternative comparison.
(5)-The corporate filer's tax year is defined as that period for which it must file a tax return. Though some filers have the last day of their filing year fall on December 31st, many filers have a filing year that falls on a different date (e.g. March 31st). This table presents information based on all filers whose tax year began during the associated calendar years.
(6)-For tax years 1999 through 2006, the amounts presented are actual. The amounts presented for the 2006 tax year may differ from the amounts presented in the same table in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2010 fiscal year, since that amount was an estimate. For the 2007 tax year, the amounts presented are a revised estimate from what was presented in the June 30, 2010 CAFR. And for the 2008 tax year, the amounts presented are an estimate.

Commonwealth of Pennsylvania
Revenue Capacity-Corporate TaxTable 10
Capital Stock/Foreign Franchise Tax
For the Last Ten Tax Years

	1999	2000	2001	2002	2003	2004	2005	2006 (6)	2007 (6)	2008 (6)
CAPITAL STOCK AND FRANCHISE TAXABLE BASE (1)(2)										
Apportioned Capital Stock Value Compilation (expressed in thousands).....	\$108,450,000	\$ 123,400,000	\$ 128,540,000	\$ 137,650,000	\$ 147,450,000	\$ 157,310,000	\$ 167,566,590	\$189,755,093	\$ 208,303,803	\$ 226,956,051
NUMBER OF FILERS BY CAPITAL STOCK/ FOREIGN FRANCHISE TAX LIABILITY RANGE (3)										
\$0-300.....	187,654	199,147	212,381	224,961	237,922	250,253	262,888	278,843	296,122	301,096
\$301-500.....	5,815	6,294	7,234	7,282	7,482	7,973	8,853	10,198	10,275	10,951
\$501-1,000.....	11,494	12,337	12,523	12,580	12,911	13,730	14,778	15,754	15,340	15,370
\$1,001-5,000.....	25,983	26,701	26,440	28,484	29,532	30,487	30,883	30,246	28,359	25,817
\$5,001-10,000.....	7,804	7,152	6,883	7,139	7,440	7,519	7,435	7,293	6,547	5,620
\$10,001-25,000.....	6,190	5,783	5,219	5,348	5,603	5,876	5,708	5,401	4,967	4,101
\$25,001-50,000.....	2,601	2,369	2,112	2,171	2,244	2,402	2,284	2,196	1,999	1,657
\$50,001-100,000.....	1,353	1,222	1,103	1,140	1,205	1,305	1,264	1,213	1,092	890
\$100,001-250,000.....	897	814	686	711	793	838	816	769	661	510
\$250,001-500,000.....	303	275	253	274	263	312	282	278	227	176
\$500,001-1,000,000.....	140	114	100	112	147	144	142	126	114	84
> \$1,000,000.....	109	117	103	97	98	106	101	93	75	59
Total capital stock and franchise tax filers (4)(5).....	250,343	262,325	275,037	290,299	305,640	320,945	335,434	352,410	365,778	366,331

Sources:

Information provided by the Pennsylvania Department of Revenue. The number of filers by capital stock/foreign franchise tax liability range for the 2006-2008 tax years can be found in the Statistical Supplement for the Pennsylvania Tax Compendium for 2009-10. The direct corporate net income tax rate was obtained from the Pennsylvania Tax Compendium for December 2010. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at www.revenue.state.pa.us.

Notes:

- (1)-Pennsylvania is one of only a few states that levy a tax on corporate net income (corporate net income tax - CNIT) as well as capital stock (capital stock/foreign franchise tax - CSFT). The capital stock tax is being phased out so that the last year for which a tax will apply will be the 2013 tax year. This table presents the capital stock/foreign franchise apportioned tax base, as well as the number of filers associated with this tax by filing class. It also presents the statutory capital stock/foreign franchise tax rate.
- (2)-The CSFT is based on a fixed formula involving net worth and average book income. This schedule shows the compilation of all reported taxable capital stock value, as reported by corporate taxpayers required to file a tax return with the Commonwealth.
- (3)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest capital stock/foreign franchise tax filers. Therefore, the schedule of the number of filers by capital stock/foreign franchise tax liability range is presented as an alternative comparison regarding the sources of the Commonwealth's capital stock/foreign franchise tax revenue. All corporate filers were required to pay a statutory minimum tax of \$300 through 1998 and \$200 in 1999, which accounts for the large number of filers within the range of \$0-\$300. This minimum does not apply to tax years 2000 and after.
- (4)-Due to the complexity and length of the tax return filing and review process, the total compilation of all reported taxable capital stock value subject to the statutory capital stock/foreign franchise tax rate was not yet available for release by the Pennsylvania Department of Revenue for the 2009 and 2010 tax years. Therefore, tax years 1999 through 2008 are presented as an alternative comparison.
- (5)-The corporate filer's tax year is defined as that period for which it must file a tax return. Though some filers have the last day of their filing year fall on December 31st, many filers have a filing year that falls on a different date (e.g. March 31st). This table presents information based on all filers whose tax year began during the the associated calendar years.
- (6)-For tax years 1999 through 2006, the amounts presented are actual. The amounts presented for the 2006 tax year may differ from the amounts presented in the same table in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2010 fiscal year, since that amount was an estimate. For the 2007 tax year, the amounts presented are revised estimates from the amounts presented in the June 30, 2010 CAFR. And for the 2008 tax year, the amounts presented are an estimate.

Commonwealth of Pennsylvania

Debt Capacity

Table 11

Outstanding Debt and Outstanding Debt Ratios

For the Last Ten Fiscal Years Ended June 30

(Expressed in Thousands, Except Debt per Capita)

PRIMARY GOVERNMENT (1)(2)(3)	(Restated)									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental activities:										
General obligation bonds.....	\$ 6,134,761	\$ 7,030,618	\$ 7,225,165	\$ 7,150,667	\$ 7,657,674	\$ 8,245,673	\$ 8,632,609	\$ 9,150,362	\$ 10,498,794	\$ 10,443,190
Capital leases/installment purchase obligations.....	629,437	62,131	53,951	47,276	42,059	40,649	37,646	36,730	31,958	26,907
Other financing obligations.....	-	-	100,000	90,000	82,500	76,500	70,500	67,500	67,500	67,500
Total governmental	<u>6,764,198</u>	<u>7,092,749</u>	<u>7,379,116</u>	<u>7,287,943</u>	<u>7,782,233</u>	<u>8,362,822</u>	<u>8,740,755</u>	<u>9,254,592</u>	<u>10,598,252</u>	<u>10,537,597</u>
Business-type activities:										
Capital leases/installment purchase obligations.....	-	-	-	-	28,259	17,375	5,939	-	-	-
TOTAL PRIMARY GOVERNMENT	<u>\$ 6,764,198</u>	<u>\$ 7,092,749</u>	<u>\$ 7,379,116</u>	<u>\$ 7,287,943</u>	<u>\$ 7,810,492</u>	<u>\$ 8,380,197</u>	<u>\$ 8,746,694</u>	<u>\$ 9,254,592</u>	<u>\$ 10,598,252</u>	<u>\$ 10,537,597</u>
Debt as a Percentage of Personal Income (4)(5)	1.79%	1.83%	1.85%	1.74%	1.81%	1.81%	1.79%	1.80%	2.12%	2.04%
Amount of Debt per Capita (4)(5)	\$ 550	\$ 575	\$ 596	\$ 587	\$ 627	\$ 670	\$ 696	\$ 734	\$ 837	\$ 829

Source: Statement of Net Assets, as presented in the Commonwealth's Comprehensive Annual Financial Report for the applicable fiscal year.

Notes:

- (1)-This schedule presents information beginning with the 2002 fiscal year, when the Commonwealth implemented GASB Statement 34.
- (2)-Each caption includes the reported current and noncurrent amounts of the outstanding debt.
- (3)-Details on the Commonwealth's total outstanding debt for June 30, 2011 can be found in Note K.
- (4)-See Table 15 for summarized totals for personal income and population data that were used in the calculations of these ratios. Personal income detail is presented in Table 5. As detailed in Table 5 or 15 (as appropriate), the personal income and population data have changed in several calendar years from what was presented in those tables in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2010 fiscal year. As a result, the calculated ratios based on the data from those calendar years may differ from what was presented in this table in the June 30, 2010 CAFR.
- (5)-Debt ratios use total outstanding debt which is presented by fiscal year ended June 30, while the personal income and population data used in the calculations are presented by calendar year.

Commonwealth of Pennsylvania

Debt Capacity

Table 12

Ratios of General Obligation Bonded Debt Outstanding
Last Ten Fiscal Years Ended as of June 30

(Amounts in thousands)

Fiscal Year	(1) General Obligation Bonds	(2) Percentage of Actual Tax Revenues	(3) Per Capita
2002	\$ 6,134,761	29.73%	\$ 499
2003	7,030,618	32.64%	568
2004	7,225,165	31.02%	579
2005	7,150,667	28.64%	569
2006	7,657,674	27.87%	614
2007	8,245,673	28.78%	657
2008	8,632,609	28.69%	685
2009	9,150,362	33.00%	724
2010	10,498,794	37.07%	825
2011	10,443,190	35.12%	820

Sources:

Information was obtained from the Commonwealth's Comprehensive Annual Financial Report for the applicable fiscal year. General obligation bonds can be found in the Statement of Net Assets, and the tax revenues used in the percentage of actual tax revenues can be found in the Statement of Activities.

Notes:

(1)-General obligation bonds amounts include the reported current and noncurrent amounts.

(2)-The Commonwealth's general obligation bonds are expected to be repaid with general tax revenues. Therefore, the total taxes shown in the Governmental Activities section of the Statement of Activities are used in this calculation.

(3)-General obligation bond amounts used in the per capita calculation are presented as of the fiscal year end. The population data used in the calculation is shown in Table 15, and is as of July 1 of the applicable fiscal year.

Commonwealth of Pennsylvania

Debt Capacity

Table 13

Computation of Legal Debt Margin

As of August 31 for the Last Ten Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Average annual tax revenues deposited in the previous five fiscal years.....	\$ 23,661,031,603	\$ 24,285,747,191	\$ 25,091,013,830	\$ 26,141,233,164	\$ 27,536,515,720	\$ 29,300,406,649	\$ 31,088,316,012	\$ 32,044,066,363	\$ 32,604,981,495	\$ 33,234,462,394
Constitutional factor..... x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75
Constitutional debt limit for debt incurred without the approval of the electors (A)...	41,406,805,305	42,500,057,585	43,909,274,203	45,747,158,037	48,188,902,510	51,275,711,636	54,404,553,021	56,077,116,135	57,058,717,616	58,160,309,190
Less outstanding net debt (non-electorate approved).....	5,257,508,994	6,021,247,141	6,230,365,064	6,146,947,312	6,399,655,454	6,839,080,189	7,068,178,522	7,497,271,800	8,553,447,438	8,520,640,376
Legal debt margin (B).....	\$ 36,149,296,311	\$ 36,478,810,444	\$ 37,678,909,139	\$ 39,600,210,725	\$ 41,789,247,056	\$ 44,436,631,447	\$ 47,336,374,499	\$ 48,579,844,335	\$ 48,505,270,178	\$ 49,639,668,814
Total outstanding net debt applicable to the constitutional limit as a percentage of the constitutional limit.....	12.70%	14.17%	14.19%	13.44%	13.28%	13.34%	12.99%	13.37%	14.99%	14.65%

Source: The Governor's Budget Office

Notes:

(A)-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.

(B)-Each of the above figures used in the calculation of the legal debt margin are abstracted from a certification of the Auditor General dated August 31 of the subsequent fiscal year.

Commonwealth of Pennsylvania**Demographic and Economic**

Table 14

Employment by Nonfarm Related Industry

For the Last Ten Calendar Years

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Employment by nonfarm related industry (1)(2):										
Total nonfarm:										
Private earnings:										
Goods producing:										
Natural resources and mining.....	19,500	18,800	17,900	18,700	19,700	20,400	21,100	22,200	22,300	26,600
Construction.....	250,300	248,500	246,000	250,200	255,700	261,000	262,300	254,600	224,600	216,300
Manufacturing.....	821,900	759,800	712,400	690,600	679,400	670,300	659,000	643,800	574,100	560,600
Total goods producing.....	1,091,700	1,027,100	976,300	959,500	954,800	951,700	942,400	920,600	821,000	803,500
Service providing:										
Trade.....	1,123,200	1,112,900	1,108,200	1,113,600	1,120,300	1,125,800	1,133,900	1,125,900	1,080,800	1,079,600
Information.....	135,600	128,400	120,600	112,200	109,500	108,200	107,500	105,900	99,600	93,400
Financial activities.....	338,900	336,800	338,500	336,200	335,700	335,000	332,800	329,800	318,400	311,900
Professional and business services.....	613,400	605,700	610,500	638,100	660,500	685,300	705,700	709,400	674,800	685,100
Education and health services.....	940,700	965,000	980,500	999,200	1,030,000	1,054,400	1,075,100	1,101,000	1,119,600	1,136,000
Leisure and hospitality.....	455,500	466,700	471,000	477,300	484,800	491,800	499,900	503,300	494,300	498,800
Other services.....	255,200	259,300	260,100	263,700	261,600	258,300	255,800	254,200	249,800	250,300
Total service providing.....	3,862,500	3,874,800	3,889,400	3,940,300	4,002,400	4,058,800	4,110,700	4,129,500	4,037,300	4,055,100
Total private earnings.....	4,954,200	4,901,900	4,865,700	4,899,800	4,957,200	5,010,500	5,053,100	5,050,100	4,858,300	4,858,600
Government.....	728,300	738,900	745,600	744,400	745,000	745,600	744,800	749,300	757,000	756,900
Total nonfarm.....	5,682,500	5,640,800	5,611,300	5,644,200	5,702,200	5,756,100	5,797,900	5,799,400	5,615,300	5,615,500

Source: Information obtained from the Pennsylvania Department of Labor and Industry-Center for Workforce Information & Analysis website (www.paworkstats.state.pa.us).

Notes:

(1)-Due to statutory requirements (confidentiality provisions), the Commonwealth can not disclose the number employed by the ten largest employers. As an alternative comparison, this schedule presents the number employed by nonfarm related industries. The ten largest employers are nonfarm related; therefore, the number employed by those employers could be expected to fall within this schedule. Farming related employment is not included on this schedule because most farms are not large enough to be required to provide the necessary data to the Pennsylvania Department of Labor and Industry.

(2)-Various calendar years may differ from the totals presented in the same table in the June 30, 2010 CAFR, as a result of revised data provided on the Center for Workforce Information & Analysis website.

Commonwealth of Pennsylvania

Demographic and Economic

Table 15

Population and Per Capita Personal Income

For the Last Ten Calendar Years

Calendar Year	Population (1) (Expressed in thousands)			Personal Income (2) (Expressed in millions)			Per Capita (3) Personal Income		
	Pennsylvania	United States	Pennsylvania as % of U.S.	Pennsylvania	United States	Pennsylvania as % of U.S.	Pennsylvania	United States	Pennsylvania percentage above/(below) U.S.
2001	12,299	284,969	4.32%	\$ 377,374	\$ 8,878,830	4.25%	\$ 30,683	\$ 31,157	-1.52%
2002	12,331	287,625	4.29%	387,664	9,054,702	4.28%	31,438	31,481	-0.14%
2003	12,375	290,108	4.27%	399,547	9,369,072	4.26%	32,288	32,295	-0.02%
2004	12,411	292,805	4.24%	417,790	9,928,790	4.21%	33,664	33,909	-0.72%
2005	12,450	295,517	4.21%	432,248	10,476,669	4.13%	34,719	35,452	-2.07%
2006	12,511	298,380	4.19%	462,704	11,256,516	4.11%	36,984	37,725	-1.96%
2007	12,564	301,231	4.17%	489,076	11,900,562	4.11%	38,927	39,506	-1.47%
2008	12,612	304,094	4.15%	512,960	12,451,599	4.12%	40,671	40,947	-0.67%
2009	12,667	306,772	4.13%	499,331	11,916,808	4.19%	39,420	38,846	1.48%
2010	12,710	309,350	4.11%	516,001	12,357,113	4.18%	40,599	39,945	1.64%

Sources: Population data is obtained from the Bureau of Economic Analysis, U.S. Department of Commerce website at <http://www.bea.gov/index.htm>, whose source is the U.S. Bureau of Census' mid-year population estimate. Personal income details can be found in Table 5.

Notes:

(1)-Population data is presented as of July 1 of the calendar year. The U.S. Bureau of Census' mid-year population estimate include revisions to the annual population estimate back to the 2000 calendar year. Therefore, the totals shown may differ from what was presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2010 fiscal year.

(2)-Personal income data is provided as of the calendar year. Various calendar years differ from the totals presented in the June 30, 2010 CAFR. See Table 5 for details.

(3)-As a result of changes noted in Notes (1) and (2), the Per Capita Personal Income may differ from what was presented in the June 30, 2010 CAFR.

Commonwealth of Pennsylvania

Demographic and Economic

Table 16

Employment Information

For the Last Ten Calendar Years

(Expressed in thousands)

Calendar Year	Pennsylvania (1)				United States				PA rate percentage above/(below) U.S. Rate
	Civilian Labor Force	Employed	Unemployed	Unemployment Rate	Civilian Labor Force	Employed	Unemployed	Unemployment Rate	
2001	6,168	5,874	293	4.8	143,734	136,933	6,801	4.7	2.13%
2002	6,218	5,869	349	5.6	144,863	136,485	8,378	5.8	-3.45%
2003	6,145	5,796	349	5.7	146,510	137,736	8,774	6.0	-5.00%
2004	6,197	5,860	337	5.4	147,401	139,252	8,149	5.5	-1.82%
2005	6,270	5,958	312	5.0	149,320	141,730	7,591	5.1	-1.96%
2006	6,308	6,021	287	4.5	151,428	144,427	7,001	4.6	-2.17%
2007	6,329	6,054	275	4.3	153,124	146,047	7,078	4.6	-6.52%
2008	6,439	6,096	343	5.3	154,287	145,362	8,924	5.8	-8.62%
2009	6,383	5,870	514	8.0	154,142	139,877	14,265	9.3	-13.98%
2010	6,340	5,791	549	8.7	153,889	139,064	14,825	9.6	-9.38%

Sources: Information was obtained from the Center for Workforce Information & Analysis, Pennsylvania Department of Labor and Industry website at www.paworkstats.state.pa.us/.

Notes:

(1)-Various calendar years may differ from the totals presented in the same table in the June 30, 2010 CAFR, as a result of revised data provided on the Center for Workforce Information & Analysis website.

Commonwealth of Pennsylvania

Operating Information

Table 17

Commonwealth Employees by Function and Agency
For the Last Ten Fiscal Years Ended June 30

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Direction and supportive services										
Legislative.....	3,095	3,161	3,206	3,268	3,336	3,339	3,346	3,327	3,133	2,959
Revenue.....	2,421	2,382	2,272	2,322	2,377	2,385	2,374	2,254	2,058	1,965
Executive Offices.....	2,611	2,513	1,986	1,962	1,990	1,966	2,012	2,004	1,906	1,767
General Services.....	1,319	1,313	1,242	1,255	1,295	1,305	1,251	1,244	1,145	1,115
Auditor General.....	785	770	768	736	740	711	730	708	670	606
Treasurer.....	537	524	511	497	534	565	552	492	420	408
Other.....	643	361	425	379	376	327	327	281	274	270
Total direction and supportive services.....	11,411	11,024	10,410	10,419	10,648	10,598	10,592	10,310	9,606	9,090
Protection of persons and property										
Corrections.....	14,612	14,323	14,384	14,826	15,301	15,441	15,722	16,139	16,232	15,740
State Police.....	5,673	5,705	5,790	6,039	6,191	6,272	6,249	6,193	5,989	6,015
Liquor Control Board.....	4,146	4,205	4,407	4,580	4,772	4,704	4,835	5,031	5,082	4,847
Environmental Protection.....	3,016	2,938	2,836	2,831	2,890	2,799	2,793	2,786	2,590	2,609
Judiciary.....	2,048	2,031	2,100	2,102	2,140	2,130	2,136	2,141	2,197	2,154
Transportation.....	-	-	1,208	1,253	1,251	1,253	1,235	1,185	1,125	1,129
Agriculture.....	973	950	997	968	1,032	1,056	1,187	1,112	995	962
Probation and Parole Board.....	975	966	972	1,001	1,008	967	1,084	1,141	1,114	1,105
Attorney General.....	990	952	944	886	919	935	985	955	897	814
Public Utility Commission.....	503	494	467	469	529	485	519	535	547	506
Military and Veterans Affairs.....	-	-	459	489	529	517	538	529	478	450
Other.....	1,170	1,310	2,012	2,025	2,106	2,088	2,085	2,014	1,955	1,850
Total protection of persons and property.....	34,106	33,874	36,576	37,469	38,668	38,647	39,368	39,761	39,201	38,181
Public education										
Education.....	873	852	624	672	674	665	693	578	544	503
Other.....	21	20	20	18	18	18	18	16	15	15
Total public education.....	894	872	644	690	692	683	711	594	559	518
Health and human services										
Public Welfare.....	21,115	20,189	19,773	19,769	19,655	18,786	19,082	18,399	18,300	17,169
Labor and Industry.....	5,841	5,821	4,431	4,370	4,462	4,277	3,960	4,740	4,887	4,632
Military and Veterans Affairs.....	2,106	2,262	1,939	2,015	2,060	2,095	2,128	1,965	2,033	2,049
Health.....	1,399	1,444	1,404	1,429	1,524	1,465	1,511	1,490	1,384	1,364
Other.....	108	104	99	109	112	107	102	98	193	206
Total health and human services.....	30,569	29,820	27,646	27,692	27,813	26,730	26,783	26,692	26,797	25,420
Economic development										
Labor and Industry.....	-	-	923	911	960	927	911	930	934	912
Community and Economic Development.....	327	296	298	324	336	346	349	352	334	311
Total economic development.....	327	296	1,221	1,235	1,296	1,273	1,260	1,282	1,268	1,223
Transportation										
Transportation.....	12,393	12,086	10,645	10,578	10,810	10,509	10,770	10,655	10,626	10,486
Total transportation.....	12,393	12,086	10,645	10,578	10,810	10,509	10,770	10,655	10,626	10,486
Recreation and cultural enrichment										
Conservation and Natural Resources.....	2,768	2,707	2,632	2,608	2,639	2,573	2,632	2,493	2,279	2,219
Game Commission.....	769	754	758	734	732	734	725	706	734	735
Fish and Boat Commission.....	514	468	482	492	497	514	508	485	486	486
Historical and Museum Commission.....	504	503	488	444	435	419	399	347	228	213
Other.....	20	20	116	111	114	113	111	92	56	50
Total recreation and cultural enrichment.....	4,575	4,452	4,476	4,389	4,417	4,353	4,375	4,123	3,783	3,703
Total Commonwealth Employees.....	94,275	92,424	91,618	92,472	94,344	92,793	93,859	93,417	91,840	88,621

Source: Employees for the Legislature, Judiciary, Auditor General, Treasury and Attorney General were provided by the individual agency. All other agencies fall within the Governor's jurisdiction and were provided by the Office of Administration.

Notes: Beginning with the 2004 fiscal year, employee data was available both by function and agency and is shown appropriately in the table. For the fiscal years prior to 2004 employee data was only available by agency. For purposes of this table, the complement for fiscal years 2002 through 2003 is reported by function based on the agency's most prevalent functional activity.

Commonwealth of Pennsylvania

Operating Information

Table 18

Operating Indicators by Function and Agency

For the Last Ten Fiscal Years Ended June 30

	2002	2003	2004	2005	2006	2007	2008	2009	2010(5)	2011(5)
Direction and supportive services:										
Executive Offices										
Office of the Budget										
Number of invoices processed.....	N/A	N/A	N/A	N/A	N/A	N/A	1,471,951	1,500,134	1,421,469	1,450,000
Office of Inspector General-Welfare Fraud										
Fraud prevention - investigations.....	N/A	N/A	N/A	21,073	22,051	20,582	21,392	25,802	27,645	27,000
Fraud prevention - ineligibility determinations.....	N/A	N/A	N/A	10,898	11,500	10,793	10,762	10,897	12,902	12,000
Protection of persons and property:										
Corrections										
Inmates (1).....	37,995	40,090	40,817	40,965	42,446	44,365	46,028	49,307	51,321	49,787
Inmates enrolled in academic educational programs (1).....	10,600	11,286	11,749	11,680	13,457	14,453	15,017	14,551	13,152	13,435
Environmental Protection										
Permits applications or request for authorizations processed.....	N/A	46,584	47,787	50,000						
Revenue										
Personal Income Tax:										
Total - electronic.....	N/A	N/A	2,272,861	2,520,663	2,813,228	3,040,325	3,347,123	3,544,248	3,709,651	3,900,000
Total - paper.....	N/A	N/A	3,494,305	3,288,166	3,994,634	2,076,124	3,239,502	2,842,447	2,137,790	2,150,000
Total personal income tax returns processed.....	5,901,402	5,862,231	5,767,166	5,808,829	6,807,862	5,116,449	6,586,625	6,386,695	5,847,441	6,050,000
State Police										
Traffic citations issued.....	503,352	484,602	438,328	451,160	479,086	506,844	500,820	564,582	567,116	575,600
Background Checks:										
Firearms checks conducted for the purchase of a firearm.....	N/A	N/A	10,406	514,287	512,686	503,013	505,500	681,516	596,879	605,200
Judiciary										
Caseload (cases filed/reopened/appeals) (1).....	3,813,843	3,789,239	3,598,042	3,790,068	3,783,987	3,816,270	3,768,167	3,884,107	3,825,045	3,737,521
Public education:										
Education										
PreK-12 EDUCATION (BASIC EDUCATION):										
Public school enrollment (preK-12) (2).....	1,821,627	1,816,747	1,821,146	1,828,089	1,830,684	1,810,430	1,797,520	1,800,314	1,780,413	1,745,000
HIGHER EDUCATION:										
Full-Time Equivalent Enrollments at State-Supported Institutions of Higher Education:										
State System of Higher Education.....	93,520	96,235	95,523	98,657	100,392	102,445	103,356	105,566	109,636	111,941
Community Colleges.....	75,088	80,874	86,935	88,494	88,150	91,161	92,526	98,988	106,270	111,932
State-Related Universities.....	136,581	140,375	140,806	140,697	139,894	144,993	148,272	152,678	156,435	156,413
Non-State Related Universities and Colleges.....	39,399	39,741	41,678	43,106	43,662	48,078	48,607	49,532	888	956
Health and human services:										
Aging and Long Term Living										
Comprehensive PACE/PACENET Program:										
Older Pennsylvanians enrolled (average).....	230,949	223,119	242,755	290,482	306,138	390,207	313,643	312,916	309,329	313,373
Total prescriptions per year.....	10,228,661	10,672,686	10,888,090	12,794,090	13,253,256	13,025,489	11,173,934	11,605,980	10,773,967	10,443,770
Health										
Vital events (births, deaths, fetal deaths) registered and processed.....	328,033	272,860	274,664	273,432	274,105	275,261	280,928	273,381	268,788	269,500
Total number of encounters by State Health Care Centers.....	N/A	N/A	N/A	N/A	375,240	511,736	550,083	555,584	523,874	560,000
Public Welfare										
MEDICAL ASSISTANCE										
Persons participating in Medical Assistance (monthly average).....	1,476,708	1,533,024	1,621,901	1,747,615	1,833,760	1,883,235	1,907,396	1,972,559	2,072,461	2,176,010
Persons receiving cash assistance (monthly average).....	229,660	225,396	250,581	278,474	278,496	250,687	225,846	221,744	240,650	250,380
Children participating in subsidized child care (unduplicated).....	N/A	182,102	185,971	195,211	200,650	212,112	239,550	234,899	251,347	363,985
Total persons provided mental health services (3).....	207,269	202,460	208,345	398,590	418,749	517,440	525,991	525,136	530,387	534,460
Persons receiving Intellectual Disability services during fiscal year (4).....	82,220	85,000	89,985	72,538	45,414	50,139	51,375	53,284	53,399	53,410
Economic development:										
Community and Economic Development										
Businesses assisted in Business and Technology Development.....	8,243	9,113	22,305	19,781	16,215	18,454	15,805	17,852	18,439	14,200
Persons receiving Customized Job Training.....	N/A	45,376	38,300							
Persons participating in Community Services Block Grant.....	272,983	270,006	324,436	339,564	339,564	339,564	348,829	325,322	387,055	387,055

Commonwealth of Pennsylvania**Operating Information**

Table 18

Operating Indicators by Function and Agency

For the Last Ten Fiscal Years Ended June 30

	2002	2003	2004	2005	2006	2007	2008	2009	2010(5)	2011(5)
Labor and Industry										
Total public health and safety inspections performed.....	135,567	134,352	122,584	117,056	82,123	80,408	75,223	76,253	76,136	73,150
Vocational Rehabilitation-Eligible participants with active plans.....	N/A	41,316	43,644	45,000						
Transportation:										
Transportation										
Miles of State maintained highways.....	39,935	39,906	39,893	39,890	39,890	39,843	39,872	39,861	39,845	39,820
Passengers carried by State-assisted operators (millions annually).....	302	302	304	310	401	390	427	434	423	409
Safety and Emissions inspections.....	13,589,000	13,617,103	15,000,000	17,100,000	17,388,858	17,470,970	17,470,125	17,972,890	17,720,432	17,800,000
Registrations:										
Registrations-Total New and Renewed.....	9,825,000	10,099,000	9,978,000	10,017,000	9,864,461	9,708,974	9,724,462	9,550,413	9,389,974	9,390,000
Licensed drivers-Total New and Renewed.....	2,130,859	2,302,100	2,476,213	2,377,057	2,345,311	2,274,866	2,432,976	2,402,935	2,407,963	2,375,000
Recreation and cultural enrichment:										
Conservation and Natural Resources										
State park attendance (visitor days per calendar year).....	36,627,000	36,031,000	34,692,000	35,095,476	36,295,873	35,800,000	33,200,000	37,000,000	38,400,000	38,500,000
Fish and Boat Commission										
Fishing licenses sold.....	935,845	907,313	909,053	834,877	843,302	864,416	905,806	839,172	883,932	875,100
Game Commission										
Hunting licenses sold.....	1,047,820	1,017,154	1,018,248	1,007,613	964,158	945,892	924,448	926,892	946,497	950,000
Historical and Museum Commission										
Records maintained by the State Records Center (in thousands).....	N/A	N/A	709,821	726,747	753,354	791,553	812,175	811,000	811,000	811,000
Annual visits to commission historical sites and museums (in thousands).....	1,406	1,517	1,528	1,477	1,516	1,420	1,450	1,425	1,425	1,336

Sources: Governor's Office of the Budget, Comptroller Offices, various agencies**Notes:**

(1)-Amounts are presented as of December 31.

(2)-PreK enrollment is not included through the 2003 fiscal year.

(3)-Beginning with the 2005 fiscal year, this amount was revised to include individuals receiving services from community mental health funds, Medical Assistance expenditures, and BHSI funds.

(4)-Beginning with the 2005 fiscal year, this amount was revised to remove those receiving Early Intervention services.

(5)-For the 2011 fiscal year, a majority of the indicators presented are estimates. For the 2010 fiscal year, the amounts that were presented as estimates in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2010 fiscal year have been revised. Therefore, the amounts shown may differ from what was presented in the June 30, 2010 CAFR.

Commonwealth of Pennsylvania

Operating Information

Table 19

Capital Asset Information by Function and Agency

For the Last Ten Fiscal Years Ended June 30

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GOVERNMENTAL ACTIVITIES										
Direction and Supportive Services										
Department of General Services										
Number of buildings (1).....	33	36	36	36	85	85	87	85	119	116
Total pieces of machinery and equipment (2).....	48	164	137	137	137	139	133	148	394	139
Capital and Agency projects in design and/or construction.....	367	389	375	500	409	440	385	425	638	725
Vehicles in fleet.....	N/A	N/A	N/A	16,544	16,337	16,384	16,307	16,307	15,808	16,353
Protection of persons and property										
Department of Corrections										
State Correctional Institutions (3).....	26	26	26	27	26	26	27	27	27	27
State Police										
Patrol vehicles.....	2,215	2,207	2,188	2,282	2,316	2,173	2,189	2,189	2,182	2,182
Police stations and/or troop headquarters (3).....	20	20	21	23	23	23	23	24	25	25
Department of Military and Veterans Affairs										
Number of National Guard readiness centers.....	97	97	96	117	117	117	117	117	100	100
Public education										
State System of Higher Education (SSHE)-Component Unit (4)										
Number of SSHE universities using Commonwealth owned buildings and land.....	14	14	14	14	14	14	14	14	14	14
Health and human services										
Department of Public Welfare										
Total number of hospital or treatment center complexes (1)(3).....	22	22	22	21	19	19	19	18	19	17
Transportation										
Department of Transportation										
Total pieces of equipment (5).....	20,434	21,281	21,256	7,070	7,495	7,923	7,316	7,969	7,707	7,722
Total lane miles of highways (state or locally maintained).....	116,282	116,570	115,402	116,055	116,100	116,716	116,998	117,187	117,385	117,700
Recreational and cultural enrichment										
Department of Conservation and Natural Resources										
Acres of land in state parks and forests (in millions).....	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Game Commission										
Acres of game lands (in millions).....	1.41	1.41	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
Fish Commission										
Public boat launches.....	N/A	N/A	N/A	N/A	178	153	153	271	271	271
Total number of fish hatcheries.....	15	15	15	15	15	15	15	15	15	15
Historical and Museum Commission										
Museums and historic sites.....	26	26	26	26	25	25	25	25	23	23
Economic Development										
Department of Labor and Industry										
Square footage of rehabilitation centers owned by the Commonwealth.....	444,035	444,035	444,035	444,035	444,035	444,035	444,035	444,035	444,035	444,035

Sources: Governor's Office of the Budget, Comptroller Offices and various agencies.

Notes:

(1)-Beginning with the 2006 fiscal year, the control of the Harrisburg State Hospital was transferred from the Department of Public Welfare (reducing the reported number of hospital complexes) to the Department of General Services (increasing the reported number of buildings). Also, beginning with the 2010 fiscal year this amount includes buildings that were leased to non-Primary Government entities but owned by the Commonwealth. These were not reported in the totals for the other fiscal years.

(2)-Beginning with the 2003 fiscal year, the reported machinery and equipment includes assets that were depreciated in full.

(3)-State Correctional Institutions, police station/troop headquarters and hospital/treatment center complexes include nondepreciable capital assets (e.g. land) and depreciable assets (e.g. machinery and equipment, buildings, improvements, etc.).

(4)-The State System of Higher Education (SSHE) is a discretely presented component unit. However, each of its universities uses land, buildings, and improvements which were purchased by the Commonwealth and are still reported as governmental activities capital assets in the Commonwealth's Statement of Net Assets. See Note A in the Notes to the Financial Statements for a detailed description of this relationship.

(5)-The method of collecting data was changed so that equipment that did not meet capitalization thresholds could be excluded. For this fiscal year's Comprehensive Annual Financial Report, the amounts reported beginning with the 2005 fiscal year reflect this new method of collecting data.