

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2005



Commonwealth of Pennsylvania
Edward G. Rendell
Governor

Prepared By:

Office of the Budget
Michael J. Masch, Secretary

Comptroller Operations
Harvey C. Eckert, Commonwealth Comptroller

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

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Harrisburg, Pennsylvania 17120

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**Commonwealth of Pennsylvania
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2005**

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COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

December 23, 2005

MICHAEL J. MASCH
SECRETARY
OFFICE OF THE BUDGET

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

We are pleased to present this Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 2005. The Office of the Budget, Comptroller Operations, prepared this report, which includes the Basic Financial Statements (BFS), pursuant to the power vested in the Governor under Section 701 of the Administrative Code and delegated to the Secretary of the Budget by Executive Order No. 1984-3, dated October 11, 1984.

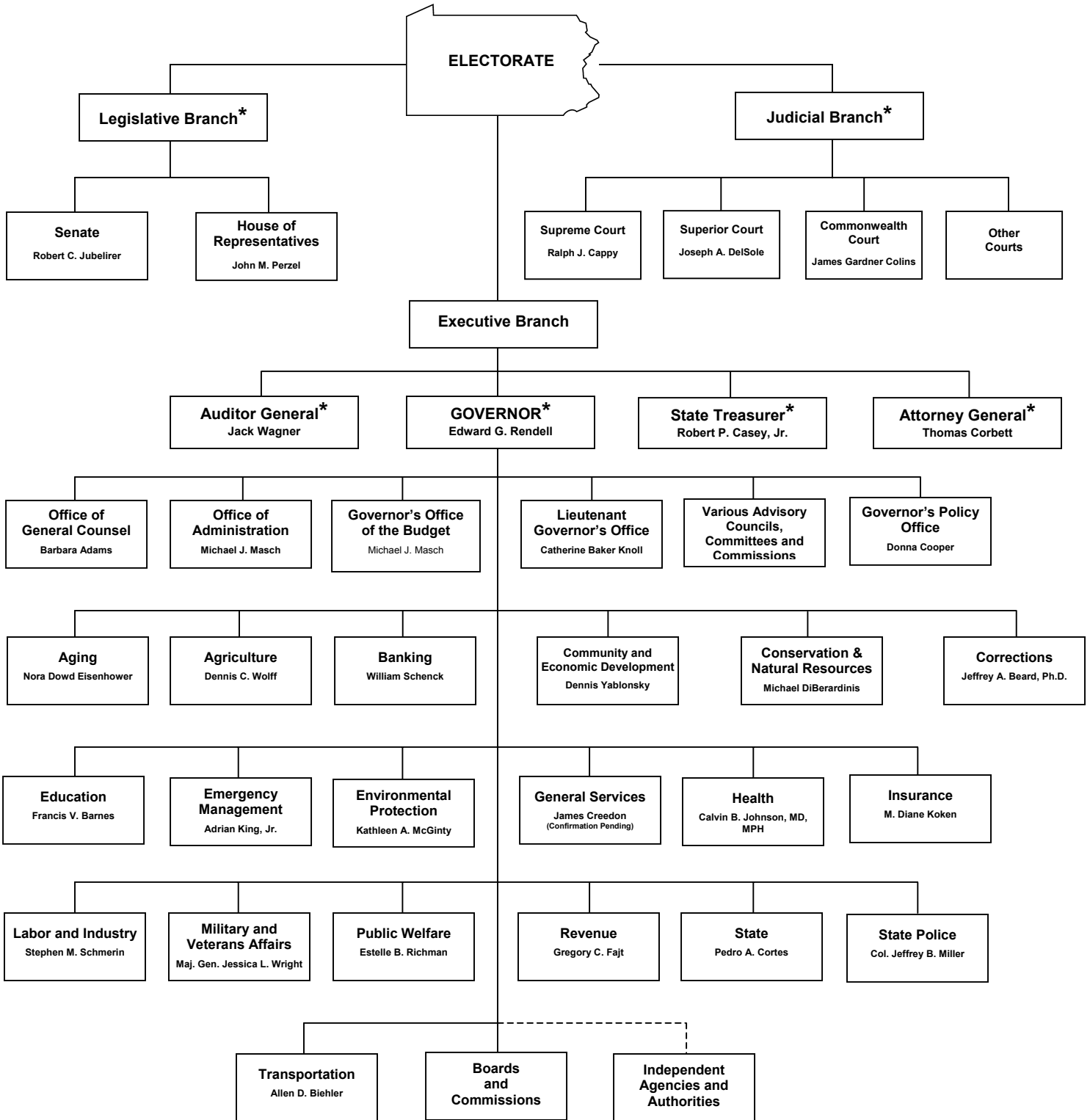
The BFS were prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). We believe the financial statements are fairly stated in all material respects; that they are presented in a manner designed to fairly report the Commonwealth's financial position, results of operations, and changes in net assets/fund balances; and that all disclosures necessary to enable the Governor, the members of the General Assembly, the public, and the financial community to fully understand the Commonwealth's operations and financial affairs have been included. Responsibility for the completeness and fairness of the presentation, including all disclosures, rests with the Commonwealth of Pennsylvania, Office of the Budget. The Commonwealth relies on its comprehensive framework of internal control in the preparation of basic financial statements. Without incurring undue costs, any system of internal control is subject to inherent limitations so that there is reasonable, but not absolute, assurance as to the effectiveness of the Commonwealth's system on internal control.

Management's Discussion and Analysis (MD&A) precedes the June 30, 2005 BFS, and provides an overview of the Commonwealth's financial position and activities, and helps readers to understand the government-wide statements. This section immediately follows the auditors' opinion. In addition to the MD&A and BFS, this CAFR includes: budgetary comparison schedules, combining fund financial statements; supporting schedules; certain narrative information describing individual funds; and statistical tables presenting financial, economic, and demographic data about the Commonwealth.

PROFILE OF THE GOVERNMENT

Pennsylvania, located in the mid-Atlantic region, holds one distinct characteristic from most other U.S. states -- it is designated a "Commonwealth." This word, which is of English derivation, refers to the well-being of the populace. It lays a strong foundation for Pennsylvania's government system, which strives to better the lives of the almost 12.5 million people residing within the state's borders. As in other states, Pennsylvania's government consists of three branches which operate through a system of checks and balances. The legislative branch is composed of the Senate and the House of Representatives. The executive branch is comprised of the Governor, Auditor General, State Treasurer, and the Attorney General. The judicial branch consists of the Supreme Court, Superior Court, Commonwealth Court, and other Courts. The following organization charts identify specific Commonwealth officials, and staff within Comptroller Operations, at June 30, 2005:

COMMONWEALTH OF PENNSYLVANIA
ORGANIZATION AND OFFICIALS CHART
 June 30, 2005

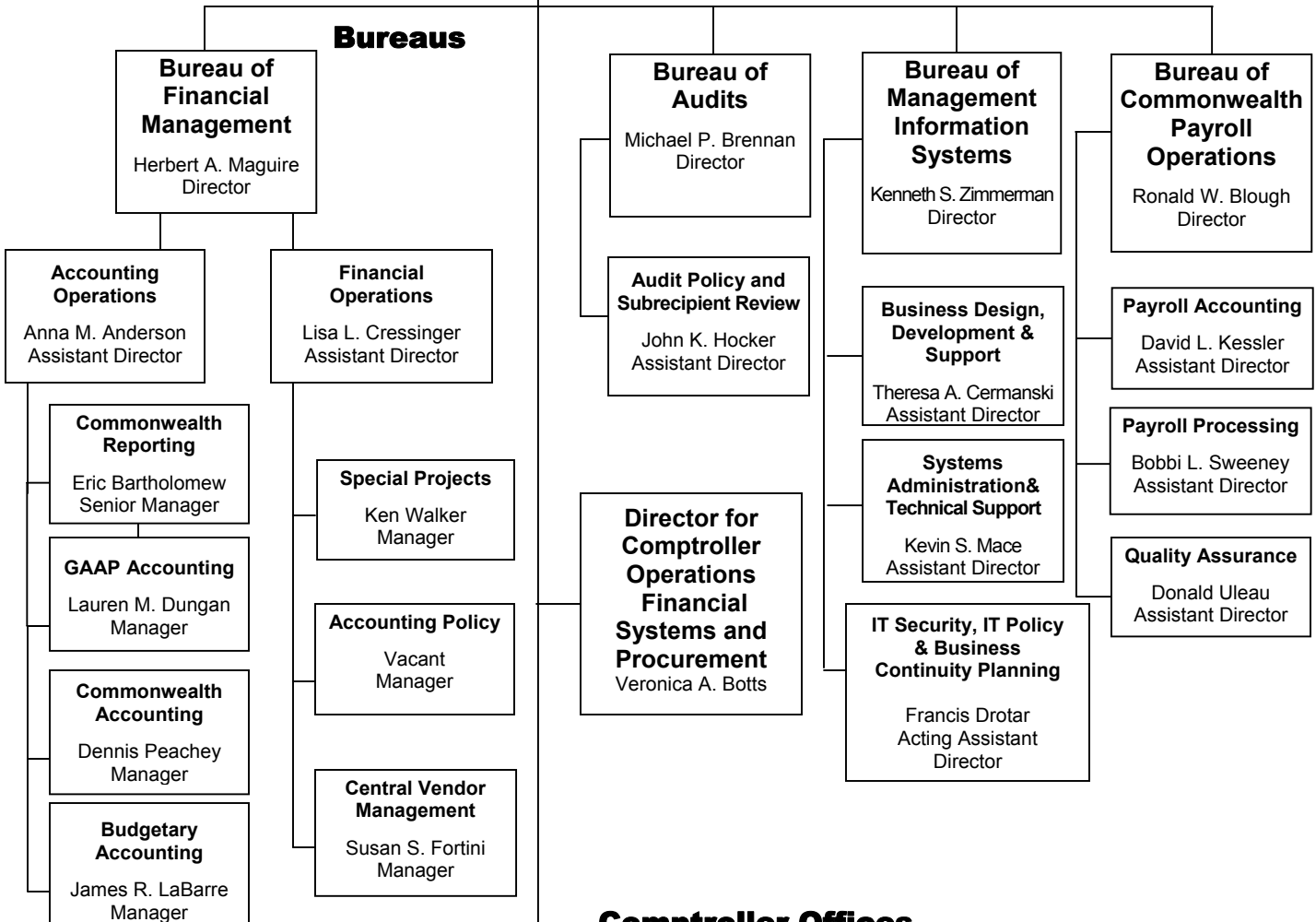


* Independently Elected

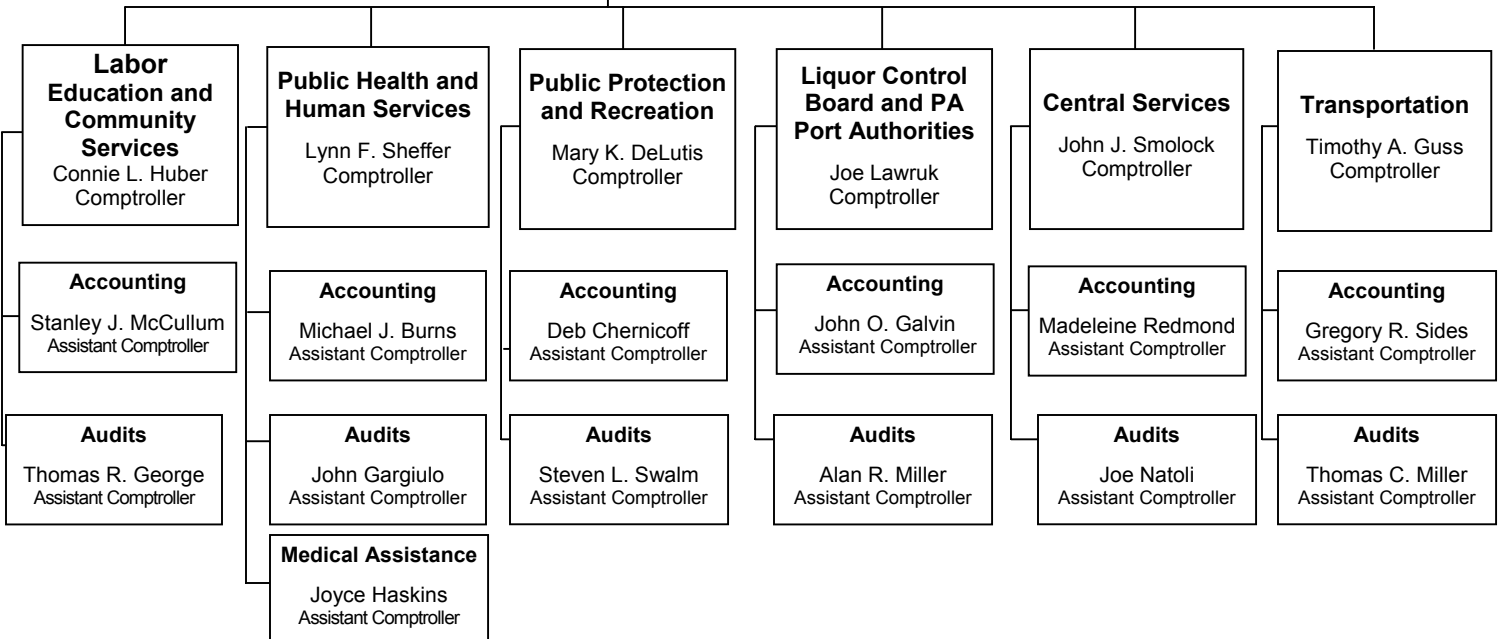
**Governor's
Office of the Budget
Office of
Comptroller Operations
June 30, 2005**

**Commonwealth
Comptroller
Harvey C. Eckert**

Bureaus



Comptroller Offices



THE GENERAL FUND

The General Fund, the Commonwealth's largest operating fund, may be used to assess Pennsylvania's financial position and activities for the fiscal year ended June 30, 2005. 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 53.6 percent of the General Fund budgetary basis revenues. General Fund expenditures are reported in the following functional assignments, along with the related percentage of state-funded expenditures: direction and supportive services (3.92), protection of persons and property (11.84), health and human services (40.04), public education (37.51), recreation and cultural enrichment (1.11), economic development (2.55), transportation (1.49) and transfers to debt service funds (1.54) for all obligations except those incurred for highway or other special revenue fund purposes.

BUDGET ADOPTION AND LEGAL COMPLIANCE/BUDGETARY RESULTS

A discussion of the Commonwealth's annual budget process is included as Required Supplementary Information (RSI) following the notes to the financial statements. The adopted budget provides legal control over spending. Under Commonwealth law, expenditures cannot exceed amounts appropriated. Budgetary control is exercised by specific, line-item appropriation. The Budgetary Comparison Schedule, included as RSI, provides original budget, final budget and actual budgetary results for the fiscal year ended June 30, 2005.

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

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

General Fund <u>At June 30</u>	Unreserved/ Undesignated <u>Fund Balance</u>	Budgetary Basis Increase <u>(Decrease)</u>
2001 (restated)	\$ 336.4	\$ (274.1)
2002 (restated)	142.5	(193.9)
2003 (restated)	196.2	53.7
2004 (restated)	77.5	(118.7)
2005	364.8	287.3

During the fiscal year ended June 30, 2005, total General Fund revenues and other sources exceeded expenditures and other uses by \$287.3 and, at June 30, 2005, the Commonwealth reported an unreserved/undesignated fund balance (budgetary basis) of \$364.8 in the General Fund. This compares to a budgetary basis fund balance of \$77.5 (restated) at June 30, 2004. The budgetary basis results for the fiscal year ended June 30, 2005 include revenue collections totaling \$42,353.5 less appropriation authorizations totaling \$42,099, plus other net financing sources totaling \$32.8. Included in the \$42,099 appropriation authorizations are \$227.1 of state supplemental appropriations and \$395.4 in Federal supplemental appropriations authorized during the fiscal year ended June 30, 2005 (amounts in millions).

CASH MANAGEMENT

The Treasury Department is required by the Commonwealth's Fiscal Code to deposit Commonwealth monies, excluding certain component unit monies, in state depositories approved by the Pennsylvania Board of Finance and Revenue. Amounts deposited are not required to be segregated by fund. In addition, the Treasury Department is empowered to invest Commonwealth monies that are in excess of daily needs of the various Commonwealth Funds (reference Note D for more detailed, Commonwealth investment information). At June 30, 2005, the Treasury Investment Program included the following types of investments:

	<u>Percent</u>
Repurchase Agreements	29.6
United States Treasury and Government Agency Obligations	25.6
Domestic Equities	17.3
Corporate Bonds and Notes	11.9
Municipal Obligations	8.0
Money Market Funds	3.0
Commercial Paper (Moody's Prime One Rating or Equivalent)	2.6
Other	<u>2.0</u>
	<u>100.0</u>

The Treasury Investment Program totaled \$8.8 billion at June 30, 2005. Because participating funds purchase pool shares of the Treasury Investment Program, they report share balances as temporary investments.

RISK MANAGEMENT

The Commonwealth maintains ongoing training and information programs to reduce risks associated with employee injury and negligence, contract compliance, tort liabilities and property losses. As more fully described in Note M to the financial statements, the Commonwealth became self-insured for employee disability and medical claims on July 1, 1983. The Commonwealth is also self-insured for annuitant medical/hospital benefits and tort liabilities, including automobile, employee and transportation-related claims. Reserves have been established to fund self-insured claims. First-party coverage is obtained for property losses in excess of \$1 million per occurrence, to a limit of \$250 million per occurrence. Coverage for property losses less than \$1 million or more than \$250 million is maintained through the Commonwealth's self-insurance program.

INDEPENDENT AUDIT

The Commonwealth's June 30, 2005 BFS have been jointly audited by the Department of the Auditor General and Ernst & Young LLP, an independent public accounting firm. The independent auditors' opinion is included in the beginning of the Financial Section of this CAFR. The auditors' opinion provides a reasonable basis for users to rely on the information included in the BFS.

ECONOMIC OUTLOOK

Greater than projected growth in the national and Pennsylvania economies during the second half of 2004 and continuing in early 2005 contributed to improvements in several measures of economic activity including income, government finances and jobs.

In the second half of 2005 economic growth is expected to weaken slightly from the cumulative impacts of recent hurricanes and spikes in oil prices. Significant increases in energy costs will adversely impact consumer spending and inflation during late 2005 and early 2006. However, the national economy is expected to grow at a greater rate during the first part of 2006 as reconstruction activities accelerate and energy prices and demand moderate. Overall, slow-to-moderate economic growth is forecasted for the nation and Pennsylvania.

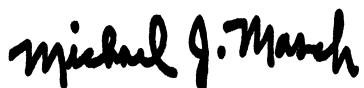
CERTIFICATE OF ACHIEVEMENT

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, 2004. This represents the nineteenth consecutive year the Commonwealth of Pennsylvania has received this award.

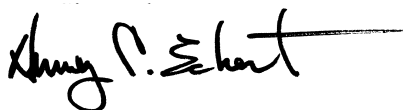
To merit a certificate of achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, which conforms to GFOA standards and satisfies both generally accepted accounting principles and applicable legal requirements. A certificate of achievement 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, 2005 conforms to the GFOA's award criteria.

ACKNOWLEDGMENTS

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



Michael J. Masch
Secretary
Office of the Budget



Harvey C. Eckert
Commonwealth Comptroller
Office of the Budget

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Commonwealth of Pennsylvania

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

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.



Carla E. Perry

President

Jeffrey R. Emer

Executive Director

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Financial Section



Harrisburg
Dauphin County



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

ERNST & YOUNG LLP

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2001 Market Street
Philadelphia, Pennsylvania
19103-7096

Report of Independent Auditors

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

We have jointly audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania, as of and for the year ended June 30, 2005, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not jointly audit the financial statements of certain component units, which represent 99 percent of total assets, 99 percent of total net assets, and 99 percent of total revenues of the aggregate discretely presented component units, and certain agencies, which represent 1 percent of expenditures of the General Fund and 1 percent of expenses of Governmental Activities. We did not jointly audit 100 percent of the total assets, 100 percent of total net assets, and 100 percent of the total revenues of the Pension (and Other Employee Benefit) Trust Funds. This comprises 90 percent of total assets, 96 percent of total net assets and 84 percent of total revenues of the aggregate remaining fund information. The financial statements of these component units, agencies, and Pension (and Other Employee Benefit) Trust Funds were audited by other auditors, including Ernst & Young LLP acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those component units, agencies, and the Pension (and Other Employee Benefit) Trust Funds, are based solely on the reports of the other auditors. Ernst & Young LLP has audited separately 20 percent of total assets, 28 percent of total net assets, and 17 percent of total operating revenues of the discretely presented component units, as well as 1 percent of expenditures of the General Fund and 1 percent of expenses of Governmental Activities.

The transactions of the Department of the Auditor General are included in the basic financial statements and are immaterial to the overall presentation of the basic financial statements. The expenses of the Department of the Auditor General equal less than 1 percent of the expenses

reported for Governmental Activities on the Statement of Activities and less than 1 percent of the expenditures reported for the General Fund on the Statement of Revenues, Expenditures and Changes in Fund Balance. Agency Fund assets and liabilities of the Department of the Auditor General equal less than 1 percent and less than 2 percent, respectively, of the total assets and liabilities reported for the aggregate remaining fund information. The Auditor General is the Commonwealth's independently-elected auditing officer. Article VIII, § 7, of the Pennsylvania Constitution mandates the Auditor General to act jointly with the Governor and State Treasurer to vote on the incurrence of debt. Title 72 of the Pennsylvania Statutes, § 1102, mandates the Department of the Auditor General to approve the disposition of petitions for corporation tax resettlements filed with the Pennsylvania Department of Revenue's Board of Appeals, which may be appealed to the Board of Finance and Revenue. Title 71 of the Pennsylvania Statutes, § 115, mandates the Auditor General to be one of the six members of the Board of Finance and Revenue, which is an independent board whose decisions may be appealed to Commonwealth Court. The above-mandated responsibilities are performed by personnel separate from those involved in the performance of the audit of the Commonwealth's basic financial statements. We believe these mandated responsibilities of the Department of the Auditor General, acting separately, do not impair the Auditor General's independence in the audit of the Commonwealth's basic financial statements and are being disclosed as required by and in accordance with auditing standards generally accepted in the United States.


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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania as of June 30, 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

As described in Note A to the financial statements, the Commonwealth has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*.

Management's discussion and analysis and budgetary comparison information on pages 18 through 33 and 122 through 126 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.

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



November 30, 2005

Management's Discussion and Analysis



Fall Foliage
Potter County

The Management's Discussion and Analysis (MD&A) of the Commonwealth of Pennsylvania's Comprehensive Annual Financial Report (CAFR) presents a review and analysis of the Commonwealth's financial performance for the fiscal year ended June 30, 2005. The MD&A should be reviewed in conjunction with the Letter of Transmittal, which can be found on page 4 of this report, and with the Commonwealth's financial statements, which follow.

Executive Summary

Government-wide Statements at-a-glance

Net Assets – Governmental activities net assets totaled \$20.8 billion at June 30, 2005, compared to \$19.7 billion at June 30, 2004. This represents a year over year increase of \$1.1 billion compared to a \$1.5 billion year over year increase reported in the prior fiscal year. For business-type activities, net assets were \$2.6 billion at June 30, 2005, compared to \$2.1 billion at June 30, 2004. This represents a year over year increase in Total Net Assets of \$1.6 billion for the primary government.

Long-Term Debt – During the fiscal year, general obligation bond indebtedness decreased by \$.1 billion to \$7.2 billion while total governmental activity liabilities decreased by \$.1 billion.

Fund Statements at-a-glance

Governmental Funds – Fund Balances – Were \$6.9 billion at June 30, 2005 compared to \$6.8 billion at June 30, 2004, for a year-over-year increase of \$.1 billion.

General Fund – Fund Balance – Was \$2.9 billion at June 30, 2005, compared to \$3.0 billion at June 30, 2004, for a year-over-year decrease of \$.1 billion.

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, 2005 and its aggregate revenues and expenses (Statement of Activities) for the fiscal year ended June 30, 2005. 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. Audited financial statements for component units are available through the Commonwealth Comptroller.

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

Fund financial statements – governmental funds

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

- 1) While the government-wide statements focus on the government taken as a whole, the fund statements reveal more detailed, fund-specific information for major governmental and proprietary funds, and for aggregated nonmajor 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 are used to account for specific, mandated activities. Two examples of specific funds are the Motor License Fund, a special revenue fund where gasoline taxes and motor vehicle registration fees are collected and used to repair and build highways, and the Unemployment Compensation Fund, an enterprise fund, used to collect amounts from employers to pay for unemployment compensation to workers.
- 3) The government-wide statements use the full accrual basis of accounting. In the funds 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 focus.

Government-wide financial analysis

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

	Governmental Activities			Business-Type Activities			Total		
	2005	2004	Change	2005	2004	Change	2005	2004	Change
Assets:									
Cash and investments.....	\$ 10.0	\$ 10.5	\$ (0.5)	\$ 5.5	\$ 4.8	\$ 0.7	\$ 15.5	\$ 15.3	\$ 0.2
Capital assets (net).....	21.9	20.8	1.1	-	-	-	21.9	20.8	1.1
All other assets.....	6.1	5.7	0.4	1.2	1.1	0.1	7.3	6.8	0.5
Total assets.....	38.0	37.0	1.0	6.7	5.9	0.8	44.7	42.9	1.8
Liabilities:									
Accounts payable.....	3.8	4.0	(0.2)	0.4	0.4	-	4.2	4.4	(0.2)
All other current liabilities.....	4.2	4.3	(0.1)	1.4	1.3	0.1	5.6	5.6	-
Total current liabilities.....	8.0	8.3	(0.3)	1.8	1.7	0.1	9.8	10.0	(0.2)
Bonds payable.....	6.6	6.7	(0.1)	-	-	-	6.6	6.7	(0.1)
All other long-term liabilities.....	2.6	2.3	0.3	2.3	2.1	0.2	4.9	4.4	0.5
Total long-term liabilities.....	9.2	9.0	0.2	2.3	2.1	0.2	11.5	11.1	0.4
Total Liabilities.....	17.2	17.3	(0.1)	4.1	3.8	0.3	21.3	21.1	0.1
Net assets:									
Invested in capital assets, net of related debt.....	18.2	16.9	1.3	-	-	-	18.2	16.9	1.3
Restricted.....	3.3	3.0	0.3	2.6	2.1	0.5	5.9	5.1	0.8
Unrestricted.....	(0.7)	(0.2)	(0.5)	-	-	-	(0.7)	(0.2)	(0.5)
Total net assets.....	\$ 20.8	\$ 19.7	\$ 1.1	\$ 2.6	\$ 2.1	\$ 0.5	\$ 23.4	\$ 21.8	\$ 1.6

Changes in assets and liabilities

At June 30, 2005, total governmental activities cash and investments decreased by \$.5 billion primarily as a result of a decrease in Treasury's securities lending program. The net capital assets increase of \$ 1.1 billion follows a \$1.0 billion increase in the prior year and reflects an expansion of, and improvements to, the Commonwealth's reported highway and bridge infrastructure. Governmental activities current liabilities, accounts payable and accrued liabilities, decreased by \$.3 billion due to lower liabilities associated with nursing homes and intermediate care facilities for the mentally challenged, as well as, a decrease in the unpaid medical assistance claims at June 30, 2005. Governmental activities liability increases, other than accounts payables and accrued liabilities, were the result of an increase in securities lending program obligations of \$.5 billion and an increase in the amount due to political sub-divisions for public education and health and human services of \$.07 billion at June 30, 2005. Total general obligation bonds payable, both current and non-current payables, decreased by \$.1 billion over the prior year. Year over year changes in business-type activities assets and liabilities resulted in an increase in net assets of \$.5 billion. This increase is the result of an increase in total assets of \$.8 billion and an increase in total liabilities of \$.3 billion.

MANAGEMENT'S DISCUSSION AND ANALYSIS

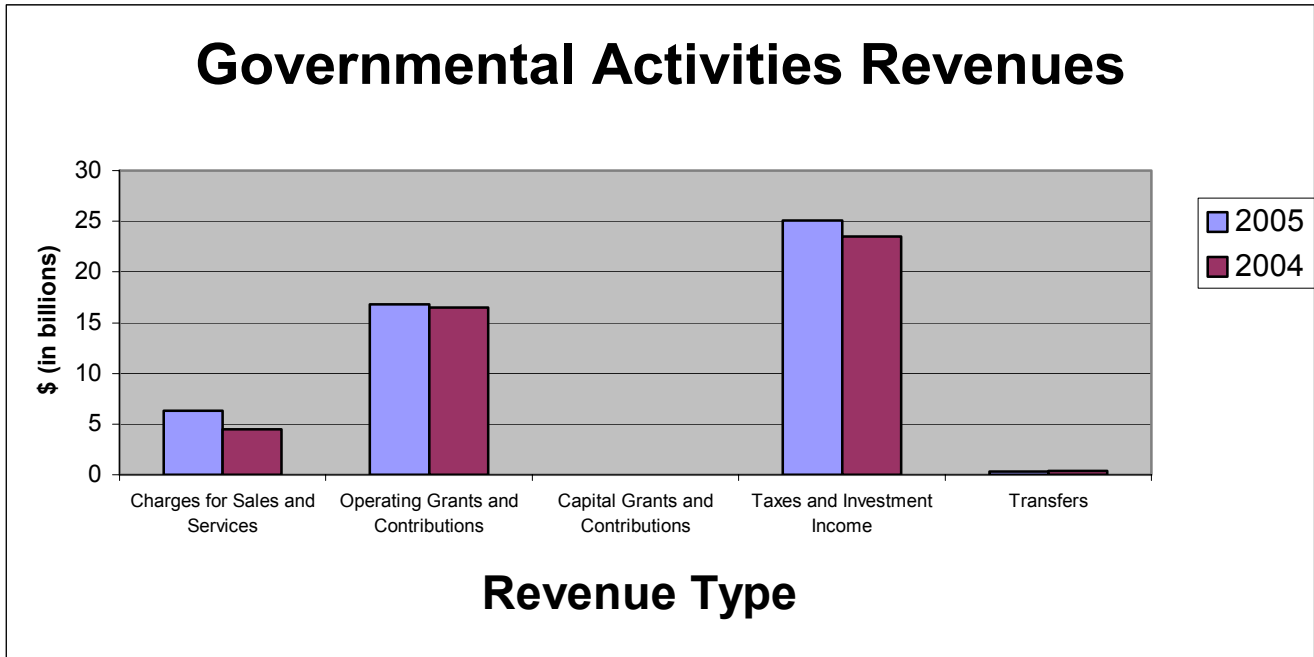
June 30, 2005

Total assets increased primarily as a result of an increase in Lottery ticket sales of \$.3 billion, an increase in State Workers' Insurance premium receivables of \$.09 billion, and an increase in unemployment compensation receivables of (\$.2 billion). Total liabilities for business-type activities increased by \$.3 billion due to higher securities lending obligations and an increase in the insurance loss liability incurred for the State Workers Insurance program.

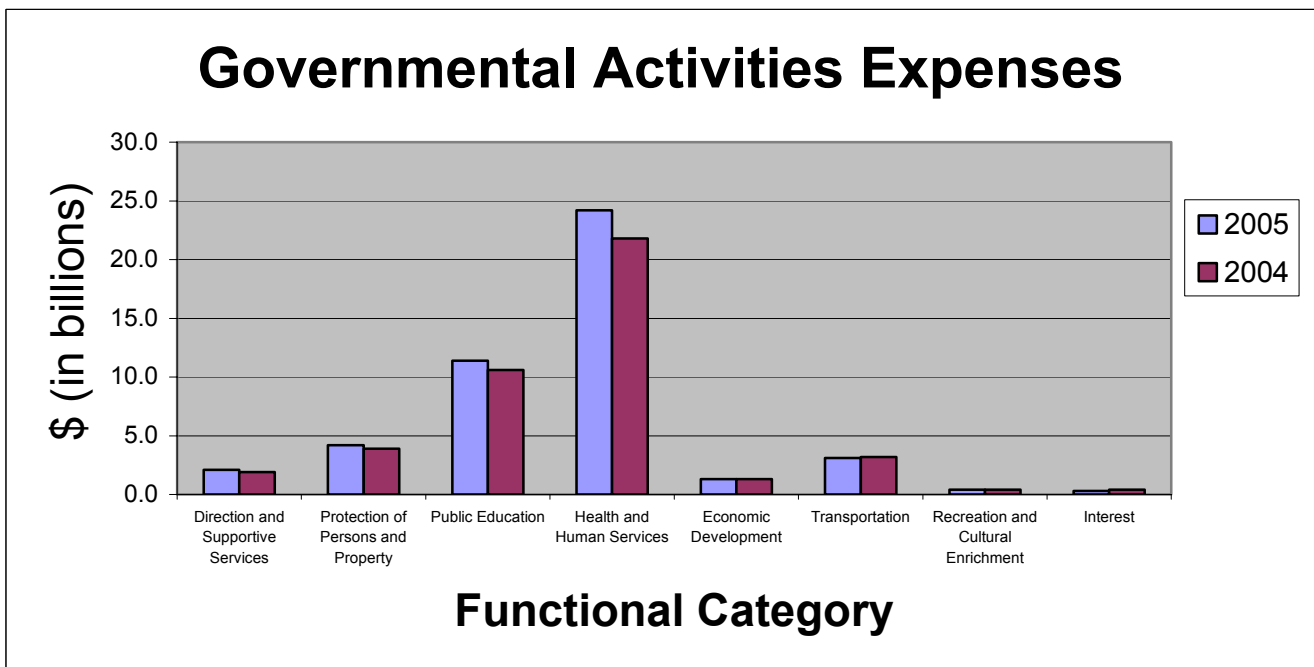
The following presents condensed financial statement information from the Statement of Activities (amounts in billions):

	Governmental Activities			Business-Type Activities			Total		
	2005	2004	Change	2005	2004	Change	2005	2004	Change
Revenues:									
Program revenues:									
Charges for sales and services.....	\$ 6.3	\$ 4.5	\$ 1.8	\$ 6.3	\$ 5.6	\$ 0.7	\$ 12.6	\$ 10.1	\$ 2.5
Operating grants and contributions.....	16.8	16.5	0.3	0.3	0.8	(0.5)	17.1	17.3	(0.2)
Capital grants and contributions.....	-	-	-	-	-	-	-	-	-
Total program revenues.....	23.1	21.0	2.1	6.6	6.4	0.2	29.7	27.4	2.3
General revenues:									
Taxes and investment income.....	25.1	23.5	1.6	-	-	-	25.1	23.5	1.6
Total general revenues.....	25.1	23.5	1.6	-	-	-	25.1	23.5	1.6
Total revenues.....	48.2	44.5	3.7	6.6	6.4	0.2	54.8	50.9	3.9
Expenses:									
Governmental activities:									
Direction and support services.....	2.2	2.0	0.2	-	-	-	2.2	2.0	0.2
Protection of persons and property.....	4.2	3.9	0.3	-	-	-	4.2	3.9	0.3
Public education.....	11.4	10.6	0.8	-	-	-	11.4	10.6	0.8
Health and human services.....	24.2	21.7	2.5	-	-	-	24.2	21.7	2.5
Economic development.....	1.3	1.3	-	-	-	-	1.3	1.3	-
Transportation.....	3.3	3.2	0.1	-	-	-	3.3	3.2	0.1
Recreation and cultural enrichment.....	0.5	0.4	0.1	-	-	-	0.5	0.4	0.1
Interest.....	0.3	0.3	-	-	-	-	0.3	0.3	-
Business-type activities:									
State lottery.....	-	-	-	2.3	2.1	0.2	2.3	2.1	0.2
Unemployment compensation.....	-	-	-	1.8	2.6	(0.8)	1.8	2.6	(0.8)
Liquor control.....	-	-	-	1.1	1.0	0.1	1.1	1.0	0.1
Workers' compensation.....	-	-	-	0.4	0.4	-	0.4	0.4	-
Tuition payment.....	-	-	-	0.2	0.3	(0.1)	0.2	0.3	(0.1)
Total expenses.....	47.4	43.4	4.0	5.8	6.4	(0.6)	53.2	49.8	3.4
Excess/(deficiency) before transfers.....	0.8	1.1	(0.3)	0.8	-	0.8	1.6	1.1	0.5
Transfers.....	0.3	0.4	(0.1)	(0.3)	(0.4)	0.1	-	-	-
Increase (decrease) in net assets.....	1.1	1.5	(0.4)	0.5	(0.4)	0.9	1.6	1.1	0.5
Net assets, beginning.....	19.7	18.2		2.1	2.5		21.8	20.7	
Net assets, ending.....	\$ 20.8	\$ 19.7		\$ 2.6	\$ 2.1		\$ 23.4	\$ 21.8	

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



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



Overall changes in net assets

During the fiscal year ended June 30, 2005, the overall financial position (net assets) of the Commonwealth, including both governmental and business-type activities, increased by \$1.6 billion or 7.3% of total beginning net assets of \$21.8 billion. For governmental activities, the net increase in net assets was \$1.1 billion, or 5.6% of beginning net assets of \$19.7 billion. Total investments, excluding the State Employees' Retirement Fund and other fiduciary funds, were over \$14.2 billion and total cash balances were \$1.3 billion. These amounts represent considerable liquidity for the current and future fiscal years. The increase in governmental activities net assets is comparable to the prior year change, where revenues, transfers and special items exceeded expenses by \$1.1 billion. These increases represent year-over-year improvements in the Commonwealth's overall financial position during each of the fiscal years ended June 30, 2005 and 2004. The \$.5 billion increase in total net assets for business-type activities follows a \$.4 billion decrease during the prior fiscal year. This \$.9 billion improvement is primarily attributable to a \$.8 billion decrease in unemployment compensation benefit payments coupled with a \$.3 billion increase in income from unemployment compensation assessments. During these fiscal years, unemployment compensation fund net assets increased by \$.3 billion and decreased by \$.4 billion, respectively. Statutory contribution increases occurred during each of the two prior fiscal years. Such increases are intended to eliminate net assets decreases in the unemployment compensation program. During the fiscal year ended June 30, 2005, State Lottery Fund net assets increased by \$.1 billion, after transfers, while net assets for all other business-type activities increased by \$.1 billion.

During the current fiscal year, total business-type activities revenues exceeded total expenses by \$.8 billion; and in the prior fiscal year total revenues were equal to expenses. Including the effects of net transfers to other funds of \$.3 billion (\$.4 billion in the prior year), business-type activities net assets increased by over \$.5 billion versus a \$.4 billion decrease in the prior year. The primary reason for this increase was the \$.3 billion improvement in Unemployment Compensation Fund net assets. Current-year Fund revenues decreased by over \$.1 billion and expenses decreased by \$.8 billion compared to the fiscal year ended June 30, 2004.

Changes in revenues and expenses

For governmental activities, general revenues increased by \$1.6 billion, largely as a result of increases in General Fund tax revenues during the fiscal year ended June 30, 2005. Program revenues for charges for sales and services increased significantly (\$1.8 billion) because of increases in several programs, including medical assistance (where nursing home assessments increased). Federal participation in specific General Fund programs increased by \$.3 billion during the fiscal year. Program charges for business-type activities increased by \$.7 billion primarily because of state lottery (\$.3 billion), unemployment compensation (\$.3 billion) and workers compensation (\$.1 billion) increases. Operating grants and contributions for business-type activities decreased by \$.5 billion largely due to a \$.4 billion decrease in the Temporary Extended Unemployment Compensation program, which received significant Federal funding in the prior year.

For governmental activities, total expenses increased \$4.0 billion (over 9.2%) largely because of higher amounts appropriated for the General Fund and other governmental Funds. Over half of the increase (\$2 billion) is attributable to medical and other assistance reported as part of health and human services expenses. Also, certain personnel costs reported as part of direction and supportive services increased substantially because of increased employee healthcare and other benefit costs during the fiscal year. Probable losses resulting from tax litigation were also a factor in higher direction and supportive services expenses. Overall expenses for business-type activities decreased by \$.6 billion overall (roughly 9.4%); expenses for unemployment compensation claims decreased by \$.8 billion based on lower claims during the fiscal year. Expenses for state lottery increased (\$.2 billion) along with higher ticket sales.

General Fund – economic factors during the fiscal year ended June 30, 2005

A moderately growing national economy that achieved preliminary estimates for growth resulted in improved economic conditions within significant portions of the national and Pennsylvania economies. Gains in government revenues, corporate profits, job creation and personal income were experienced. However, economic growth slowed significantly during the second quarter of 2005 in which real growth in gross domestic product slowed down from 3.8% to 2.3% on a seasonally adjusted annual rate basis. An increase in business inventories led to a slowing of business investment and manufacturing during the second quarter of 2005. Rising energy prices adversely impacted consumer spending, which dropped slightly during the second half of the fiscal year ended June 30, 2005 while personal incomes continued to grow modestly. Job growth continued during the fiscal year and the unemployment rate continued to drop throughout the fiscal year. Overall, economic conditions positively impacted state revenue growth, as revenues exceeded the budget estimate. These additional revenues were used in part to replenish portions of reserve funds and to support an increased demand for governmental goods and services, particularly in the area of health care costs.

Budgetary Comparison

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

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

The Budgetary Comparison Schedule for the General Fund for the fiscal year ended June 30, 2005 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 2004-05 supplemental appropriations passed on July 7, 2005 by Act 1A.

Final budgeted revenues for total state programs exceed the original budget by \$91 million. The \$91 million increase includes a net \$227 million increase in tax revenues resulting from a \$167 million adjustment for supplemental appropriations referred to in the preceding paragraph and a \$60 million change in revenue refunds from original to final budget. The \$91 million increase also includes a net decrease of \$197 million in departmental services revenue and an increase of \$47 million in unclaimed property revenues. The decrease in departmental services revenue is attributable primarily to a \$466 million decrease in the Department of Public Welfare's Health Care Provider Retention program where original budgeted revenues were not realized, and transfers of \$368 million in augmenting revenues from the Motor License Fund for State Police protection of Commonwealth highways (in this case there is no true increase in funds available to the State Police). The increase in unclaimed property revenues resulted from the aforementioned adjustment for supplemental appropriations.

The General Fund Schedule also discloses that the final budget includes \$623 million more expenditures than the original budget. The \$623 million increase includes \$31 million in state program expenditure increases and \$592 million of increased Federal participation in various programs. Of the \$31 million net state program difference, a \$363 million increase in Protection of Persons and Property expenditures results primarily from a \$368 million increase in spending authority for State Police protection of Commonwealth highways, and a \$341 million decrease in Health and Human Services expenditures is largely attributable to \$466 million reported as estimated augmentations in the original budget for the Department of Public Welfare's Health Care Provider Retention program for which no actual augmentations were received. The increase of \$592 in Federal programs relates primarily to supplemental appropriations passed by Act 1A of 2005.

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

Actual budgetary State Program revenues exceeded the final budgeted State Program revenues by \$215 million. The \$215 million increase includes a \$158 million increase in tax revenues related primarily to improving national and state economic conditions and one-half year of a modest personal income tax rate increase, and a \$45 million increase in unclaimed property revenues attributable to the continued beneficial effects of various revisions to the Commonwealth's escheats program enacted as part of the fiscal year 2004-05 and 2005-06 budgets. Budgetary lapses for a variety of specific appropriations and executive authorizations in the amount of \$51 million were also posted to reduce State Program spending authority. Actual Federal revenues and corresponding expenditures were \$267 million lower than budgeted for the following agencies: Public Welfare, \$88 million; Pennsylvania Infrastructure Investment Authority, \$40 million; Health, \$35 million; Transportation, \$27 million; Executive Offices, \$25 million; Labor and Industry, \$22 million; and all other affected agencies, \$30 million.

Measurement focus and basis of accounting – governmental funds

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

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

Discussion of individual funds, balances, and transactions

General Fund

Condensed comparative General Fund balance sheets at June 30, 2005 and 2004 are as follows (amounts in millions):

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Assets:			
Cash and investments.....	\$ 4,911	\$ 5,674	\$ (763)
Receivables, net.....	3,082	2,899	183
Due from other funds/governments/advances/other.....	1,870	1,891	(21)
Total assets.....	<u>\$ 9,863</u>	<u>\$ 10,464</u>	<u>\$ (601)</u>
Liabilities:			
Accounts payable and tax refunds payable.....	\$ 3,593	\$ 3,749	(156)
Securities lending obligations.....	787	1,156	(369)
Due to other funds/governments/advances/other.....	1,066	994	72
Unearned revenue.....	1,548	1,558	(10)
Total liabilities.....	<u>6,994</u>	<u>7,457</u>	<u>(463)</u>
Fund Balance:			
Reserved.....	1,428	881	547
Unreserved:			
Designated.....	514	492	22
Undesignated.....	927	1,634	(707)
Total fund balance.....	<u>2,869</u>	<u>3,007</u>	<u>(138)</u>
Total liabilities and fund balance.....	<u>\$ 9,863</u>	<u>\$ 10,464</u>	<u>(601)</u>

During the fiscal year ended June 30, 2005, cash and investments decreased by \$763 million (13%) compared to the prior year. A smaller Treasury Department securities lending program (\$369 million) and lower accounts payable/tax refunds (\$156 million) both contributed to the 13% decrease. Receivables increased 6% largely due to higher year-over-year taxes receivable and accounts receivable balances. Amounts due to other governments increased because of higher subsidy amounts owed to school districts and other educational organizations at June 30, 2005.

The fund balance reservations increase of \$547 million was caused by \$359 million of higher encumbrances, \$147 million of higher restricted revenues reservations, and \$70 million related to a new budget stabilization reserve, offset by a \$28 million decrease in continuing program reservations. Fund balance designations decreased by \$70 million for the new budget stabilization reservation and increased by \$92 million primarily because of a \$25 million increase for a judicial computer system, a \$15 million increase for agency construction projects, a new \$20 designation for waste tire and safe water programs, new designations of \$36 million for radio projects and other new designations of \$8 million, offset by a \$12 million decrease for health benefits and life insurance. Unreserved/undesignated fund balance decreased by \$707 million, as a result of the higher aforementioned fund balance reservations plus a \$138 decrease in overall fund balance during the fiscal year ended June 30, 2005.

Condensed comparative General Fund operating statements for the fiscal years ended June 30, 2005 and 2004 follow (amounts in millions):

	<u>2005</u>	<u>2004</u>	Increase (Decrease)	
			<u>Change</u>	<u>Percent</u>
Revenues:				
Taxes, net of refunds	\$ 22,841	\$ 21,191	\$ 1,650	8%
Intergovernmental	15,102	14,791	311	2%
Charges for sales and services	3,732	1,751	1,981	113%
Licenses/fees/investment and other income	623	948	(325)	-34%
Total revenues	<u>42,298</u>	<u>38,681</u>	<u>3,617</u>	
Expenditures:				
Direction and supportive services	2,048	1,412	636	45%
Protection of persons and property	3,014	2,958	56	2%
Health and human services	23,362	20,817	2,545	12%
Public education	11,382	10,521	861	8%
Recreation and cultural enrichment	293	225	68	30%
Economic development	988	964	24	2%
Transportation	449	352	97	28%
Capital outlay	27	143	(116)	-81%
Total expenditures	<u>41,563</u>	<u>37,392</u>	<u>4,171</u>	
Revenues over expenditures	<u>735</u>	<u>1,289</u>	<u>(554)</u>	
Other financing sources (uses):				
Transfers in	63	134	(71)	-53%
Transfers out	(937)	(776)	(161)	21%
Capital lease and installment purchase obligations	1	2	(1)	-50%
Net other financing sources (uses)	<u>(873)</u>	<u>(640)</u>	<u>(233)</u>	
Net change in fund balance	<u>(138)</u>	<u>649</u>	<u>\$ (787)</u>	
Fund balance, beginning	<u>3,007</u>	<u>2,358</u>		
Fund balance, ending	<u>\$ 2,869</u>	<u>\$ 3,007</u>		

General Fund tax revenues increased by 8% due to overall economic growth, including a nearly identical percentage increase in personal income tax revenues during the fiscal year ended June 30, 2005. Intergovernmental revenues increased by only \$311 million, almost solely due to increases in Federally-funded medical and other assistance, where expenditures increased significantly over the prior year. Charges for sales and services increased by nearly \$2 billion, more than doubling prior year revenues of \$1,751 million because of specific program funding changes, including nursing home assessments associated with an increase in health and human services expenditures. Total General Fund revenues increased by 9% during the fiscal year. The overall decrease in fund balance, \$138 million, during the fiscal year was \$787 million less than the prior fiscal year increase in fund balance \$649 million.

Total General Fund expenditures increased by 11% during the fiscal year ended June 30, 2005, on a GAAP-reported basis, largely because of a \$2.5 billion increase in expenditures for medical and other assistance (reported as part of health and human services). This increase was caused by significant increases in utilization (participation) and per-unit health care cost increases. Expenditures for direction and supportive services increased due to significantly higher reported employer costs for active and retired employee healthcare benefits. Higher public education appropriations resulted in a \$861 million expenditure increase. Actual, final General Fund expenditures (budgetary basis) increased by 9% over the prior fiscal year, while revenues (budgetary basis) increased 10%.

Motor License Fund

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

Description	2005		2004		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and investments	\$ 1,545	76%	\$ 1,281	\$ 264	21%	
Other assets	496	24%	547	(51)	-9%	
Total assets	\$ 2,041	100%	\$ 1,828	\$ 213	12%	
Accounts payable	\$ 420	55%	\$ 401	\$ 19	5%	
Securities lending obligations	251	33%	263	(12)	-5%	
Other liabilities	93	12%	84	9	11%	
Total liabilities	764	100%	748	16	2%	
Total fund balance	\$ 1,277	100%	\$ 1,080	\$ 197	18%	
Tax revenues	\$ 1,845	45%	\$ 1,742	\$ 103	6%	
License and fees	890	22%	867	23	3%	
Federal revenues	1,213	29%	1,323	(110)	-8%	
Other revenues	172	4%	177	(5)	-3%	
Total revenues	4,120	100%	4,109	11	0%	
Direction and supportive services	50	1%	50	-	0%	
Protection of persons and property	510	13%	496	14	3%	
Transportation	1,828	47%	1,642	186	11%	
Capital outlay	1,472	38%	1,668	(196)	-12%	
Other expenditures	4	0%	5	(1)	-20%	
Total expenditures	3,864	100%	3,861	3	0%	
Net transfers out	(60)	102%	(61)	1	-2%	
Other financing sources (uses)	1	-2%	-	1	0%	
Net other financing sources (uses)	(59)		(61)	2		
Net change in fund balances	\$ 197		\$ 187	\$ 10		

Cash and investments increased by \$264 million due primarily to the \$197 million year-over-year increase in fund balance. Other assets decreased by \$51 million primarily due to the reduction of the advance to the MCARE Fund. Tax revenues also increased by \$103 million because of an increase in the Oil Franchise tax rates. Federal revenues decreased by \$110 million because of the return of revenue to the Federal government for older construction projects that were funded but for which billable expenditures were less than estimates. The decrease in capital outlay during the fiscal year of \$196 million is directly related to the decrease in Federal revenues.

Tobacco Settlement Fund

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

Description	2005		2004		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and investments	\$ 1,184	78%	\$ 1,044	\$ 140	13%	
Other assets	332	22%	231	101	44%	
Total assets	\$ 1,516	100%	\$ 1,275	\$ 241	19%	
Accounts payable	\$ 143	25%	\$ 125	\$ 18	14%	
Securities lending obligations	138	24%	86	52	60%	
Other liabilities	285	50%	171	114	67%	
Total liabilities	566	100%	382	184	48%	
Total fund balance	\$ 950	100%	\$ 893	\$ 57	6%	
Intergovernmental	\$ 116	22%	\$ 120	\$ (4)	-3%	
Investment income	45	9%	87	(42)	-48%	
Other revenues	362	69%	365	(3)	-1%	
Total revenues	523	100%	572	(49)	-9%	
Protection of persons and property	111	26%	102	9	9%	
Health and human services	324	74%	359	(35)	-10%	
Economic development	-	0%	2	(2)	-100%	
Total expenditures	435	100%	463	(28)	-6%	
Net transfers in (out)	(31)	100%	(35)	4	-11%	
Other financing sources (uses)	-	0%	-	-	0%	
Net other financing sources (uses)	(31)	100%	(35)	4	-11%	
Net change in fund balances	\$ 57		\$ 74	\$ (17)		

The year-over-year increases in other assets and other liabilities are due to a newly-reported receivable, offset by unearned revenue, of \$86 million for the new Community Health Reinvestment program. The securities lending liability increased by \$52 million over the prior year due to the relative size of the Treasury securities lending program at June 30, 2005. Investment income decreased by \$42 million during the fiscal year ended June 30, 2005, due to more timely payments to vendors in the Uncompensated Care programs and relatively lower investment fair values at June 30, 2005. Expenditures for protection of persons and property increased by \$9 million due to increased participation in adult care programs. Most of the expenditure decrease of \$35 million for health and human services was caused by lower appropriated amounts for home and community based services. Economic development expenditures decreased due to a reduction in the appropriation for salaries and other administrative costs of the Tobacco Settlement Investment Board.

Measurement focus and basis of accounting – proprietary funds

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

Unemployment Compensation Fund

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

Description	2005		2004		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and investments	\$ 1,076	63%	\$ 853	\$ 223	26%	
Other assets	638	37%	558	80	14%	
Total assets	1,714	100%	1,411	303	21%	
Accounts payable	90	93%	103	(13)	-13%	
Other liabilities	7	7%	6	1	17%	
Total liabilities	97	100%	109	(12)	-11%	
Total net assets	\$ 1,617	100%	\$ 1,302	\$ 315	24%	
Sales and services	\$ 1,959	94%	\$ 1,627	\$ 332	20%	
Investment income	41	2%	52	(11)	-21%	
Other revenues	90	4%	522	(432)	-83%	
Total revenues	2,090	100%	2,201	(111)	-5%	
Cost of sales and services	1,775	100%	2,563	(788)	-31%	
Total expenses	1,775	100%	2,563	(788)	-31%	
Increase(decrease) in net assets	\$ 315		\$ (362)	\$ 677		

During the fiscal year ended June 30, 2005, unemployment compensation benefit claims slowed considerably, resulting in a \$788 million year-over-year decrease in expenses. The decline in benefit claims is the result of two primary factors: a reduction in company layoffs and the complete phase-out of the Temporary Extended Unemployment Compensation (TEUC) program. The TEUC was funded solely by Federal revenues and was still active during the fiscal year ended June 30, 2004. Other revenues decreased by \$432 million as a result of the phase-out of TEUC. During the period Total Assets increased (\$303 million) while Total Liabilities were reduced (\$12 million). Assessment revenues increased by \$332 million due to the continuation of statutory increases for employers and employees. In combination, the overall improvement in net assets contributed to an increase in cash and investment balances of \$223 million during the fiscal year. Also, a change in accounting estimate caused other assets to increase by almost \$54 million.

State Workers' Insurance Fund (December 31, 2004)

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

Description	2005		2004		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and short-term investments	\$ 757	33%	\$ 784	\$ (27)	-3%	
Long-term investments	1,497	65%	1,390	107	8%	
Other assets	59	3%	50	9	18%	
Total assets	2,313	100%	2,224	89	4%	
Securities lending obligations	598	28%	671	(73)	-11%	
Unearned revenue	98	5%	89	9	10%	
Insurance loss liability	1,374	65%	1,229	145	12%	
Other liabilities	50	2%	29	21	72%	
Total liabilities	2,120	100%	2,018	102	5%	
Net assets	\$ 193	100%	\$ 206	\$ (13)	-6%	
Sales and services	\$ 356	84%	\$ 266	\$ 90	34%	
Investment income	81	19%	77	4	5%	
Other revenues	-	0%	-	-	0%	
Provision for uncollectible accounts	(15)	-3%	(7)	(8)	0%	
Total revenues	422	100%	336	86	26%	
Cost of sales and services	430	99%	423	7	2%	
Interest expense	4	1%	5	(1)	-20%	
Other expenses	1	0%	-	1	0%	
Total expenses	435	100%	428	7	2%	
Increase(decrease) in net assets	\$ (13)		\$ (92)	\$ 79		

Year-over-year premium revenue increased from \$266 million to \$356 million as a result of an increase in policies: 48,844 in 2004 from 41,311 in 2003, an increase of 18%. During the year, based on increased premium revenue, overall cash and investments increased by \$153 million, offset by a decrease in securities lending obligations balances of \$73 million, for a net increase of \$80 million. Insurance loss liability and related expenses also increased as a result of the growth in policies and as a result of changes in actuarial assumptions. The Fund processed an increase in injury reports received, up 26,927 from 21,927 in 2003. Investment income increased due to capital gains on the sale of investments.

State Lottery Fund

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

Description	2005		2004		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and short-term investments	\$ 550	94%	\$ 462	\$ 88	19%	
Long-term investments	11	2%	12	(1)	-8%	
Other assets	27	5%	21	6	29%	
Total assets	\$ 588	100%	\$ 495	\$ 93	19%	
Accounts payable	\$ 203	69%	\$ 233	\$ (30)	-13%	
Securities lending obligations	91	31%	100	(9)	-9%	
Other liabilities	2	1%	4	(2)	-50%	
Total liabilities	296	100%	337	(41)	-12%	
Net assets	\$ 292	100%	\$ 158	\$ 134	85%	
Sales and services	\$ 2,646	97%	\$ 2,351	\$ 295	13%	
Other revenues	68	3%	74	(6)	-8%	
Total revenues	2,714	100%	2,425	289	12%	
Cost of sales and services	2,228	97%	1,982	246	12%	
Other expenses	69	3%	70	(1.0)	-1%	
Total operating expenses	2,297	100%	2,052	245	12%	
Operating income	417		373	44	12%	
Nonoperating revenues	17		13	4	31%	
Income before transfers	434		386	48	12%	
Transfers	(300)		(370)	70	-19%	
Increase(decrease) in net assets	\$ 134		\$ 16	\$ 118		

Overall cash and investments increased by \$88 million during the fiscal year ended June 30, 2005 due to an increase in gross ticket sales which more than offset increases in total expenses; also, transfers decreased by \$70 million for the fiscal year ended June 30, 2005. The \$88 million net increase in cash and investments is caused by a \$97 million overall increase offset by a \$9 million decrease in securities lending balances due to a relatively smaller year-over-year Treasury securities lending program. Accounts payable decreased because of proportionately lower annuity purchases. Instant game ticket sales increased by \$313 million, Powerball ticket sales decreased by \$14 million, and other ticket sales decreased by \$4 million, for a net year-over-year sales increase of \$295 million or 13%. Operating expenses increased 12%, by \$245 million, due to increased field paid prizes from instant ticket sales, advertising, and special services.

Tuition Payment Fund

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

Description	2005		2004		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and short-term investments	\$ 444	36%	\$ 322	\$ 122	38%	
Long-term investments	770	63%	698	72	10%	
Other assets	3	0%	3	-	0%	
Total assets	\$ 1,217	100%	\$ 1,023	\$ 194	19%	
Securities lending obligations	\$ 223	18%	\$ 164	\$ 59	36%	
Tuition benefits payable	1,028	82%	904	124	14%	
Other liabilities	10	1%	3	7	217%	
Total liabilities	1,261	100%	1,071	190	18%	
Net assets	\$ (44)	100%	\$ (48)	\$ 4	8%	
Sales and services	142	72%	206	(64)	-31%	
Investment income	55	28%	92	(37)	-40%	
Total revenues	197	100%	298	(101)	-34%	
Cost of sales and services	193	100%	294	(101)	-34%	
Total expenses	193	100%	294	(101)	-34%	
Increase(decrease) in net assets	\$ 4		\$ 4	\$ -		

The Tuition Payment Fund cash and investments balances increased during the fiscal year due to the investment of current year tuition credit purchase receipts and an expansion in the Treasury Department securities lending program, offset by relatively lower investment fair values at fiscal year end, which also decreased year-over-year investment income. The tuition benefits payable liability, which incorporates a variety of actuarial assumptions, increased by \$124 million, which corresponds with additional tuition credit purchases during the fiscal year.

Capital asset activity during the fiscal year ended June 30, 2005

Throughout the fiscal year, Commonwealth agencies acquire or construct capital assets. In governmental fund statements, expenditures for capital assets are typically reported as capital outlay. Funding for a significant portion of capital asset acquisition is provided by proceeds of general obligation bonds issued; such proceeds are generally accounted for in the capital projects funds in the funds financial statements as an other financing source. In the government-wide statements, bond proceeds are reported as additions to long-term bond liabilities and completed project expenditures and construction in progress at fiscal year end are reported as part of general capital assets. Construction in progress for Department of General Services (public works) and Department of Transportation (highway and bridge) projects at June 30, 2005 amounted to \$1.1 and \$1.6 billion, respectively. Authorized but unissued general obligation bonds at June 30, 2005 totaled \$46.5 billion.

General capital assets of the Commonwealth are those used in the performance of specific governmental functions during more than one fiscal year. Capital assets of the proprietary funds are reported in both fund statements and in government-wide statements. Fiduciary fund capital assets are reported in fund statements; fiduciary funds are not included in government-wide statements. General capital assets as of June 30, 2005 amounted to \$22.0 billion at actual or estimated historical cost, net of accumulated depreciation of \$10.7 billion. In the government-wide statements, depreciation expense for all capital assets is reported to recognize the cost of “using up” capital assets over their estimated useful lives. This treatment differs from reporting capital outlay as a current year expenditure in governmental funds. Highway and bridge infrastructure assets are typically funded by Motor License Fund taxes, license and registration fees and Federal revenues. The Motor License Fund reports transportation and capital outlay expenditures in fund statements; a portion of such expenditures is reported as additions to capital assets in government-wide statements. Depreciation of highway and bridge infrastructure assets is not related to the quality or relative value of these assets; rather, it is a specific accounting treatment to recognize the cost of “using up” the assets over long periods of time (25 years for highways and 50 years for bridges.) Depreciation is an allocation of an asset’s cost over its estimated useful life and is reported in government-wide statements. Note E to the financial statements provides more information on capital asset activities during the fiscal year ended June 30, 2005.

Long-term debt activity during the fiscal year ended June 30, 2005

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, 2005 was \$45.7 billion. Outstanding capital project debt at August 31, 2005 amounted to \$6.1 billion, for a remaining legal debt margin of \$39.6 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, 2005 was \$7.151 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, 2005 amounted to \$778 million and \$43 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>
1998	\$ 4.841
1999	5.254
2000	5.367
2001	5.545
2002	6.072
2003	7.031
2004	7.225
2005	7.151

Note K to the financial statements provides more specific details on long-term debt balances and activity during the fiscal year ended June 30, 2005.

Debt administration – fiscal year ending June 30, 2006

During the fiscal year ending June 30, 2006, the Office of the Budget currently plans general obligation bond issuances, excluding refundings, amounting to \$882 million, an increase of \$481 million as compared to actual bond issuances of \$401 million, excluding refundings, during the fiscal year ended June 30, 2005. This plan reflects the need to make additional investments in the Commonwealth's capital infrastructure, local capital projects and mass transportation. Additionally, a significant portion of the projected increase in issuances for the 2006 fiscal year is attributable to two major environmental programs which would target capital improvements to water supply and sewage treatment facilities associated with economic development as well as general environmental capital improvement projects. Debt principal retirements of \$535.7 million are currently planned for the fiscal year ending June 30, 2006.

The Commonwealth continues to evaluate refunding opportunities for its outstanding bonds to reduce interest costs. During the fiscal year ending June 30, 2005, \$1,469 million of outstanding bonds were refunded to produce over \$71.4 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% of the funds' estimated revenues for the year, and must mature during the fiscal year in which they were issued. Cash shortages may occur during the fiscal year because tax receipts, unlike cash disbursements, are concentrated in the last four months of the fiscal year. The Commonwealth has not issued tax anticipation notes during the past seven fiscal years and has no plans to issue any during the 2005 fiscal year. There were no changes in credit ratings and there were no debt limitations during the fiscal year ended June 30, 2005 that may affect the Commonwealth's plans during the fiscal year ending June 30, 2006.

Legislative changes during fiscal year 2005-2006

During the fiscal year that began July 1, 2005, the legislature approved several new laws which are expected to change the Commonwealth's financial position in the future. Act 36, signed on July 5, 2005, amends the Storage Tank and Spill Prevention Act. The interim registration fees paid by tank owners of aboveground and underground storage tanks included in the original act will be set as permanent with the fees expiring on December 31, 2009. The sunset date of the additional maximum \$500,000 allocation from the Underground Storage Tank Indemnification Fund (USTIF) for assistance to owners of underground storage tanks for heating oil with capacities of 3,000 gallons or less in the Underground Storage Tank Environmental Cleanup Program would expire on June 30, 2007. The Department of Environmental Protection (DEP) will continue to be reimbursed by the USTIF for costs incurred for corrective actions in the underground storage tank program; however, they will now be reimbursed for their administrative costs as well. In addition, DEP may request reimbursement of up to \$3 million annually for investigation and closure costs beginning in fiscal year 2007-2008 to be paid from USTIF.

Act 37, also signed July 5, 2005, amends Title 75 (Vehicles) to comply with the federal enabling regulations of the Federal Motor Carrier Improvement Act of 1999. The commercial driver licensing program will be strengthened by expanding the violations resulting in disqualification, imposing longer terms of disqualification and increasing fines. Violations that occur in a personal vehicle by a commercial driver will count the same as if they occurred in a commercial motor vehicle. The complete driving record of all violations of traffic laws, except parking, of commercial drivers will be maintained by the Department of Transportation.

Total nonrecurring costs for the Department of Transportation to implement the program, including computer system upgrades, training and revision of forms and publications, are estimated at \$4.8 million; \$4.27 million in federal funds and \$546,000 in state Motor License Funds. Without compliance by September 30, 2005, Pennsylvania could have lost approximately \$40 million in federal funds in the first year of the program and additional federal funds in subsequent years.

General Fund fiscal year 2005-2006 budget

The adopted fiscal year 2006 budget is based on an estimated 2.8% increase in Commonwealth General Fund revenues from those received in fiscal year 2005. The enacted budget appropriates \$24,278 million of Commonwealth funds, an increase of 5.3% over fiscal year 2005 expenditures, against estimated revenues net of tax refunds, of \$23,915 million. The \$363 million difference between estimated revenues and recommended appropriations is to be funded by a draw down of the \$364 million fiscal year 2006 beginning balance. Additionally, the enacted fiscal year 2006 budget allocates additional state funds to replace significant amounts of formerly available federal funds.

The fiscal year 2006 revenue estimate for the Commonwealth, as estimated in June 2005, is based upon an economic forecast of 3.3% growth in national real gross domestic product from the start of the third quarter of 2005 to the end of the second quarter of 2006. Trends in the Commonwealth's economy are expected to maintain their close association with national economic trends.

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

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Basic Financial Statements



Drake Oil Well
Venango County

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Government-Wide Financial Statements



Pennsylvania Monument, Gettysburg National Military Park

Adams County

STATEMENT OF NET ASSETS

June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash—Note D.....	\$ 65,451	\$ 44,515	\$ 109,966	\$ 365,049
Cash with fiscal agents—Note D.....	-	1,069,730	1,069,730	-
Temporary investments—Note D.....	8,487,027	2,064,288	10,551,315	2,589,835
Receivables (net):				
Taxes—Note G.....	2,148,725	-	2,148,725	-
Unemployment assessments.....	-	532,156	532,156	-
Accounts.....	697,477	133,572	831,049	167,974
Accrued interest.....	10,178	16,583	26,761	126,767
Loans—Note G.....	6,593	44,701	51,294	1,141,227
Lease rentals—Note G.....	1,021	-	1,021	1,918
Other.....	6,831	53	6,884	15,647
Due from pension trust funds—Note H.....	7,695	21	7,716	-
Due from primary government—Note H.....	-	-	-	7,254
Due from component units—Note H.....	35,212	323	35,535	95
Due from Federal government.....	1,987,138	5,211	1,992,349	21,584
Due from political subdivisions.....	5,645	6,341	11,986	-
Due from other governments.....	-	16,467	16,467	4,661
Inventory.....	90,414	187,854	278,268	29,928
Prepaid and deferred expenses.....	-	1,048	1,048	41,558
Other assets.....	210,105	15,751	225,856	102,672
Total current assets.....	<u>13,759,512</u>	<u>4,138,614</u>	<u>17,898,126</u>	<u>4,616,169</u>
Noncurrent assets:				
Long-term investments—Note D.....	1,401,593	2,277,068	3,678,661	1,824,579
Receivables (net):				
Taxes—Note G.....	926,325	-	926,325	-
Loans—Note G.....	29,969	209,852	239,821	9,646,949
Lease rentals—Note G.....	-	-	-	19,377
Non-depreciable capital assets—Note E:				
Land.....	1,724,359	323	1,724,682	169,352
Construction in progress.....	2,647,213	318	2,647,531	651,965
Depreciable capital assets—Note E:				
Land improvements.....	433,291	-	433,291	200,647
Buildings and building improvements.....	4,603,207	39,814	4,643,021	1,945,467
Machinery and equipment.....	737,245	64,066	801,311	607,370
Library books and other.....	-	-	-	136,229
Turnpike infrastructure.....	-	-	-	4,109,222
Highway infrastructure.....	15,878,487	-	15,878,487	-
Bridge infrastructure.....	6,675,889	-	6,675,889	-
Waterway infrastructure.....	1,757	-	1,757	-
Infrastructure-other.....	4,509	-	4,509	-
Less: accumulated depreciation.....	(10,833,621)	(57,954)	(10,891,575)	(3,673,674)
Net depreciable capital assets.....	<u>17,500,764</u>	<u>45,926</u>	<u>17,546,690</u>	<u>3,325,261</u>
Other assets.....	-	-	-	286,451
Total non-current assets.....	<u>24,230,223</u>	<u>2,533,487</u>	<u>26,763,710</u>	<u>15,923,934</u>
TOTAL ASSETS.....	<u>\$ 37,989,735</u>	<u>\$ 6,672,101</u>	<u>\$ 44,661,836</u>	<u>\$ 20,540,103</u>

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

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities.....	\$ 3,752,792	\$ 410,655	\$ 4,163,447	\$ 372,516
Tax refunds payable.....	654,209	-	654,209	-
Tuition benefits payable—Note F.....	-	104,063	104,063	-
Securities lending obligations.....	1,539,382	966,985	2,506,367	72,536
Internal balances—Note H.....	(89,092)	88,733	(359)	-
Due to pension trust funds—Note H.....	9,067	137	9,204	-
Due to primary government—Note H.....	-	-	-	3
Due to component units—Note H.....	7,348	-	7,348	49
Due to political subdivisions.....	979,375	-	979,375	-
Due to other governments.....	32,929	5,482	38,411	30
Interest payable.....	127,816	-	127,816	112,876
Unearned revenue.....	89,913	102,373	192,286	50,644
Notes payable—Note J.....	-	-	-	143,225
Bonds payable—Note K.....	501,028	-	501,028	23,557
Revenue bonds payable—Note K.....	-	-	-	258,919
Self insurance liabilities—Note M.....	136,148	3,843	139,991	-
Compensated absence liability—Note K.....	110,073	4,816	114,889	27,720
Other liabilities.....	77,393	40,914	118,307	177,690
Total current liabilities.....	<u>7,928,381</u>	<u>1,728,001</u>	<u>9,656,382</u>	<u>1,239,765</u>
Noncurrent liabilities:				
Tuition benefits payable—Note F.....	-	924,397	924,397	-
Unearned revenue.....	-	-	-	5,374
Demand revenue bonds payable—Note J.....	-	-	-	4,712,577
Insurance loss liability—Note F.....	-	1,374,516	1,374,516	-
Notes payable—Note J.....	-	-	-	857,495
General obligation bonds payable—Note K.....	6,649,639	-	6,649,639	-
Bonds payable—Note K.....	-	-	-	515,443
Revenue bonds payable—Note K.....	-	-	-	6,277,615
Capital lease/installment purchase obligations—Note K.....	47,276	-	47,276	-
Other financing obligations—Note J.....	90,000	-	90,000	222,136
Compensated absence liability—Note K.....	561,472	26,958	588,430	84,379
Self insurance liabilities—Note M.....	683,803	14,581	698,384	-
Other liabilities—Note K.....	1,229,950	-	1,229,950	890,542
Total non-current liabilities.....	<u>9,262,140</u>	<u>2,340,452</u>	<u>11,602,592</u>	<u>13,565,561</u>
TOTAL LIABILITIES.....	<u>17,190,521</u>	<u>4,068,453</u>	<u>21,258,974</u>	<u>14,805,326</u>
NET ASSETS—Note C				
Invested in capital assets, net of related debt.....	18,258,125	46,567	18,304,692	834,038
Restricted for:				
Smoking cessation and other health-related programs.....	1,215,291	-	1,215,291	-
Transportation.....	990,743	50,433	1,041,176	-
Capital projects.....	173,790	-	173,790	1,110,213
Debt service.....	83,885	-	83,885	428,908
Unemployment/worker's compensation.....	-	1,808,170	1,808,170	-
Elderly programs.....	92,531	291,329	383,860	-
Environmental and conservation programs.....	420,600	-	420,600	-
Other purposes.....	303,409	450,961	754,370	3,101,548
Unrestricted (deficit).....	(739,160)	(43,812)	(782,972)	260,070
TOTAL NET ASSETS.....	<u>\$ 20,799,214</u>	<u>\$ 2,603,648</u>	<u>\$ 23,402,862</u>	<u>\$ 5,734,777</u>

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Sales and Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary government:								
Governmental activities:								
Direction and supportive services.....	\$ 2,229,850	\$ 1,377,293	\$ 40,408	\$ -	\$ (812,149)	\$ -	\$ (812,149)	\$ -
Protection of persons and property.....	4,244,332	831,785	777,133	-	(2,635,414)	-	(2,635,414)	-
Public education.....	11,428,452	1,702	1,566,260	-	(9,860,490)	-	(9,860,490)	-
Health and human services.....	24,166,791	2,871,487	12,465,498	-	(8,829,806)	-	(8,829,806)	-
Economic development.....	1,314,636	11,028	580,116	-	(723,492)	-	(723,492)	-
Transportation.....	3,261,642	1,029,406	1,311,101	14,944	(906,191)	-	(906,191)	-
Recreation and cultural enrichment.....	448,585	153,641	32,496	-	(262,448)	-	(262,448)	-
Interest.....	296,267	-	-	-	(296,267)	-	(296,267)	-
Total governmental activities.....	47,390,555	6,276,342	16,773,012	14,944	(24,326,257)	-	(24,326,257)	-
Business-type activities:								
State lottery.....	2,298,417	2,644,407	87,000	-	-	432,990	432,990	-
State workers' insurance.....	449,880	355,883	80,538	-	-	(13,459)	(13,459)	-
Tuition payment.....	192,802	141,817	55,022	-	-	4,037	4,037	-
Unemployment compensation.....	1,774,676	1,961,085	128,343	-	-	314,752	314,752	-
Liquor control.....	1,088,875	1,183,667	3,378	-	-	98,170	98,170	-
Economic development and other.....	16,456	17,201	7,593	-	-	8,338	8,338	-
Total business-type activities.....	5,821,106	6,304,060	361,874	-	-	844,828	844,828	-
Total primary government.....	\$ 53,211,661	\$ 12,580,402	\$ 17,134,886	\$ 14,944	(24,326,257)	844,828	(23,481,429)	-
Component units:								
Total component units.....	\$ 3,703,879	\$ 2,188,145	\$ 1,786,700	\$ 129,446	-	-	-	400,412
General revenues:								
Taxes:								
Personal income.....					8,312,440	-	8,312,440	-
Sales and use.....					7,917,396	-	7,917,396	-
Corporation.....					4,400,995	-	4,400,995	-
Liquid fuels and motor carriers.....					1,863,223	-	1,863,223	51,551
Inheritance.....					668,992	-	668,992	-
Cigarette.....					811,578	-	811,578	-
Other.....					992,343	-	992,343	-
Total taxes.....					24,966,967	-	24,966,967	51,551
Investment income.....					131,629	-	131,629	-
Other.....					-	-	-	3,385
Total general revenues.....					25,098,596	-	25,098,596	54,936
Transfers—Note H.....					341,232	(341,232)	-	-
Net general revenues and transfers.....					25,439,828	(341,232)	25,098,596	54,936
Change in net assets.....					1,113,571	503,596	1,617,167	455,348
Net assets, July 1, 2004.....					19,685,643	2,100,052	21,785,695	5,279,429
Net assets, June 30, 2005—Note C.....	\$ 20,799,214	\$ 2,603,648	\$ 23,402,862	\$ 5,734,777				

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

Fund Financial Statements



U.S. Brig Niagara Sailing on Lake Erie

Erie County

BALANCE SHEET
Governmental Funds

June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	General Fund	Motor License Fund	Tobacco Settlement Fund	Nonmajor Funds	Total
ASSETS					
Assets:					
Cash—Note D.....	\$ 49,883	\$ 6,924	\$ 1,003	\$ 3,585	\$ 61,395
Temporary investments—Note D.....	4,861,117	1,537,610	238,876	1,790,932	8,428,535
Long-term investments—Note D.....	-	-	944,129	457,464	1,401,593
Receivables, net:					
Taxes—Note G.....	2,874,567	178,252	-	22,231	3,075,050
Accounts.....	202,168	11,270	267,651	40,468	521,557
Accrued interest.....	1,081	-	3,185	5,909	10,175
Loans—Note G.....	4,496	-	-	32,065	36,561
Lease rentals—Note G.....	-	-	-	1,021	1,021
Other.....	-	6,828	-	3	6,831
Due from other funds—Note H.....	29,035	9,524	-	54,407	92,966
Due from pension trust funds—Note H.....	653	3,205	-	3,824	7,682
Due from component units—Note H.....	972	24	-	33,728	34,724
Due from Federal government.....	1,716,457	177,212	61,078	18,548	1,973,295
Due from political subdivisions.....	5,519	14	-	61	5,594
Advances to other funds—Note H.....	114,108	110,000	-	100,000	324,108
Other assets.....	3,000	-	-	-	3,000
TOTAL ASSETS.....	\$ 9,863,056	\$ 2,040,863	\$ 1,515,922	\$ 2,564,246	\$ 15,984,087
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities.....	\$ 2,939,639	\$ 419,177	\$ 142,815	\$ 227,926	\$ 3,729,557
Tax refunds payable.....	653,268	941	-	-	654,209
Securities lending obligations.....	786,724	250,584	137,522	355,201	1,530,031
Due to other funds—Note H.....	67,650	17,295	7,194	12,129	104,268
Due to component units—Note H.....	64	7,284	-	-	7,348
Due to pension trust funds.....	4,315	4,573	-	166	9,054
Due to political subdivisions.....	885,732	40,609	13,084	39,950	979,375
Due to other governments.....	13,325	18,843	-	717	32,885
Unearned revenue.....	1,548,798	2,857	265,604	31,171	1,848,430
Advances from other funds—Note H.....	90,000	2,175	-	10,333	102,508
Other liabilities.....	4,432	-	-	-	4,432
TOTAL LIABILITIES.....	6,993,947	764,338	566,219	677,593	9,002,097
Fund balances:					
Reserved for:					
Encumbrances.....	617,861	601,809	-	852,320	2,071,990
Advances—Note C.....	114,108	110,000	-	100,000	324,108
Loans receivable.....	4,496	-	-	32,065	36,561
Budget Stabilization fund.....	70,303	-	-	-	70,303
Other—Note C.....	621,004	-	753,124	64,544	1,438,672
Unreserved:					
Designated for:					
Capital projects.....	-	-	-	133,024	133,024
Debt service:					
Retirement of general obligation bonds.....	-	-	-	83,885	83,885
Highways.....	-	218,885	-	-	218,885
Other—Note C.....	514,174	-	-	4,355	518,529
Undesignated (deficit)-reported in:					
General Fund.....	927,163	-	-	-	927,163
Special Revenue Funds.....	-	345,831	196,579	1,089,570	1,631,980
Capital Projects Funds.....	-	-	-	(473,110)	(473,110)
TOTAL FUND BALANCES.....	2,869,109	1,276,525	949,703	1,886,653	6,981,990
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 9,863,056	\$ 2,040,863	\$ 1,515,922	\$ 2,564,246	\$ 15,984,087

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

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

June 30, 2005

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

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

Total Fund Balances--Governmental Funds..... \$ 6,981,990

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

Land.....	\$ 1,724,353	
Land improvements.....	432,962	
Buildings and building improvements.....	4,598,949	
Machinery and equipment.....	642,388	
Infrastructure.....	22,560,642	
Construction in progress.....	2,647,213	
Accumulated depreciation.....	<u>(10,775,098)</u>	
Net general capital assets.....		21,831,409

Certain revenues are earned but not available at fiscal year-end and therefore are reported as unearned revenues in the governmental funds balance sheet..... 1,758,525

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..... 189,190

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..... 75,445

The Statement of Net Assets includes inventories that are not reported in the governmental funds balance sheet because they are not current financial resources..... 79,601

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

Bonds payable.....	\$ (7,150,667)	
Accrued bond interest payable.....	(127,816)	
Capital lease and installment purchase obligations.....	(47,276)	
Compensated absence liability.....	(669,708)	
Self-insurance liabilities.....	(818,565)	
Other liabilities.....	(1,302,911)	
Accounts payable.....	<u>(3)</u>	
		<u>(10,116,946)</u>

Total Net Assets---Governmental Activities..... \$ 20,799,214

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Governmental Funds

For the Fiscal Year Ended June 30, 2005

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	General Fund	Motor License Fund	Tobacco Settlement Fund	Nonmajor Funds	Total
REVENUES:					
Taxes, net of refunds.....	\$ 22,841,136	\$ 1,844,670	\$ -	\$ 287,319	\$ 24,973,125
Licenses and fees.....	300,450	889,984	-	378,225	1,568,659
Intergovernmental.....	15,102,454	1,213,487	115,673	153,722	16,585,336
Charges for sales and services.....	3,731,290	108,611	-	187,844	4,027,745
Investment income.....	145,408	59,730	45,455	71,606	322,199
Lease rental principal and interest.....	-	-	-	190	190
Interest on notes and loans.....	6	-	-	-	6
Other.....	177,133	3,498	362,249	9,346	552,226
TOTAL REVENUES	42,297,877	4,119,980	523,377	1,088,252	48,029,486
EXPENDITURES:					
Current:					
Direction and supportive services.....	2,047,999	50,338	-	36,084	2,134,421
Protection of persons and property.....	3,013,875	509,999	111,441	257,257	3,892,572
Health and human services.....	23,361,454	-	324,304	432,530	24,118,288
Public education.....	11,382,118	1,058	-	17,809	11,400,985
Recreation and cultural enrichment.....	292,981	3,437	-	146,365	442,783
Economic development.....	987,325	-	226	322,542	1,310,093
Transportation.....	449,228	1,826,539	-	332,026	2,607,793
Capital outlay.....	27,305	1,472,434	-	306,174	1,805,913
Debt service:					
Principal retirement.....	-	-	-	478,112	478,112
Interest and fiscal charges.....	-	-	-	320,887	320,887
TOTAL EXPENDITURES	41,562,285	3,863,805	435,971	2,649,786	48,511,847
REVENUES OVER (UNDER)					
EXPENDITURES	735,592	256,175	87,406	(1,561,534)	(482,361)
OTHER FINANCING SOURCES (USES):					
Bonds issued.....	-	-	-	401,816	401,816
Refunding bonds issued.....	-	-	-	1,468,439	1,468,439
Premium on bonds/refunding bonds issued.....	-	-	-	197,291	197,291
Transfers in—Note H.....	62,912	-	-	1,213,531	1,276,443
Transfers out—Note H.....	(936,549)	(59,829)	(30,721)	(8,112)	(1,035,211)
Payment to refunded bond escrow agent.....	-	-	-	(1,639,510)	(1,639,510)
Capital lease and installment purchase obligations.....	640	562	-	-	1,202
NET OTHER FINANCING SOURCES (USES)	(872,997)	(59,267)	(30,721)	1,633,455	670,470
NET CHANGE IN FUND BALANCES	(137,405)	196,908	56,685	71,921	188,109
FUND BALANCES, JULY 1, 2004	3,006,514	1,079,617	893,018	1,814,732	6,793,881
FUND BALANCES, JUNE 30, 2005	\$ 2,869,109	\$ 1,276,525	\$ 949,703	\$ 1,886,653	\$ 6,981,990

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

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

For the Fiscal Year Ended June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

The governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances reports events and activities that affect, on a current financial resources basis, fund balance changes during the fiscal year. The governmental activities column on the government-wide Statement of Activities conveys information on an economic basis. In effect, the government-wide statement demonstrates all expenses and revenues related to the operation of the government for the fiscal year ended June 30, 2005. 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..... \$ 188,109

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

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

Capital asset acquisitions (net).....	\$ 2,011,277	
Depreciation expense.....	(882,335)	
Capital lease, installment purchase and related payments.....	<u>7,877</u>	
Net excess of capital asset additions/installment purchase payments over depreciation expense.....		1,136,819

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 \$26,221.....	\$ (428,037)	
Refunding bonds, including a premium of \$171,070.....	<u>(1,639,510)</u>	
Total bond proceeds.....		(2,067,547)

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.....	\$ 478,112	
Payments to refunded bond escrow agent.....	<u>1,639,510</u>	
Total long-term debt repayment.....		2,117,622

Internal service funds charge the costs of certain goods and services to individual funds. The net loss of the internal service funds is reported as part of governmental activities expenses..... 5,375

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..... 91,305

Certain additional expenses are reported in the statement of activities because they are due and payable and are funded with future economic resources rather than current available financial resources..... (358,112)

Net change in governmental net assets in the statement of activities..... \$ 1,113,571

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

STATEMENT OF NET ASSETS
Proprietary Funds

June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Enterprise Funds						Internal Service Funds
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2004)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	
ASSETS							
Current assets:							
Cash.....	\$ -	\$ 26,951	\$ 330	\$ 517	\$ 16,717	\$ 44,515	\$ 4,056
Cash with fiscal agents—Note D.....	1,069,730	-	-	-	-	1,069,730	-
Temporary investments—Note D.....	5,972	730,505	550,226	443,550	334,035	2,064,288	58,492
Receivables (net):							
Unemployment assessments.....	532,156	-	-	-	-	532,156	-
Accounts.....	76,175	42,742	11,463	-	3,192	133,572	509
Accrued interest.....	-	12,780	-	3,415	388	16,583	-
Loans—Note G.....	-	-	-	-	44,701	44,701	-
Other.....	-	-	13	-	40	53	-
Due from other funds—Note H.....	2,905	-	-	-	3,655	6,560	10,556
Due from pension trust funds.....	2	-	-	-	19	21	13
Due from component units—Note H.....	300	-	-	-	23	323	488
Due from Federal government.....	4,003	-	1,208	-	-	5,211	66
Due from political subdivisions.....	6,341	-	-	-	-	6,341	51
Due from other governments.....	16,467	-	-	-	-	16,467	-
Inventory.....	-	-	-	-	187,854	187,854	10,813
Prepaid expenses.....	-	-	-	-	1,048	1,048	-
Other assets.....	-	1,931	13,820	-	-	15,751	105
Total current assets.....	1,714,051	814,909	577,060	447,482	591,672	4,145,174	85,149
Noncurrent assets:							
Long-term investments.....	-	1,496,712	10,705	769,651	-	2,277,068	-
Receivables (net):							
Loans—Note G.....	-	-	-	-	209,852	209,852	-
Non-depreciable capital assets—Note E:							
Land.....	-	-	-	-	323	323	6
Construction in progress.....	-	-	-	-	318	318	-
Depreciable capital assets—Note E:							
Land improvements.....	-	-	-	-	-	-	329
Buildings and building improvements.....	-	-	-	-	39,814	39,814	4,258
Machinery and equipment.....	-	2,678	453	-	60,935	64,066	94,857
Less: accumulated depreciation.....	-	(1,095)	(366)	-	(56,493)	(57,954)	(58,523)
Net depreciable capital assets.....	-	1,583	87	-	44,256	45,926	40,921
Total noncurrent assets.....	-	1,498,295	10,792	769,651	254,749	2,533,487	40,927
TOTAL ASSETS.....	1,714,051	2,313,204	587,852	1,217,133	846,421	6,678,661	126,076
LIABILITIES							
Current liabilities:							
Accounts payable and accrued liabilities.....	89,586	4,597	202,973	9,419	104,080	410,655	23,231
Tuition benefits payable—Note F.....	-	-	-	104,063	-	104,063	-
Securities lending obligations.....	954	597,628	91,366	222,968	54,069	966,985	9,350
Due to other funds—Note H.....	2,252	-	69	43	3,114	5,478	462
Due to pension trust funds.....	-	-	-	-	137	137	13
Due to other governments.....	4,713	-	35	-	734	5,482	44
Unearned revenue.....	-	97,847	1,993	-	2,533	102,373	8
Self insurance.....	-	287	-	-	3,556	3,843	289
Compensated absences.....	-	342	-	-	4,474	4,816	294
Advances from other funds.....	-	1,815	-	-	88,000	89,815	14,300
Other liabilities.....	-	40,914	-	-	-	40,914	-
Total current liabilities.....	97,505	743,430	296,436	336,493	260,697	1,734,561	47,991
Noncurrent liabilities:							
Tuition benefits payable—Note F.....	-	-	-	924,397	-	924,397	-
Insurance loss liability—Note F.....	-	1,373,810	-	-	706	1,374,516	-
Compensated absences.....	-	1,669	-	55	25,234	26,958	1,543
Self insurance.....	-	1,088	-	-	13,493	14,581	1,097
Total noncurrent liabilities.....	-	1,376,567	-	924,452	39,433	2,340,452	2,640
TOTAL LIABILITIES.....	97,505	2,119,997	296,436	1,260,945	300,130	4,075,013	50,631
NET ASSETS							
Invested in capital assets, net of related debt.....	-	1,583	87	-	44,897	46,567	40,927
Restricted for:							
Transportation.....	-	-	-	-	50,433	50,433	-
Unemployment/workers' compensation.....	1,616,546	191,624	-	-	-	1,808,170	-
Elderly programs.....	-	-	291,329	-	-	291,329	-
Other purposes—Note C.....	-	-	-	-	450,961	450,961	46,085
Unrestricted (deficit).....	-	-	-	(43,812)	-	(43,812)	(11,567)
TOTAL NET ASSETS.....	\$1,616,546	\$ 193,207	\$ 291,416	\$ (43,812)	\$ 546,291	\$ 2,603,648	\$ 75,445

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
Proprietary Funds

For the Fiscal Year Ended June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

Enterprise Funds

	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2004)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	Internal Service Funds
OPERATING REVENUES:							
Sales and services.....	\$ 1,959,314	\$ 355,760	\$ 2,645,713	\$ 141,745	\$ 1,191,353	\$ 6,293,885	\$ 86,573
Investment income.....	40,535	80,538	-	55,022	7,365	183,460	33
Interest on loans.....	-	-	-	-	7,607	7,607	-
Other.....	89,579	123	68,412	72	1,942	160,128	57
OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTIBLE ACCOUNTS.....	2,089,428	436,421	2,714,125	196,839	1,208,267	6,645,080	86,663
Provision for uncollectible accounts.....	-	(15,436)	-	-	(4,858)	(20,294)	-
NET OPERATING REVENUES.....	2,089,428	420,985	2,714,125	196,839	1,203,409	6,624,786	86,663
OPERATING EXPENSES:							
Cost of sales and services.....	1,774,676	429,725	2,228,337	192,802	1,096,245	5,721,785	73,375
Interest expense.....	-	3,851	-	-	-	3,851	-
Depreciation.....	-	868	25	-	4,164	5,057	9,055
Other.....	-	-	70,055	-	-	70,055	-
TOTAL OPERATING EXPENSES	1,774,676	434,444	2,298,417	192,802	1,100,409	5,800,748	82,430
OPERATING INCOME (LOSS).....	314,752	(13,459)	415,708	4,037	103,000	824,038	4,233
NONOPERATING REVENUES (EXPENSES):							
Investment income.....	-	-	17,080	-	3,572	20,652	1,794
Other revenues.....	-	-	202	-	-	202	311
Other expenses.....	-	-	-	-	(64)	(64)	(963)
NONOPERATING REVENUES, NET.....	-	-	17,282	-	3,508	20,790	1,142
INCOME (LOSS) BEFORE TRANSFERS.....	314,752	(13,459)	432,990	4,037	106,508	844,828	5,375
TRANSFERS:							
Transfers in—Note H.....	-	-	-	-	16,068	16,068	-
Transfers out—Note H.....	-	-	(300,000)	-	(57,300)	(357,300)	-
NET TRANSFERS.....	-	-	(300,000)	-	(41,232)	(341,232)	-
INCREASE/(DECREASE) IN NET ASSETS.....	314,752	(13,459)	132,990	4,037	65,276	503,596	5,375
TOTAL NET ASSETS, JULY 1, 2004.....	1,301,794	206,666	158,426	(47,849)	481,015	2,100,052	70,070
TOTAL NET ASSETS, JUNE 30, 2005.....	\$ 1,616,546	\$ 193,207	\$ 291,416	\$ (43,812)	\$ 546,291	\$ 2,603,648	\$ 75,445

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

STATEMENT OF CASH FLOWS

Proprietary Funds

For the Fiscal Year Ended June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Enterprise Funds						
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2004)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from employers.....	\$ 1,877,742	\$ 340,383	\$ -	\$ -	\$ -	\$ 2,218,125	\$ -
Receipts from customers.....	-	-	2,640,898	141,333	1,189,020	3,971,251	89,466
Receipts from borrowers.....	-	-	-	-	(12,373)	(12,373)	-
Payments to programs for the elderly.....	-	-	(467,026)	-	-	(467,026)	-
Payments to prize winners.....	-	-	(1,346,401)	-	-	(1,346,401)	-
Payments to participants.....	-	-	-	(61,797)	-	(61,797)	-
Payments to claimants.....	(1,786,731)	(267,039)	-	-	(2,689)	(2,056,459)	-
Payments to borrowers.....	-	-	-	-	(707)	(707)	-
Payments to suppliers.....	-	-	(448,610)	-	(1,091,284)	(1,539,894)	(76,595)
Other receipts.....	89,578	123	(1,643)	72	1,914	90,044	57
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	180,589	73,467	377,218	79,608	83,881	794,763	12,928
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES							
Net borrowings under advances from other funds.....	-	(21)	-	-	500	479	-
Transfers in.....	-	-	-	-	16,068	16,068	-
Transfers out.....	-	-	(300,000)	-	(57,300)	(357,300)	-
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES.....	-	(21)	(300,000)	-	(40,732)	(340,753)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Acquisition and construction of capital assets.....	-	-	(29)	-	(4,845)	(4,874)	(8,630)
Loss on disposition of capital assets.....	-	-	-	-	64	64	963
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES...	-	-	(29)	-	(4,781)	(4,810)	(7,667)
CASH FLOWS FROM INVESTING ACTIVITIES:							
Purchase of investments.....	(6,843)	(1,581,384)	(1,199,658)	(17,125,226)	(807,777)	(20,720,888)	(291,857)
Sales and maturities of investments.....	1,097	1,549,332	1,114,217	16,961,301	767,606	20,393,553	281,176
Investment income.....	40,535	55,560	17,080	24,683	11,326	149,184	1,867
Change in securities lending obligations.....	908	(73,270)	(8,734)	59,386	(8,835)	(30,545)	(792)
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	35,697	(49,762)	(77,095)	(79,856)	(37,680)	(208,696)	(9,606)
NET INCREASE (DECREASE) IN CASH.....	216,286	23,684	94	(248)	688	240,504	(4,345)
CASH AT JULY 1, 2004.....	853,444	3,268	236	765	16,029	873,742	8,401
CASH AT JUNE 30, 2005.....	\$ 1,069,730	\$ 26,952	\$ 330	\$ 517	\$ 16,717	\$ 1,114,246	\$ 4,056
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES							
Operating income (loss).....	\$ 314,752	\$ (13,459)	\$ 415,708	\$ 4,037	\$ 103,000	\$ 824,038	\$ 4,233
Depreciation and amortization.....	-	868	25	-	4,164	5,057	9,055
Provision for uncollectible accounts.....	-	15,437	-	-	4,858	20,295	-
Non-operating revenues.....	-	-	(1,642)	-	390	(1,252)	(685)
Reclassification of investment income.....	(40,535)	(80,538)	-	(55,022)	(7,363)	(183,458)	-
Changes in assets and liabilities:							
Accounts receivable.....	(53,752)	(23,667)	(3,260)	(412)	(22,315)	(103,406)	222
Unemployment compensation assessments receivable.....	(30,741)	-	-	-	-	(30,741)	-
Inventory.....	-	-	-	-	5,622	5,622	(185)
Due from other funds.....	(39)	-	-	-	(112)	(151)	2,287
Due from component units.....	455	-	-	-	5	460	289
Due from other governments.....	645	-	2,965	-	-	3,610	(66)
Due from political subdivisions.....	2,084	-	-	-	-	2,084	80
Other current assets.....	-	(902)	(4,520)	-	(98)	(5,520)	(46)
Accounts payable and accrued liabilities.....	(13,545)	(4,568)	(29,714)	6,744	(5,138)	(46,221)	(4,243)
Tuition benefits payable.....	-	-	-	124,226	-	124,226	-
Due to other funds.....	2,087	-	(153)	29	(825)	1,138	9
Due to political subdivisions.....	-	-	(2,089)	-	-	(2,089)	-
Due to other governments.....	(597)	-	(522)	-	95	(1,024)	16
Unearned revenue.....	(225)	9,192	420	-	210	9,597	-
Insurance loss liability.....	-	145,261	-	-	(140)	145,121	-
Other liabilities.....	-	25,843	-	6	1,528	27,377	1,962
Total Adjustments.....	(134,163)	86,926	(38,490)	75,571	(19,119)	(29,275)	8,695
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	\$ 180,589	\$ 73,467	\$ 377,218	\$ 79,608	\$ 83,881	\$ 794,763	\$ 12,928
Increase (decrease) in fair value of investments during the fiscal year.....	\$ -	\$ 53,766	\$ 910	\$ 30,339	\$ (1,761)	\$ 83,254	\$ 243

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

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

STATEMENT OF FIDUCIARY NET ASSETS
Fiduciary Funds

June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund INVEST Program for Local Governments (December 31, 2004)	Private Purpose Trust Fund Tuition Account Investment Program	Agency Funds
ASSETS				
Cash—Note D.....	\$ 36,848	\$ 938	\$ -	\$ 19,558
Cash with fiscal agents—Note D.....	-	-	-	137,005
Temporary investments—Note D.....	11,702,710	622,639	947	1,500,352
Long-term investments—Note D.....	78,710,431	-	233,252	1,426,384
Receivables, net:				
Taxes—Note G.....	-	-	-	26,791
Accounts.....	-	-	115	370,260
Accrued interest.....	96,447	107	78	2,060
Loans—Note G.....	-	-	-	3,097
Pension contributions.....	368,978	-	-	-
Investment proceeds.....	1,171,692	-	47	-
Other.....	180,622	-	-	183,671
Due from other funds—Note H.....	14,272	-	-	-
Due from primary government—Note H.....	5,759	-	-	-
Due from component units—Note H.....	12,671	-	-	-
Due from political subdivisions.....	1,518	-	-	-
Due from other governments.....	21	-	-	-
Advances to other funds—Note H.....	-	-	-	90,000
Depreciable capital assets:				
Capital assets.....	10,957	-	-	-
Less: accumulated depreciation.....	(10,084)	-	-	-
Net depreciable capital assets.....	873	-	-	-
Other assets.....	-	-	-	1,735,648
TOTAL ASSETS.....	92,302,842	623,684	234,439	5,494,826
LIABILITIES				
Liabilities:				
Accounts payable and accrued liabilities.....	76,039	1,018	225	35,394
Investment purchases payable.....	2,316,035	-	323	-
Securities lending obligations.....	9,530,323	-	-	151,765
Due to primary government—Note H.....	682	-	-	-
Due to political subdivisions.....	-	-	-	333,686
Due to other governments.....	-	-	-	9
Advances from other funds—Note H.....	-	-	-	207,000
Other liabilities.....	244,836	-	-	4,766,684
Self insurance liabilities.....	-	-	-	288
TOTAL LIABILITIES.....	12,167,915	1,018	548	5,494,826
NET ASSETS:				
Held in trust for:				
Pension and other employee benefits.....	78,577,796	-	-	-
Healthcare benefits.....	175,029	-	-	-
Employee salary deferrals.....	1,382,102	-	-	-
INVEST Program participants.....	-	622,666	-	-
Tuition Account Program participants.....	-	-	233,891	-
TOTAL NET ASSETS.....	\$ 80,134,927	\$ 622,666	\$ 233,891	\$ -

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Fiduciary Funds

For the Fiscal Year Ended June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund INVEST Program for Local Governments (December 31, 2004)	Private Purpose Trust Fund Tuition Account Investment Program
ADDITIONS:			
Pension contributions:			
Employer.....	\$ 564,511	\$ -	\$ -
Employee.....	1,401,329	-	-
Total contributions.....	<u>1,965,840</u>	<u>-</u>	<u>-</u>
Investment income:			
Net appreciation in fair value of investments.....	7,747,564	-	-
Interest income.....	2,096,543	9,045	15,622
Dividend income.....	124,099	-	-
Rental and other income.....	154,855	-	-
Total investment activity income.....	<u>10,123,061</u>	<u>9,045</u>	<u>15,622</u>
Less: investment expenses			
Investment activity expense.....	(390,958)	-	(1,264)
Net investment earnings.....	<u>9,732,103</u>	<u>9,045</u>	<u>14,358</u>
Securities lending activities:			
Income.....	166,736	-	-
Expenses.....	(142,164)	-	-
Total securities lending income.....	<u>24,572</u>	<u>-</u>	<u>-</u>
Total net investment income.....	<u>9,756,675</u>	<u>9,045</u>	<u>14,358</u>
Share transactions (at net asset value of \$1.00 per share):			
Shares purchased.....	-	1,549,221	120,247
Shares issued in lieu of cash distributions.....	-	7,734	125
Shares redeemed.....	-	(1,765,852)	(39,397)
Net increase (decrease) in net assets from share transactions.....	-	(208,897)	80,975
TOTAL ADDITIONS.....	<u>11,722,515</u>	<u>(199,852)</u>	<u>95,333</u>
DEDUCTIONS:			
Benefit payments.....	5,740,334	-	-
Refunds of contributions.....	22,371	-	-
Administrative expenses.....	64,110	665	-
Other expenses.....	48,776	-	-
Distributions to participants.....	-	8,606	87
TOTAL DEDUCTIONS.....	<u>5,875,591</u>	<u>9,271</u>	<u>87</u>
CHANGE IN PLAN NET ASSETS HELD IN TRUST FOR:			
Pension and other employee benefits.....	5,869,345	-	-
Healthcare benefits.....	(22,421)	-	-
INVEST program participants.....	-	(209,123)	-
Tuition Account Investment Program participants.....	-	-	95,246
Net assets, July 1, 2004.....	74,288,003	831,789	138,645
Net assets, June 30, 2005.....	<u>\$ 80,134,927</u>	<u>\$ 622,666</u>	<u>\$ 233,891</u>

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

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STATEMENT OF NET ASSETS
Discretely Presented Component Units

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	State Public School Building Authority	Philadelphia Shipyards Development Corporation (December 31, 2004)	Ben Franklin Technology Development Fund	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority	Patient Safety Trust Authority	Port of Pittsburgh Commission
ASSETS							
Current assets:							
Cash—Note D.....	\$ -	\$ 6,787	\$ -	\$ 2,217	\$ -	\$ -	\$ 1
Temporary investments—Note D.....	13,429	-	33,389	-	-	5,413	2,010
Receivables:							
Accounts.....	11	-	-	162	10	-	7
Accrued interest.....	148	-	-	-	-	-	8
Loans—Note G.....	3,784	-	-	-	-	-	168
Lease rentals—Note G.....	-	-	-	-	-	-	-
Other.....	-	-	-	-	-	-	27
Due from primary government—Note H.....	-	-	-	-	-	-	-
Due from component units—Note H.....	-	-	-	-	-	-	-
Due from Federal government.....	-	-	-	-	-	-	-
Due from other governments.....	-	4,661	-	-	-	-	-
Inventory.....	-	-	-	-	-	-	-
Prepaid and deferred expenses.....	-	39	-	11	-	-	-
Other assets.....	-	-	-	-	-	-	-
Total current assets.....	17,372	11,487	33,389	2,390	10	5,413	2,221
Noncurrent assets:							
Long-term investments—Note D.....	9,881	-	-	-	-	-	-
Receivables (net):							
Loans—Note G.....	5,244	29,315	31,490	-	-	-	-
Lease rentals—Note G.....	-	-	-	-	-	-	-
Non-depreciable capital assets—Note E							
Land.....	-	161	-	-	-	-	-
Construction in progress.....	-	-	-	-	-	-	-
Depreciable capital assets—Note E:							
Land improvements.....	-	-	-	-	-	-	-
Buildings and building improvements.....	-	-	-	-	-	-	-
Machinery and equipment.....	513	-	-	68	-	-	2,108
Infrastructure.....	-	-	-	-	-	-	-
Library books.....	-	-	-	-	-	-	-
Other capital assets.....	-	-	-	-	-	-	-
Less: accumulated depreciation.....	(400)	-	-	(29)	-	-	(507)
Net depreciable capital assets.....	113	-	-	39	-	-	1,601
Other assets.....	-	-	-	5	-	-	-
Total noncurrent assets.....	15,238	29,476	31,490	44	-	-	1,601
TOTAL ASSETS.....	32,610	40,963	64,879	2,434	10	5,413	3,822
LIABILITIES							
Current liabilities:							
Accounts payable and accrued liabilities.....	781	4,270	12,224	101	10	315	135
Securities lending obligations.....	-	-	5,337	-	-	865	-
Due to primary government—Note H.....	-	-	-	-	-	-	-
Due to component units—Note H.....	-	-	-	-	-	-	-
Due to other governments.....	-	-	30	-	-	-	-
Interest payable.....	-	-	-	-	-	-	-
Unearned revenue.....	-	-	-	-	-	-	-
Notes payable—Note J.....	-	-	-	-	-	-	-
Bonds payable—Note K.....	-	-	-	-	-	-	-
Revenue bonds payable—Note K.....	-	-	-	-	-	-	-
Compensated absences.....	-	-	-	-	-	-	-
Other liabilities.....	66	-	-	11	-	-	-
Total current liabilities.....	847	4,270	17,591	112	10	1,180	135
Non-current liabilities:							
Unearned revenue.....	-	-	-	-	-	-	-
Demand revenue bonds payable—Note J.....	-	-	-	-	-	-	-
Notes payable—Note J.....	-	-	-	-	-	-	-
Bonds payable—Note K.....	-	-	-	-	-	-	-
Revenue bond payable—Note K.....	-	-	-	-	-	-	-
Other financing obligations—Note J.....	-	-	-	-	-	-	2,000
Compensated absences.....	220	-	-	-	-	-	28
Other liabilities.....	889	29,315	-	-	-	-	-
Total non-current liabilities.....	1,109	29,315	-	-	-	-	2,028
TOTAL LIABILITIES.....	1,956	33,585	17,591	112	10	1,180	2,163
NET ASSETS—Note C:							
Invested in capital assets, net of related debt.....	113	161	-	39	-	-	(399)
Restricted for:							
Capital projects.....	-	-	-	-	-	-	-
Debt service.....	-	-	-	-	-	-	-
Other purposes.....	30,541	7,217	47,288	2,283	-	4,233	2,058
Unrestricted.....	-	-	-	-	-	-	-
TOTAL NET ASSETS.....	\$ 30,654	\$ 7,378	\$ 47,288	\$ 2,322	\$ -	\$ 4,233	\$ 1,659

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

	Pennsylvania Turnpike Commission (May 31, 2005)	Pennsylvania Industrial Development Authority	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Philadelphia Regional Port Authority	Total
\$	171,453	\$ 457	\$ 16,322	\$ 98,831	\$ 846	\$ 66,746	\$ 1,389	\$ 365,049
	381,396	158,039	1,062,736	255,673	446,998	230,752	-	2,589,835
	23,757	-	-	14,430	-	128,761	836	167,974
	6,139	3,161	-	115,254	2,057	-	-	126,767
	-	58,472	73,679	869,837	128,437	6,850	-	1,141,227
	-	1,252	-	-	-	-	666	1,918
	-	744	-	-	-	14,678	198	15,647
	7,191	63	-	-	-	-	-	7,254
	-	-	-	-	95	-	-	95
	-	-	-	16,493	5,091	-	-	21,584
	-	-	-	-	-	-	-	4,661
	16,964	-	-	-	-	12,964	-	29,928
	-	11,812	-	4,342	17,694	7,041	619	41,558
	-	-	-	82,597	-	19,417	658	102,672
	<u>606,900</u>	<u>234,000</u>	<u>1,152,737</u>	<u>1,457,457</u>	<u>601,218</u>	<u>487,209</u>	<u>4,366</u>	<u>4,616,169</u>
	725,414	74,968	87,867	75,850	-	850,599	-	1,824,579
	-	453,997	2,935,637	4,782,591	1,376,183	32,492	-	9,646,949
	-	19,377	-	-	-	-	-	19,377
	138,148	-	-	2,946	-	28,097	-	169,352
	505,358	-	-	-	-	131,582	15,025	651,965
	54,547	-	-	-	-	146,100	-	200,647
	643,545	-	-	66,914	-	1,116,323	118,685	1,945,467
	300,191	-	-	22,299	-	248,985	33,206	607,370
	4,109,222	-	-	-	-	-	-	4,109,222
	-	-	-	-	-	78,616	-	78,616
	-	-	-	55,209	-	-	2,404	57,613
	(2,947,242)	-	-	(71,908)	-	(573,271)	(80,317)	(3,673,674)
	<u>2,160,263</u>	<u>-</u>	<u>-</u>	<u>72,514</u>	<u>-</u>	<u>1,016,753</u>	<u>73,978</u>	<u>3,325,261</u>
	61,407	-	52,578	26,271	-	138,811	7,379	286,451
	<u>3,590,590</u>	<u>548,342</u>	<u>3,076,082</u>	<u>4,960,172</u>	<u>1,376,183</u>	<u>2,198,334</u>	<u>96,382</u>	<u>15,923,934</u>
	<u>4,197,490</u>	<u>782,342</u>	<u>4,228,819</u>	<u>6,417,629</u>	<u>1,977,401</u>	<u>2,685,543</u>	<u>100,748</u>	<u>20,540,103</u>
	78,793	491	2,958	105,171	1,052	162,711	3,504	372,516
	-	-	-	-	66,334	-	-	72,536
	-	-	-	-	3	-	-	3
	-	-	-	-	49	-	-	49
	-	-	-	-	-	-	-	30
	40,556	13,247	35,172	22,331	1,570	-	-	112,876
	2,824	-	-	7,269	-	40,515	36	50,644
	-	-	-	143,009	-	-	216	143,225
	-	-	-	-	-	23,557	-	23,557
	48,260	24,580	168,889	-	14,790	-	2,400	258,919
	12,951	-	-	773	235	13,761	-	27,720
	-	-	439	82,597	-	94,204	373	177,690
	<u>183,384</u>	<u>38,318</u>	<u>207,458</u>	<u>361,150</u>	<u>84,033</u>	<u>334,748</u>	<u>6,529</u>	<u>1,239,765</u>
	-	-	-	-	-	5,152	222	5,374
	-	-	-	4,712,577	-	-	-	4,712,577
	-	-	-	698,910	-	155,417	3,168	857,495
	-	-	-	-	-	515,443	-	515,443
	2,408,199	468,677	3,077,099	-	81,509	196,231	45,900	6,277,615
	-	-	-	144,427	-	75,709	-	222,136
	-	-	-	14,765	-	68,864	502	84,379
	12,604	15,277	294,137	-	-	534,782	3,538	890,542
	<u>2,420,803</u>	<u>483,954</u>	<u>3,371,236</u>	<u>5,570,679</u>	<u>81,509</u>	<u>1,551,598</u>	<u>53,330</u>	<u>13,565,561</u>
	<u>2,604,187</u>	<u>522,272</u>	<u>3,578,694</u>	<u>5,931,829</u>	<u>165,542</u>	<u>1,886,346</u>	<u>59,859</u>	<u>14,805,326</u>
	408,557	-	-	5,633	-	385,231	34,703	834,038
	1,092,830	-	-	-	-	17,340	43	1,110,213
	-	-	87,867	335,441	-	-	5,600	428,908
	91,916	-	562,258	144,726	1,811,859	396,626	543	3,101,548
	-	260,070	-	-	-	-	-	260,070
	<u>\$ 1,593,303</u>	<u>\$ 260,070</u>	<u>\$ 650,125</u>	<u>\$ 485,800</u>	<u>\$ 1,811,859</u>	<u>\$ 799,197</u>	<u>\$ 40,889</u>	<u>\$ 5,734,777</u>

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

STATEMENT OF ACTIVITIES
Discretely Presented Component Units

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	<u>State Public School Building Authority</u>	<u>Philadelphia Shipyards Development Corporation (December 31, 2004)</u>	<u>Ben Franklin Technology Development Fund</u>	<u>Insurance Fraud Prevention Authority</u>	<u>Pennsylvania Higher Educational Facilities Authority</u>	<u>Patient Safety Trust Authority</u>
Expenses.....	\$ 2,447	\$ 8,974	\$ 50,664	\$ 10,628	\$ 1,218	\$ 1,169
Program revenues:						
Charges for goods and services.....	1,488	-	1,314	9,898	1,218	-
Operating grants and contributions.....	537	7,032	54,401	315	-	2,280
Capital grants and contributions.....	-	-	-	-	-	-
Total program revenues.....	2,025	7,032	55,715	10,213	1,218	2,280
Net (expense) revenue.....	(422)	(1,942)	5,051	(415)	-	1,111
General revenues:						
Taxes and other general revenues.....	-	-	-	-	-	-
Change in net assets.....	(422)	(1,942)	5,051	(415)	-	1,111
Net assets, July 1, 2004.....	31,076	9,320	42,237	2,737	-	3,122
Net assets, June 30, 2005.....	\$ 30,654	\$ 7,378	\$ 47,288	\$ 2,322	\$ -	\$ 4,233

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

<u>Port of Pittsburgh Commission</u>	<u>Pennsylvania Turnpike Commission (May 31, 2005)</u>	<u>Pennsylvania Industrial Development Authority</u>	<u>Pennsylvania Housing Finance Agency</u>	<u>Pennsylvania Higher Education Assistance Agency</u>	<u>Pennsylvania Infrastructure Investment Authority</u>	<u>State System of Higher Education</u>	<u>Philadelphia Regional Port Authority</u>	<u>Total</u>
\$ 1,305	\$ 600,480	\$ 32,422	\$ 459,186	\$ 842,608	\$ 45,027	\$ 1,622,543	\$ 25,208	\$ 3,703,879
39	571,474	19,774	188,134	508,957	25,282	854,950	5,617	2,188,145
1,143	67,585	8,550	316,355	451,680	17,647	848,722	10,453	1,786,700
-	9,647	-	-	-	71,999	28,984	18,816	129,446
1,182	648,706	28,324	504,489	960,637	114,928	1,732,656	34,886	4,104,291
(123)	48,226	(4,098)	45,303	118,029	69,901	110,113	9,678	400,412
-	51,551	-	-	-	-	-	3,385	54,936
(123)	99,777	(4,098)	45,303	118,029	69,901	110,113	13,063	455,348
1,782	1,493,526	264,168	604,822	367,771	1,741,958	689,084	27,826	5,279,429
\$ 1,659	\$ 1,593,303	\$ 260,070	\$ 650,125	\$ 485,800	\$ 1,811,859	\$ 799,197	\$ 40,889	\$ 5,734,777

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

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

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

Government-Wide Financial Statements

Government-wide financial statements report financial position and results of activities for the Commonwealth of Pennsylvania as a whole. Separate columns are presented for governmental and business-type activities within the primary government (defined below) and discretely presented component units. The Statement of Net Assets reports all economic resources (assets) and all liabilities for the primary government of the Commonwealth. The Statement of Activities reports the total cost of providing governmental services, by function, net of related program revenues, and, after including general revenues, reports whether the total net assets of the government increased or decreased during the fiscal year ended June 30, 2005. The government-wide financial statements do not include any fiduciary fund assets, liabilities or activities for the primary government or component units (defined below) that are fiduciary in nature. Governmental activities within government-wide financial statements include specific balances and transactions related to Internal Service Funds that are reported as proprietary funds in fund financial statements. Business-type activities include information for all Enterprise Funds.

Financial Reporting Entity

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

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

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Philadelphia Shipyard Development Corporation (PSDC) - The PSDC was created as a nonprofit corporation to assist the PG and other governmental entities in financing a shipbuilding facility at the former Philadelphia Naval Shipyard. The PSDC obtains funding from the PG and a variety of other governmental sources to fund development, construction and job recruitment and training costs. The PG appoints three of five voting board members and provides a significant portion of funding for the PSDC. For the purposes of this report, the PSDC has a December 31, 2004 fiscal year end.

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

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Pennsylvania Turnpike Commission (PTC) - The PTC was created to construct, maintain and operate a turnpike system in the Commonwealth. Activities are financed through user tolls and the issuance of revenue bonds. Debt service payments are funded through user tolls. The PTC works closely with the Department of Transportation. The PG appoints all voting members. When all the PTC bondholders have been satisfied, the PTC assets revert to the Department of Transportation. The Governor must approve the issuance of all PTC debt. The PG is not obligated for PTC debt, but the PG could take certain actions to satisfy bondholders. The PTC is included for its fiscal year ended May 31, 2005.

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

Pennsylvania Life and Health Insurance Guaranty Association (PLHIGA) (Fiduciary Fund) - The PLHIGA was created to protect insurance policy owners, insured persons, beneficiaries, annuitants, payees and assignees of direct non-group life, health, annuity and supplemental policies or contracts from potential insurer failure due to the impairment or insolvency of the insurer. The PLHIGA guarantees the payment of insurance benefits and continuation of coverage by assessing member insurers. The PLHIGA is also authorized to assist the Pennsylvania Insurance Commissioner in the prevention and detection of insurer impairments or insolvencies. The PG has appointment approval authority for all governing board members and the Insurance Commissioner has broad authority to impose will on the PLHIGA. There is a minor financial burden on the PG. The PLHIGA is reported for its fiscal year ended December 31, 2004.

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, 2004.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Financial Statements for Component Units and Investment Trust Fund

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

Related Organizations

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

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint Venture

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

Excluded Organizations

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

Primary Government – Fund Structure

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

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

Governmental Funds

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

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Proprietary Funds

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

The **State Lottery Fund** provides for the operation of the Pennsylvania State Lottery and for programs to support older Pennsylvanians. Revenues are derived from the sale of lottery tickets, interest earned on securities and deposits, unclaimed prize monies and Federal grants. Fund expenses pay for prizes to holders of winning lottery tickets and commissions to local lottery agents. Amounts remaining after payment of lottery prizes and commissions are used to fund programs benefiting older Pennsylvanians including PENNCARE, PACE, 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 **State Workers' Insurance Fund** is included for its fiscal year ended December 31, 2004.

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

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

The State Stores Fund is reported for its fiscal year ended June 28, 2005.

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 an other employee benefit pension trust fund that collects and administers amounts contributed by Commonwealth employees who are deferring a portion of their income until future years, in accordance with Internal Revenue Code Section 457.

The INVEST Program for Local Governments is an Investment Trust Fund that invests amounts owned by local governments and school districts.

The Tuition Account Investment Program is a Private Purpose Trust Fund that invests amounts on behalf of participants who are saving for college tuition costs. The largest Agency Fund, the Statutory Liquidator Fund, converts the assets of insolvent insurance companies to cash for remittance to creditors, policyholders and stockholders. The Underground Storage Tank Indemnification Fund holds assets on behalf of owners and operators of underground storage tanks who incur a liability for taking corrective actions associated with underground storage tank releases. The Municipal Pension Aid Fund holds a portion of casualty insurance company tax assessments, which are remitted to municipalities to help defray municipal police and fire fighter pension costs.

The State Employees' Retirement System, a pension trust fund, the Deferred Compensation Fund, an other employee benefit trust fund, and the INVEST Program for Local Governments, an Investment Trust Fund, are included for their fiscal years ended December 31, 2004.

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

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

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

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

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

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

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

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

Agency Funds

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Pools: The Fiscal Code provides the Treasury Department with investment control over most Commonwealth funds. The Treasury Department uses a variety of sophisticated internal investment pools 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 and/or long-term investments; the pools themselves are not financially reported. The Treasury Department maintains an external investment pool, the INVEST Program for Local Governments, which separately issues audited financial statements and is reported as an Investment Trust Fund. Financial statements for the INVEST Program include a Statement of Net Assets and a Statement of Changes in Net Assets prepared using the economic resources measurement focus and the accrual basis of accounting.

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

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

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

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

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

Inventories: Inventories of operating materials and supplies are reported by certain governmental activities and operating and merchandise inventories are reported by Proprietary Funds and the State System of Higher Education, a discretely presented component unit. 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.

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Restricted Net Assets: These amounts were primarily determined based on enabling legislation that provides for restrictions on how the resources of special (non-**General Fund**) funds may be used. At June 30, 2005, a portion of governmental activities net assets are restricted based on a Federal government purpose restriction. Practically all reported restricted net assets could become unrestricted based on possible future legislative changes.

Budget Stabilization Reserve Fund: Act 91 of 2002 provided for this Fund effective July 1, 2002 to eventually establish a budgetary reserve amounting to 6 percent of the revenues of the **General Fund**. For the fiscal year beginning July 1, 2002 and in any fiscal year thereafter in which the Secretary of the Budget certifies that there is a surplus in the **General Fund**, 25 percent of the surplus is to be deposited by the end of the next succeeding quarter into this Fund. Act 41 of 2005 superseded this requirement and provided for 15 percent of the surplus to be deposited by the end of the next succeeding quarter into this Fund just for the fiscal year ended June 30, 2005; the transfer of \$64.4 million is included in the **General Fund** budgetary comparison schedule for the fiscal year ended June 30, 2005.

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. 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. Amounts remitted are calculated based on a variety of specific settlement provisions; actual tobacco product sales are one key factor.

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interfund Transactions

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

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

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

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

The composition of the Commonwealth’s interfund receivables/payables at June 30, 2005 and transfers in/out during the fiscal year ended June 30, 2005 are presented in Note H. Interfund balances between two governmental funds or two proprietary funds are not reported in the Statement of Net Assets.

New Accounting Pronouncements – Adopted: Effective July 1, 2004 the Commonwealth adopted the Governmental Accounting Standards Board’s (GASB’s) Statement No. 40, “Deposit and Investment Risk Disclosures.” GASB Statement No. 40 amends GASB Statement No. 3 and requires additional disclosures related to credit risks (including custodial, concentration and quality), interest rate risk and foreign currency risk. These disclosures are included in Note D to the financial statements.

New Accounting Pronouncements – To Be Adopted: In November 2003 the GASB issued Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.” GASB Statement No. 42 requires ongoing evaluation of specific events or changes affecting capital assets to determine whether they are impaired. In May 2004 the GASB issued Statement No. 44, “Economic Condition Reporting: The Statistical Section.” GASB Statement No. 44 amends the National Committee on Governmental Accounting’s Statement No. 1 which provided requirements for the statistical section of the Comprehensive Annual Financial Report. GASB Statement No. 44 establishes five categories of information and is intended to improve the understandability and usefulness of statistical section information. In June 2004 the GASB issued Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.” GASB Statement No. 45 changes how other postemployment benefits (OPEB) costs are reported by employer governments, so that employer OPEB costs are charged during the periods when employees render services. In December 2004 the GASB issued Statement No. 46, “Net Assets Restricted by Enabling Legislation.” GASB Statement No. 46 establishes and modifies requirements related to restrictions of net assets and provides that changes to enabling legislation could cause changes in how, or if, net assets are restricted and for which purpose. In June 2005 the GASB issued Statement No. 47, “Accounting for Termination Benefits.” GASB Statement No. 47 requires reporting termination benefit costs for involuntary terminations during the period the Commonwealth becomes obligated and for voluntary terminations when the termination offer is accepted. The Commonwealth must adopt the new standards as follows:

GASB Statement No. 42	Effective July 1, 2005, for financial statements for the fiscal year ending June 30, 2006
GASB Statement No. 44	Effective July 1, 2005, for financial statements for the fiscal year ending June 30, 2006
GASB Statement No. 45	Effective July 1, 2007, for financial statements for the fiscal year ending June 30, 2008
GASB Statement No. 46	Effective July 1, 2005, for financial statements for the fiscal year ending June 30, 2006
GASB Statement No. 47	Effective July 1, 2006, for financial statements for the fiscal year ending June 30, 2007

NOTE B – CHANGE IN ACCOUNTING ESTIMATE**Unemployment Compensation Fund**

Change in Estimating Amount Receivable for Unemployment Benefit Overpayments

Effective July 1, 2004 the **Unemployment Compensation Fund** changed its treatment for measuring estimated amounts receivable from claimants who receive benefit overpayments. At the time of claimant application, employer-reported wages/salaries are utilized as part of determining claimant eligibility. Subsequent reviews are conducted to determine whether claimants were eligible for payment during the entire claim period. Overpayments or underpayments are identified and affected claimants are notified. A change in estimate was made to more accurately measure and report the estimated net collectible amount. As of June 30, 2005 this change in estimate resulted in a reported benefit overpayment receivable of \$76,175. The receivable reported using the former treatment was \$22,424 at June 30, 2004 and had the former treatment been used as of June 30, 2005, the reported receivable would have been \$26,086. The year-over-year increase of \$53,751 is reported as a decrease in Cost of Sales and Services during the fiscal year ended June 30, 2005 (amounts in thousands).

NOTE C – NET ASSETS/FUND EQUITY

Governmental Activities and Business-Type Activities Net Assets: Total Net Assets are the difference between Total Assets and Total Liabilities reported on the Statement of Net Assets. Total Net Assets are reported in three distinct components: Invested in capital assets, net of related debt; Restricted net assets; and Unrestricted net assets. Invested in capital assets, net of related debt represents total capital assets less accumulated depreciation and the outstanding liability for debt specifically related to the acquisition of the capital assets. At June 30, 2005, governmental and business-type activities, respectively, reported \$18,258,125 and \$46,567 in net assets invested in capital assets, net of related debt. Restricted net assets for special funds are those that are statutorily established and for which net assets may only be used for specific legislated purposes. Governmental fund balance “designations” are not treated as restricted net assets because they represent plans and can easily be changed. Restraints established by enabling legislation, on the other hand, are not easily changed. At June 30, 2005, governmental and business-type activities, respectively, reported \$3,280,249 and \$2,600,893 in restricted net assets. Net assets restricted for other purposes of \$303,409 and \$450,961 for governmental activities and business-type activities, respectively, at June 30, 2005 include amounts for a range of dissimilar statutory purposes. Unrestricted net assets represent total net assets minus the totals of invested in capital assets, net of related debt and restricted net assets. At June 30, 2005, governmental activities reported an unrestricted net assets deficit of \$739,160. Business-type activities reported an unrestricted net assets deficit of \$43,812 at June 30, 2005 (amounts in thousands).

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

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

The **Motor License Fund**, a Special Revenue Fund, reports a reservation of \$110 million for an advance to the MCARE Fund, an Agency Fund.

The amount reserved for advances in the Catastrophic Loss Benefits Fund, a Special Revenue Fund, is applicable to a \$97 million advance to the Medical Care Availability and Reduction of Error Fund, an Agency Fund.

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

Governmental funds reported total fund balance “other” reservations of \$1,438,672 at June 30, 2005. This amount consists of \$621,004 reserved in the **General Fund**, \$576,245 for restricted revenue and \$44,759 for continuing programs; \$753,124 reserved in the **Tobacco Settlement Fund** for various health-related programs; and \$64,544 reserved in nonmajor Funds for the following programs: (amounts in thousands):

Land reclamation and other mining operations.....	\$ 31,606
Pharmaceutical assistance.....	2,029
Recreation.....	2,406
Conservation, recycling and economic development.....	3,431
Workers compensation.....	17,448
Hazardous materials response/activities	<u>4,117</u>
Total nonmajor Special Revenue programs.....	<u>61,037</u>
General State Authority maintenance in the	
Capital Facilities Fund.....	1,870
Land and water reclamation.....	<u>1,637</u>
Total nonmajor Capital Projects programs.....	<u>3,507</u>
Total nonmajor funds other reservations.....	<u>\$ 64,544</u>

NOTE C – NET ASSETS/FUND EQUITY (continued)

Governmental Fund Balance Designations: Designations of unreserved fund balances reported in governmental funds balance sheets reflect managerial plans for the future use of financial resources. At June 30, 2005 the Commonwealth has included the following amounts as “Designated—Other” for the **General Fund** (amounts in thousands):

General Fund:

Group medical and life insurance.....	\$ 179,549
Agency construction projects.....	108,144
Judicial computer system.....	104,753
Job creation tax credits.....	55,600
Waste tire and safe water programs.....	20,150
State Police statewide radio project.....	19,937
Conservation and Natural Resources radio project.....	15,831
Corrections programs.....	6,900
Public Welfare programs.....	1,532
Probation and Parole state and county supervision.....	1,342
Other.....	436
Total General Fund.....	<u>\$ 514,174</u>

Governmental Fund Balance Deficits: One fund has reported a fund balance deficit in the governmental funds balance sheet. The State Racing Fund, a Special Revenue Fund, reported a fund balance deficit of \$1,164 at June 30, 2005 (amounts in thousands).

The Capital Facilities Fund, a Capital Projects Fund, reported a deficit unreserved/undesignated fund balance of \$470,838 at June 30, 2005. In total, the Capital Facilities Fund reported a fund balance of \$221,856 at June 30, 2005. The Land and Water Development Fund and the Local Criminal Justice Fund, both Capital Projects Funds, reported a deficit unreserved/undesignated fund balance of \$18 and \$2,254, respectively, at June 30, 2005. Total Capital Projects Funds reported reservations for encumbrances of \$732,728; other reservations of \$3,507; designations for Capital Projects of \$133,024; and a deficit unreserved/undesignated fund balance of \$473,110; for total combined fund balances of \$396,149 at June 30, 2005 (amounts in thousands).

Proprietary Fund Net Assets: Nonmajor funds reported total restricted net assets for “other purposes” of \$450,961 at June 30, 2005 for the following programs: economic development loans, \$198,533; emergency services loans, \$123,595; mine subsidence insurance, \$44,026; liquor control, \$65,629; vocational rehabilitation, \$10,169; and \$9,009 for other programs (amounts in thousands).

The **Tuition Payment Fund**, an Enterprise Fund, reported an unrestricted net assets deficit of \$43,812 at June 30, 2005. The Purchasing Fund, an Internal Service Fund, reported an unrestricted net assets deficit of \$11,567 at June 30, 2005 (amounts 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 to purposes specifically identified by the legislation that created the component unit entity. The net assets reported for the Pennsylvania Industrial Development Authority is reported as unrestricted.

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; they must be fully collateralized as a means of avoiding custodial credit risk. The Treasury Department controls the receipt and disbursement of amounts owned by agencies included in the primary government. The Treasury Department is granted the power to invest in any deposits and investments subject, however, to the exercise of that degree of judgment and care under the circumstances then prevailing which persons of prudence, discretion and intelligence who are familiar with such matters exercise in the management of their own affairs not in regard to speculation, but in regard to the permanent disposition of the funds considering the probable income to be derived therefrom, as well as the probable safety of their capital. Such deposits and investments may include equity securities and mutual funds.

As of June 30, 2005, the Treasury Department manages the Treasury Investment Program (TIP). Practically all Commonwealth Funds of the primary government are invested on a temporary basis in the TIP. The objectives of the TIP are preservation of principal, liquidity, diversification, and income. All investments are made in accordance with the statutory authority described in the preceding paragraph. The TIP investment pool structure invests in both domestic equity securities and domestic fixed income securities to achieve the investment objects of the funds of the TIP. Asset allocation targets between equity securities and fixed income securities are established in order to meet these overall objectives.

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

The Treasury Liquid Asset Pool consists of domestic fixed investments (primarily short and intermediate term investments), which include U.S. Treasury obligations, U.S. Government agency obligations, certificates of deposit, bankers acceptances, mutual funds and corporate debt. This Pool consists of one portfolio and is directly managed by the State Treasury Department.

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: **Tobacco Settlement**, Workers Compensation Security Trust, **State Workers Insurance**, **Tuition Payment**, INVEST Program for Local Governments (INVEST), Statutory Liquidator 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 TIP. Therefore, the other investing organizations own, in relative terms, more intermediate or long-term investments than TIP. The other investing organizations avoid custodial credit risk and foreign currency risks related to deposits, as such deposits must be authorized by the Treasury Department. Most of the other investing organizations establish contractual arrangements with investment managers, which identify investment objectives without providing strict limitations on 'allowable' investment purchases. One notable limitation exception among several of the other organizations is a prohibition against purchasing securities issued by corporations participating in the tobacco industry.

Pension Trust Funds

The State Employees Retirement System (SERS), the Deferred Compensation Program (DCP) and the Public School Employees Retirement System (PSERS) constitute 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

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

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.

Discretely Presented Component Units

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 Treasury TIP.

Deposit Risks

At June 30, 2005 Treasury Department bank balances of \$8,589 were subject to custodial credit risk; \$8,339 was uninsured and uncollateralized and \$250 was uninsured, with collateral held by the pledging institution’s trust departments and not in the name of the Commonwealth. In addition, \$137,005 reported as cash with fiscal agents by the Statutory Liquidator Fund and \$5,250 (amounts in thousands) of Statutory Liquidator certificates of deposit were subject to custodial credit risk; all such deposits were uninsured and uncollateralized. None of the other investing organizations or the Pension Trust Funds was exposed to either custodial credit risk or foreign currency risk for its deposits at June 30, 2005 (December 31, 2004 for the SERS).

Investment Risks

Risk Policies: The Treasury Department, which is responsible for TIP, **Tuition Payment** and INVEST programs, has formally adopted a written investment policy. Provisions of the written investment policy and current management of the investments address custodial credit risk, concentration 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 quality, interest rate and foreign currency risk. To a large degree, credit risk is avoided by following policies to purchase only ‘investment grade’ securities (defined below). Where interest rate risk policies have been adopted, risk is avoided by establishing maximum maturities. To a degree, concentration of credit risk is avoided by the establishment of policies limiting investment purchases from a single issuer. The individual risk policies and related disclosures are discussed in greater detail below. Either collectively or individually, none of the five non-Treasury investing organizations subject themselves to significantly higher risks than the Treasury Department. Based on the long-term nature of Pension Trust Fund investments, those Funds are exposed to interest rate risk and foreign currency risk and, to a smaller degree, credit quality risk.

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event a counterparty fails to uphold their 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 TIP, **Tuition Payment** and INVEST investments are insured or registered; and the securities are held by Treasury 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, 2005, only the Statutory Liquidator Fund owned investment securities subject to custodial credit risk, in the amount of approximately \$1.3 billion. 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 investments types and related amounts are as follows (in thousands):

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

<u>Investment Type</u>	<u>Amount</u>
Asset-backed securities	\$ 204,947
Commercial paper	17,149
Corporate obligations	400,853
Equities	72,274
International fixed income	887
Repurchase agreements	160,290
State and municipal obligations	5,586
U.S. government agency obligations	148,746
U.S. Treasury obligations	317,786
Total	<u>\$ 1,328,518</u>

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 both the TIP, **Tuition Payment** and INVEST Common Investment Pool and the Treasury Liquid Asset Pool. This limitation excludes government-sponsored enterprises, direct obligations of the U.S. government or its 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 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. At June 30, 2005 over 14 percent of total Treasury and other investing organization portfolio investments (\$16,357,563) consist of U.S. Treasury obligations (\$2,405,786); this amount is over 18 percent of total fixed income investments (\$12,755,845). Also, among Treasury and other investing organizations, the following concentrations existed as of June 30, 2005 (amounts in thousands):

<u>Issuer</u>	<u>Amount</u>
Federal National Mortgage Association.....	\$ 1,465,561
Bank of America	960,246
UBS Warburg	820,518

Among the Pension Trust Funds, the SERS discloses that \$1.9 billion of U.S. Treasury securities were owned at their fiscal year end of December 31, 2004. There are no other concentrations of credit risk at June 30, 2005.

Credit Quality 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). The Treasury Department requires purchases of TIP assets to be investment grade (Baa or better) at the time of purchase. The fixed income portfolio includes a provision for the asset allocation to include up to 10 percent of the portfolio to be high yield investments. These investments, by definition, are not restricted to the investment grade requirements and include investments rated by Moody’s at Ba or below. Approximately 81 percent of the fixed income portfolio in TIP is not rated by Moody’s and includes money market investments, municipal obligations and U.S. denominated foreign bonds. Approximately 17 percent of the Treasury fixed income portfolio is rated investment grade or better and 2 percent is rated less than investment grade. Generally the other investing organizations limit exposure to credit risk through policies which either prevent purchasing below investment grade (Moody’s Baa or better) or below Moody’s Ba rating. At June 30, 2005 less than 5 percent of the investment securities rated by Moody’s are rated Ba or lower.

At June 30, 2005 approximately \$12,755,845 of total TIP and other investing organization investments of \$16,357,563 are fixed income investments, susceptible to credit quality rating; the remainder is primarily equities (\$3,144,454), mutual funds with credit rating (\$234,198) or other types of investments, including venture capital (\$223,066). Of the amount susceptible to credit quality rating, \$6,267,817 are rated; ratings are not available for \$6,722,226 of fixed income investments. The following table discloses aggregate fair value, by Moody’s or Standard and Poor’s credit quality rating category, at June 30, 2005 for the Treasury Department, the other investing organizations and the DCP (December 31, 2004) fixed income investments (amounts in thousands):

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

CREDIT QUALITY RATING	TIP and Other Investing Organizations	Deferred Compensation Program
<u>Moody's Credit Quality Rating</u>	<u>Amount</u>	<u>Amount</u>
Aaa	\$ 1,579,066	\$ 35,820
Aa	5,200	-
Aa1	28,826	104
Aa2	135,944	11,899
Aa3	228,264	22,095
A	1,290	-
A1	226,905	19,341
A2	222,891	18,711
A3	180,670	24,933
Baa	1,173	-
Baa1	65,037	4,756
Baa2	149,344	-
Baa3	91,806	-
Ba1	12,722	-
Ba2	14,048	-
Ba3	32,041	-
B	298	-
B1	41,658	-
B2	43,396	-
B3	58,080	-
Caa1	19,642	-
Caa2	5,819	-
Caa3	179	-
Ca	1,089	-
P-1	80,593	-
AGY	-	234,566
UST	-	47,561
Moody's subtotals	<u>3,225,981</u>	<u>419,786</u>
 Standard and Poor's Credit Quality Rating		
AAA+	228,980	-
AAA	2,348,199	-
AA+	5,228	-
AA	10,159	-
AA-	18,826	-
A+	49,951	-
A	45,653	-
A-	14,835	-
BBB+	41,303	-
BBB	40,572	-
BBB-	41,290	-
BB+	26,996	-
BB	14,717	-
BB-	15,521	-
B+	842	-
B	5	-
B-	6	-
D	4	-
A-1	58,241	-
A-1+	80,508	-
Standard and Poor's subtotal	<u>3,041,836</u>	<u>-</u>
 Total rated investments	 <u>\$ 6,267,817</u>	 <u>\$ 419,786</u>

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

Both the SERS and the PSERS expose themselves to greater credit quality risk than Treasury programs or other investing organizations to meet specific investment objectives. SERS fixed income securities, which are exposed to credit quality risk, are rated by Moody’s as follows (amounts in thousands):

<u>Moody’s Rating</u>	<u>Amount</u>	
AGY	\$ 665,193	Ratings shown include combined individual ratings with modifiers, such as 1 and 2.
AAA	290,970	
AA	90,519	
A	155,033	
P-1	25,348	AGY applies to securities issued by privately owned government-sponsored enterprises; such as, Federal National Mortgage Association, Federal Home Bank, and several other organizations.
BAA	329,418	
BA	514,035	
B	677,397	
CAA	148,590	
CA	33,676	
C	1,738	
Non-rated securities	128,332	
Treasury Department TIP	<u>770,250</u>	
Total.....	<u>\$ 3,830,499</u>	

PSERS fixed income securities, which are exposed to credit quality rating are grouped according to the lowest rating given among Moody’s, Standard and Poor’s or Fitch, as follows (amounts in thousands):

<u>Quality Rating</u>	<u>Amount</u>	
AAA	\$ 5,998,491	Ratings shown include combined individual ratings with modifiers, such as 1 and 2.
AA	958,565	
A	1,168,562	
BBB	1,034,282	Not rated includes amounts invested with Treasury Department TIP and collective trust funds.
BB and below	1,179,419	
Not rated	<u>4,028,098</u>	
Total exposed to credit quality risk	14,367,417	
U.S. Treasury and U.S government agency obligations explicitly guaranteed by the U.S. government	<u>3,440,160</u>	
Total.....	<u>\$ 17,807,577</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 effective 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, 2005, the fixed income portfolio had the following effective durations (in years) by investment type (amounts in thousands):

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

<u>Investment Type</u>	<u>Amount</u>	<u>Duration</u>
Asset-backed securities.....	\$ 51,387	4.15
Certificates of deposit.....	57,754	.53
Commercial paper.....	346,686	.170
Corporate obligations.....	1,584,958	4.11
International fixed income.....	48,916	1.34
Money market mutual funds.....	270,170	.003
Mortgage-backed securities.....	853,293	2.25
Repurchase agreements.....	3,049,456	.003
State and municipal obligations.....	699,305	.007
U.S. government agency obligations.....	1,679,597	1.60
U.S. Treasury obligations.....	<u>1,966,827</u>	4.14
Total.....	<u>\$ 10,608,349</u>	

Two other investing organizations, the **Tobacco Settlement Fund** and the Statutory Liquidator Fund, do not use effective duration as a means of managing interest rate risk; the following provides segmented time distribution for those Funds (amounts in thousands):

<u>Investment Type</u>	<u>Matures in Less Than One Year</u>	<u>Matures in 1 to 5 Years</u>	<u>Matures in 6 to 10 Years</u>	<u>Matures in 11 to 20 Years</u>	<u>Matures in 21 to 30 years</u>	<u>Total</u>
Asset-backed securities.....	\$ 768	\$ 87,387	\$ 31,873	\$ 16,146	\$ 107,884	\$ 244,058
Commercial paper.....	17,149	-	-	-	-	17,149
Corporate obligations.....	61,616	261,476	72,715	5,335	9,004	410,146
International fixed income.....	-	538	732	-	-	1,270
Money market mutual funds.....	83,799	-	-	-	-	83,799
Mortgage-backed securities.....	37	34,300	40,197	75,932	145,184	295,650
Repurchase agreements.....	177,319	-	-	-	-	177,319
State and municipal obligations.....	-	-	2,191	3,395	-	5,586
U.S. government agency obligations.....	38,928	175,150	-	630	48	214,756
U.S. Treasury obligations.....	123,399	267,094	40,302	8,059	105	438,959
Other.....	<u>105,610</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>105,610</u>
Totals.....	<u>\$ 608,625</u>	<u>\$ 825,945</u>	<u>\$ 188,010</u>	<u>\$ 109,497</u>	<u>\$ 262,225</u>	<u>\$ 1,994,302</u>

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

Based on specific investment objectives, the Pension Trust Funds expose themselves to greater interest rate risk than Treasury programs or other investing organizations. One of several investing choices, which may be selected by Deferred Compensation Program participants, is the Stable Value Account, which owns a variety of fixed income securities and is managed by two external managers. The objective of this particular fund is to ensure no loss of principal amounts invested by participants. Each Pension Trust Fund uses effective duration (in years) as a measure of interest rate risk, as follows (amounts in thousands):

SERS:

<u>Investment Type</u>	<u>Amount</u>	<u>Effective Duration</u>
U.S. government agencies	\$ 227,841	3.1
Asset backed securities.....	217,031	1.1
Collateralized mortgage backed securities and collateralized mortgage obligations	79,249	0.9
Corporates	1,199,491	4.7
U.S. Treasury.....	2,038,326	3.8
International fixed income.....	509,402	6.7
U.S. government mortgages	336,669	2.2
U.S. government private placements	349,849	4.6
Treasury Department TIP	467,707	0.1
Temporary market-neutral investments.....	302,543	NA
Other.....	51,105	NA
Total.....	<u>\$ 5,779,213</u>	

DCP:

<u>Investment Type</u>	<u>Amount</u>	<u>Effective Duration</u>
Asset backed securities.....	\$ 18,178	2.1
Collateralized mortgage obligations.....	53,194	3.0
Corporate bonds	92,308	4.4
Government	120,873	3.6
U.S. Treasury and agencies	22,975	0.1
U.S. government mortgages	98,377	2.3
U.S. government private placements	30,103	4.1
Short term instruments	735	0.1
Total.....	<u>\$ 436,743</u>	

PSERS:

<u>Investment Type</u>	<u>Amount</u>	<u>Effective Duration</u>
Domestic mortgage-backed securities.....	\$ 4,898,249	1.8
U.S. Treasury and U.S. government agencies	2,959,042	6.3
Domestic corporate and taxable municipal bonds	3,178,674	3.3
Miscellaneous domestic fixed income.....	198,656	1.4
Fixed income collective trust funds.....	276,234	5.2
International fixed income.....	1,959,710	7.0
Treasury Department TIP	2,003,681	0.1
Total.....	<u>\$ 15,474,246</u>	

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

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 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, only the **Tobacco Settlement Fund** is authorized to purchase securities denominated in a foreign currency. At June 30, 2005, the **Tobacco Settlement Fund** owned \$53.9 million of foreign currency-denominated securities, or less than six percent of its total investment portfolio. The amounts invested, by currency, are as follows (amounts in thousands):

<u>Foreign Currency</u>	<u>Investment Type</u>	<u>Amount</u>
European currency unit.	Equities.....	\$ 18,620
British pound sterling ...	Equities.....	11,007
Japanese yen	Equities.....	13,864
All other currencies	Equities.....	<u>10,425</u>
Total.....		<u>\$ 53,916</u>

Pension Trust Funds

Each Pension Trust Fund is exposed to foreign currency risk as part of meeting specific investing objectives or allocations among different classes of investments. One of several investing choices which may be selected by DCP participants is the European, Australian and Far East Equity (EAFE) Index Fund, which owns international equities and is managed by an external manager. The objective of this particular fund is to ‘match’ the performance of the Morgan Stanley Capital International EAFE Index. The SERS is exposed to foreign currency risk for equity and fixed income securities as follows (amounts in thousands):

<u>Foreign Currency</u>	<u>Amount</u>
European currency unit.....	\$ 1,501,601
British pound sterling	1,042,550
Japanese yen	829,247
Swiss franc.....	330,395
Swedish krona	127,695
Hong Kong dollar	111,354
South Korean won	106,976
All other currencies	<u>475,655</u>
Total equity securities.....	4,525,473
European currency unit – fixed income.....	394
Total.....	<u>\$ 4,525,867</u>

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

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</u>	<u>Short-Term Investments</u>	<u>Total</u>
European currency unit.....	\$ 2,407,975	\$ 874,542	\$ 597,765	\$ (166,373)	\$ 3,713,909
British pound sterling.....	1,826,593	153,132	115,856	45,028	2,140,609
Japanese yen.....	1,704,872	73,125	-	328,334	2,106,331
Swiss franc.....	500,899	-	-	2,197	503,096
Canadian dollar.....	316,574	63,233	7,682	36,096	423,585
South Korean won.....	373,100	11,397	-	17,122	401,619
Hong Kong dollar.....	361,620	-	-	2,357	363,977
Australian dollar.....	299,085	75,856	-	(12,167)	362,774
Swedish krona.....	238,952	42,191	-	16,814	297,957
All other currencies.....	1,104,413	214,951	-	15,481	1,334,845
Total.....	<u>\$ 9,134,083</u>	<u>\$ 1,508,427</u>	<u>\$ 721,303</u>	<u>\$ 284,889</u>	<u>\$ 11,648,702</u>

At December 31, 2004, and during the year then ended the **State Workers' Insurance Fund** owned more equity securities than allowed by applicable statutory authority. Based on the reported book value of all assets at December 31, 2004, the excess amounted to \$41 million of equity, at cost. The cost value of long-term equity investments amounted to \$ 159.7 million at December 31, 2004. On July 7, 2005 the Governor signed House Bill 182 that permits the Fund to invest in equities using the lower of 1) 15 percent of the Fund's assets or 2) the statutory surplus after discount.

Financial Instruments With Off-Balance Sheet Risk

State Employees' Retirement System (SERS)

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

Foreign exchange contracts are agreements to exchange the currency of one country for the currency of another country at an agreed upon price and settlement date. The SERS uses these contracts primarily to hedge the currency exposure of its investments. To reduce the risk of counterparty nonperformance, the SERS generally enters into these contracts with institutions regarded as meeting high standards of creditworthiness. The unrealized gain/loss on contracts is included in the SERS's net assets and represents the fair value of the contract on December 31. At December 31, 2004, the SERS had contracts to purchase foreign currencies for a total notional amount of \$6,396,112 and contracts to sell foreign currencies for a total notional amount of \$6,516,175 for a total notional amount of \$12,912,287. The net unrealized loss on foreign currency contracts was approximately \$62,297 at December 31, 2004 (amounts in thousands).

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

The SERS has entered into certain futures contracts maturing through March 2005. The notional value of these contracts at December 31, 2004 is as follows (in thousands):

	<u>Purchase Contracts</u>	<u>Sell Contracts</u>
U.S. Treasury futures	\$ 50,023	\$ 15,091
Standard and Poor's (S&P) futures	308,887	-

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

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. In addition to that collateral, the SERS also pledges securities on sales of securities that it does not presently own (short sales). The SERS enters into those short sales to neutralize the market risk of certain equity positions.

Swap agreements provide for periodic payments between parties based on the net difference in the cash flows of underlying assets, indexes, or rates. During 2004, the SERS entered into swap arrangements to purchase commodity futures. Under the arrangement, the SERS receives the net return of the Goldman Sachs Commodity Index from the swap counterparty in return for a short-term interest rate plus a spread, which it pays to the counterparty. The commodity swaps are used as an inflation hedge and settle on a monthly basis. In addition, during 2004, the System also entered into swap arrangements to gain equity exposure on its absolute return fund-of-funds investments. Under those arrangements, the SERS receives the net return of the S&P 500 Total Return Index in exchange for a short-term rate plus a spread. The SERS uses multiple contracts with counterparties as well as collateral posting requirements to manage its credit risk. The SERS’ swap contracts have varying maturity dates ranging from March 18, 2005 through December 31, 2005.

The table below presents the SERS’ swap exposure at December 31, 2004 (in thousands):

	<u>Notional value</u>	<u>Receivable/(Payable)</u>
Goldman Sachs Commodity Index	\$ 1,289,353	\$ (162,078)
S&P 500 Total Return Index	5,094,937	363,022

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

Investment Commitments: At December 31, 2004, the SERS had contractual commitments totaling approximately \$2.5 billion to fund future alternative investments and \$196 million to fund future real estate investments.

Discretely Presented Component Units

Risk Policies: At June 30, 2005 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 address credit quality risk by establishing minimum NRSRA ratings for allowable investment purchases. Custodial credit risk is avoided through registration; the Pennsylvania Higher Education Assistance Agency disclosed that, at June 30, 2005, \$159,087 of securities were held by the same counterparty as the party used to purchase such securities. No concentrations of credit risk existed for aggregate component unit investments at June 30, 2005. Interest rate risk is managed using different techniques: weighted average maturity, maximum maturity dates, effective duration, modified duration or operational cash needs. On a reported basis, over 58 percent of component unit investments mature within one year of June 30, 2005.

Credit Quality Risk: At June 30, 2005 approximately \$3,757,010 of total discretely presented component unit investments of \$4,606,376 are fixed income investments, susceptible to credit quality rating; the remainder is primarily invested with the Treasury TIP (\$516,864), investments of component units of the State System of Higher Education (\$194,951), mutual funds (\$115,363) the Treasury INVEST Program (\$13,418), equities (\$1,935), or other types of investments (\$6,835). Of the amount of fixed income securities susceptible to credit quality rating, \$2,526,130 are rated, as well as \$94,615 where rated investments are not evidenced by securities, for total rated investments of \$2,620,745. Ratings are not available for \$629,533 of fixed income investments and \$506,732 of U.S. Treasury obligations are not rated. The following table discloses aggregate fair value, by Moody’s or Standard and Poor’s credit quality rating category, at June 30, 2005 (amounts in thousands):

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

CREDIT QUALITY RATING

<u>Moody's Credit Quality Rating</u>	<u>Amount</u>
Aaa	\$ 1,314,332
Aa	85,312
Aa1	27,129
Aa2	34,082
Aa3	45,934
A	18,751
A2	3,268
P1	<u>144,870</u>
Moody's subtotals.....	<u>1,673,678</u>

Standard and Poor's Credit Quality Rating

AAA	694,395
AA	17,123
AAAm	13,418
A-1	63,044
A-1+	<u>159,087</u>
Standard and Poor's total.....	<u>947,067</u>
Total rated investments.....	<u>\$ 2,620,745</u>

Financial Instruments With Off-Balance Sheet Risk

Public School Employees' Retirements 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 hedge foreign exposure; 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 performance and reduce the volatility of the portfolio. Short-term investments and cash equal to or greater than performance obligations under these contracts are maintained at all times. The PSERS is exposed to credit risk in the event of nonperformance by counterparties to financial instruments. As the PSERS generally enters into transactions only with high quality institutions, no losses associated with counterparty nonperformance on derivative financial instruments have been incurred. Legal risk is mitigated through selection of executing brokers and review of all documentation. The PSERS is exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with risk limits set by senior management, through buying or selling instruments or entering into offsetting positions.

The notional or contractual amounts of derivatives indicate the extent of the 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, 2005 (in thousands):

Futures contracts – long	\$ 14,086,616
Futures contracts – short	6,651,721
Foreign exchange forward and spot contracts, gross ...	5,141,012
Options– puts purchased	15,651
Options – calls sold	70,751
Options – puts sold	47,946

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

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specific financial instrument at a predetermined date and price. Gains and losses on future contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay and generally requires margin payments to minimize such risk. In addition, the 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 or by cash held in segregated accounts by the PSERS' custodial bank or short sale broker. 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, 2005 represent a restriction on the amount of assets available as of 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 System generally uses exchange listed currency, index, stock, and futures options. The PSERS has authorized an investment manager to write covered call stock index option spreads up to a notional amount of \$500,000,000.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. The contracts reported above primarily include forwards. The \$5,141,012,000 of foreign currency contracts outstanding at June 30, 2005 consists of "buy" contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of \$3,359,106,000 and "sell" contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of \$1,781,906,000. The \$2,671,009,000 of foreign currency contracts outstanding at June 30, 2004 consists of "buy" contracts of \$1,757,164,000 and "sell" contracts of \$913,845,000. The unrealized (loss)/gain on contracts of (\$7,825,000) at June 30, 2005 is included in the PSERS' net assets and represents the fair value of the contracts. The PSERS also invests in mortgage-backed securities (MBS) such as CMOs and MBS forwards to maximize yields. These securities have three types of risk; they include prepayment risk, interest rate risk, and spread risk.

Prepayment Risk: Prepayment risk is the risk that changes in the prepayment speeds of the underlying mortgages will have a direct impact on the maturity structure of the pass-through security. An increase in prepayment speeds will lead to an acceleration in principal returns and a contraction in the average life. A drop in prepayments, on the other hand, will lead to a slow down in principal returns and an extension in the average life.

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.

Spread Risk: Spread risk is the risk that if the spread (yield) between Treasuries and mortgage securities widens, liquidity could be reduced and a capital loss could occur.

The MBS forwards are subject to credit risk in the event of nonperformance by counterparties. The fair value of CMOs at June 30, 2005 is \$2,357,739,000.

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 rates, currency, equity, index, and total return swaps; interest-only STRIPS, and CMOs, to enhance the performance and reduce the volatility of their portfolios. Swap agreements are used to modify investment returns or interest rates on investments in the collective trust funds. Swap transactions involve the exchange of investment returns or interest rate payments without the exchange of the underlying principal amounts. These swaps expose the collective trust funds entering into these types of arrangements to credit risk in the event of nonperformance by counterparties.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**Philadelphia Regional Port Authority (Authority)**

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

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

Pennsylvania Industrial Development Authority (Authority)

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

Due to decreases in interest rates by the United States Federal Reserve System, the Swaption has increased in fair value causing an increased liability to the Authority. This liability is reflected in the statement of net assets at its fair value as of June 30, 2005, which is \$15,276,820. The fair market value above included both the market value of the option and the present value of the future net settlements required under the swap.

Pennsylvania Turnpike Commission (Commission)

In July 2003, the Commission entered into two interest swap agreements on a portion of its debt to synthetically convert variable interest rates to fixed interest rates and thus hedge its variable rate exposure as well as preserve lower interest rates. These swaps were placed on the 2003 Series C Oil Company Franchise Tax Revenue Bonds with two different swap providers (counterparties). Based on these swap agreements, the Commission owes interest calculated at a fixed rate to the counterparties to the swaps. In return, the counterparties owe the Commission interest based on a variable rate that approximates the rate on the bonds. Only the net difference in interest payments is actually exchanged with the counterparties. The total notional amount of these swaps was approximately \$160 million at May 31, 2005. The \$160 million in bond principal is not exchanged; it is only the basis on which the interest payments are calculated. Additionally, the Commission continues to pay interest to the bondholders at the variable rate on the bonds.

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

Following is a summary of the swaps in place as of May 31, 2005. These swap agreements contain certain risks as described below:

Swap	Notional Value	Final Maturity	Floating Rate Index (Receivable)	Fixed Rate (Payable)	Fair Value from (to) Counterparty
Series U 2001	\$127,365,000 42,455,000	12/01/2019 12/01/2019	67% of 1 mo. LIBOR (1)	4.214%	\$ (14,074,879) (4,691,626)
Series A 2002	72,066,250 144,070,000 72,066,250	12/01/2030 12/01/2030 12/01/2030	67% of 1 mo. LIBOR (1)	4.403%	(10,884,501) (21,769,002) (10,884,501)
Series B 2002	29,612,500 59,225,000 29,612,500	12/01/2012 12/01/2012 12/01/2012	BMA (2)	4.538%	(1,417,654) (2,835,309) (1,417,654)
Series C 2003	48,000,000 112,000,000	12/01/2032 12/01/2032	63% of 1 mo. LIBOR (1) plus 20 basis points	3.838%	(4,877,405) (11,380,612)
Series 2006	<u>240,000,000</u>	12/01/2036	BMA (2)	4.710%	<u>(27,211,631)</u>
Total	<u>\$976,472,500</u>				<u>\$ (111,444,774)</u>

(1) 1 month LIBOR was 3.13% at May 31, 2005

(2) BMA was 2.96% at May 31, 2005

- **Credit Risk** – As of May 31, 2005, the Commission was not exposed to credit risk because all of the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the Commission would be exposed to credit risk in the amount of the derivatives’ fair values. To mitigate the potential for credit risk, the swap agreements include collateral provisions in the event of downgrades to the swap counterparties’ credit ratings. Collateral would be posted with a third-party custodian and would be in the form of cash, U.S. Treasury Obligations, or U.S. Government Agency Securities. The Commission had seven counterparties at May 31, 2005. The credit ratings of the swap providers as of May 31, 2005 were AAA to AA- and Aaa to Aa3 to Standard and Poor’s and Moody’s, respectively.
- **Interest Rate Risk** – The Commission will be exposed to variable interest rates if one or more of the swap providers defaults or if a swap is terminated.
- **Basis Risk** – The underlying variable rates for the Commission’s Series U and Series A bonds are based on BMA while the Series U and Series A swaps are based on a percentage of LIBOR. Therefore, the Commission is exposed to basis risk to the extent BMA exceeds 67% of one month LIBOR. The underlying variable rates for the Commission’s 2003 Series C bonds are based on auction rates. The auction rates approximate BMA. The Series C swaps, with a combined notional value of \$160 million, are based on a percentage of LIBOR plus 20 basis points. Therefore, the Commission is exposed to basis risk to the extent auction rates exceed 63% of one month LIBOR plus 20 basis points.
- **Termination Risk** – The swap document may be terminated due to a number of circumstances and the Commission retains the option to terminate the swaps at any time. If the Commission were required to make a termination payment because of a termination event (by either party), then the Commission would have the option to enter into a new swap to match the remaining amortization of the underlying bonds and apply the payment it received toward the termination payment. It is the Commission’s intent to maintain the swap transactions for the life of the financing.

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

Pennsylvania Housing Finance Agency

The Pennsylvania Housing Finance Agency (PHFA) uses interest rate swaps to hedge against changes in the fair value of variable rate liabilities due to increase in interest rates. As of June 30, 2005, PHFA has entered into interest rate swaps with various counterparties on or about the date of the issuance of the following bond series (amounts in thousands):

Counterparty	Notional Value	Final Maturity	Fixed Rate (Pavable)	Fair Value of Contract
Goldman-Sachs Mitsui Marine Derivative Product, L.P.(AA+/Aa2)	\$ 712,465	4/2008-10/2035	2.367%-7.305%	\$ (5,836)
UBS AG (AA+/Aa2)	390,500	4/2010-10/2035	3.168%-6.927%	(1,717)
Bear Stearns Financial Products, Inc. (A/A2)	145,020	7/2020	3.457%-3.547%	(2,253)
Lehman Brothers Derivative Products, Inc. (AAA/Aaa)	27,240	4/2019	3.860%	(12)
PNC Bank National Assoc. (A/A1)	20,000	1/2034	3.945%	(349)
Merrill Lynch Capital Services, Inc. (A+/Aa3)	174,625	10/2030-10/2035	3.500%-4.164%	(491)
Royal Bank of Canada (AA/Aa)	27,500	01/2036	5.183%	(372)
Total	<u>\$ 1,497,350</u>			<u>\$ (11,030)</u>

Securities Lending Program

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

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

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

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

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, 2005 (December 31, 2004 for the **State Workers’ Insurance Fund (SWIF)**, the SERS and the Deferred Compensation Fund), there were no failures by any borrower to return securities lent or pay distributions thereon. Also, there were no losses resulting from a lending agent or borrower default and there were no Treasury Department restrictions on the amount of the loans that could be made.

At June 30, 2005 (December 31, 2004 for the **SWIF** and the SERS), there was no Treasury Department or participant credit risk to the borrowers because the fair value of collateral received was greater than the fair value of the securities lent, consistent with the lending agreements outstanding. The carrying amount and fair value of the securities lent, along with type of investments lent, are (amounts in thousands):

	<u>Securities Lent Amount</u>	<u>U.S. Treasury Obligations</u>	<u>U.S. Government Agency Obligations</u>	<u>Corporate Bonds and Notes</u>	<u>Common and Preferred Stocks</u>	<u>International Fixed Income</u>
Tobacco Settlement Fund	\$ 137,252	\$ 106,457	\$ 8,176	\$ 171	\$ 22,448	\$ -
State Lottery Fund	2,448	2,448	-	-	-	-
State Workers’ Insurance Fund	683,970	517,108	133,605	18,301	14,956	-
Tuition Payment Fund	133,652	57,981	20,251	5,797	49,623	-
Workers’ Compensation Security Trust Fund.....	98,382	68,153	7,154	12,146	10,929	-
State Employees’ Retirement System.....	3,133,763	2,015,455	152,569	205,478	573,022	187,239
Public School Employees’ Retirement System.....	6,853,131	2,516,551	449,905	300,236	3,153,823	432,616
Underground Storage Tank Indemnification Fund.....	19,702	13,240	2,539	1,222	2,701	-
Treasury Department Custodial Pool.....	408,726	96,283	311,018	1,425	-	-

At June 30, 2005 the Treasury Common Investment Pool (TIP) lent \$1,687,420 in securities; the related cash collateral received was \$1,692,864. On a pro-rata basis, TIP participants collectively reported cash collateral of \$1,607,020 as part of temporary investments and related securities lending obligations of \$1,607,020 associated with TIP securities lending balances at June 30, 2005. The composition of the lent securities of \$1,687,420 was: U.S. Treasury obligations, \$720,179; U.S. government agencies, \$461,711; corporate bonds and notes, \$63,593; and common and preferred stocks, \$441,937 (in thousands).

NOTE E – CAPITAL ASSETS

A summary of capital assets by category at June 30, 2005 is as follows (amounts in thousands):

	Primary Government Governmental Activities			Business-Type Activities	Discretely Presented Component Units
	General Capital Assets	Internal Service Funds	Total Governmental Activities	Enterprise Funds	
Land	\$ 309,846	\$ 6	\$ 309,852	\$ 323	\$ 169,352
Highway right-of-way	1,414,507	-	1,414,507	-	-
Buildings	4,598,949	4,258	4,603,207	39,814	1,945,467
Improvements other than buildings	432,962	329	433,291	-	200,647
Machinery and equipment	642,388	94,857	737,245	64,066	607,370
Library books and other	-	-	-	-	136,229
Turnpike infrastructure	-	-	-	-	4,109,222
Highway infrastructure	15,878,487	-	15,878,487	-	-
Bridge infrastructure	6,675,889	-	6,675,889	-	-
Waterway infrastructure	1,757	-	1,757	-	-
Other infrastructure	4,509	-	4,509	-	-
Construction in progress	1,084,655	-	1,084,655	318	651,965
Highway and bridge construction in progress	1,562,558	-	1,562,558	-	-
Total	<u>\$ 32,606,507</u>	<u>\$ 99,450</u>	<u>\$ 32,705,957</u>	<u>\$ 104,521</u>	<u>\$ 7,820,252</u>

Changes in general capital assets for the fiscal year ended June 30, 2005 are as follows (amounts in thousands):

	Balance June 30, 2004	Additions	Retirements	Balance June 30, 2005
Non-Depreciable General Capital Assets:				
Land	\$ 309,350	\$ 546	\$ 50	\$ 309,846
Highway right-of-way	1,104,800	309,707	-	1,414,507
Construction in progress	1,184,622	452,274	552,241	1,084,655
Transportation construction in progress ..	<u>1,661,900</u>	<u>1,189,300</u>	<u>1,288,642</u>	<u>1,562,558</u>
Subtotal	<u>4,260,672</u>	<u>1,951,827</u>	<u>1,840,933</u>	<u>4,371,566</u>
Depreciable General Capital Assets:				
Buildings	4,027,740	573,254	2,045	4,598,949
Improvements other than buildings	453,439	8,938	29,415	432,962
Machinery and equipment	602,578	60,108	20,298	642,388
Highway infrastructure	14,940,848	937,639	-	15,878,487
Bridge infrastructure	6,324,884	351,005	-	6,675,889
Waterway infrastructure	1,705	52	-	1,757
Other infrastructure	4,509	-	-	4,509
Subtotal	<u>26,355,703</u>	<u>1,930,996</u>	<u>51,758</u>	<u>28,234,940</u>
Total general capital assets	<u>\$30,616,375</u>	<u>\$ 3,882,823</u>	<u>\$ 1,892,691</u>	<u>\$32,606,507</u>

NOTE E – CAPITAL ASSETS (continued)

Changes in general capital assets accumulated depreciation for the fiscal year ended June 30, 2005 are as follows (amounts in thousands):

	Balance June 30, 2004	Additions	Retirements	Balance June 30, 2005
Buildings	\$ 1,765,368	\$ 81,485	\$ 1,441	\$ 1,845,412
Improvements other than buildings	183,470	9,734	322	192,882
Machinery and equipment	315,504	42,144	16,531	341,117
Highway infrastructure.....	6,359,229	617,709	-	6,976,938
Bridge infrastructure	1,285,604	131,157	-	1,416,761
Other infrastructure	<u>1,879</u>	<u>106</u>	<u>-</u>	<u>1,985</u>
Total accumulated depreciation.....	<u>\$ 9,911,054</u>	<u>\$ 882,335</u>	<u>\$ 18,294</u>	<u>\$ 10,775,095</u>

Depreciation expense, by function, related to general capital assets for the fiscal year ended June 30, 2005 is as follows (amounts in thousands):

Direction and supportive services.....	\$ 18,359
Protection of persons and property	52,436
Public education	17,942
Health and human services.....	10,769
Transportation	776,545
Recreation and cultural enrichment.....	<u>6,284</u>
Total depreciation expense.....	<u>\$ 882,335</u>

Changes in Internal Service funds capital assets for the fiscal year ended June 30, 2005 are as follows (amounts in thousands):

	Balance June 30, 2004	Additions	Retirements	Balance June 30, 2005
Non-Depreciable Capital Assets:				
Land	\$ 6	-	-	\$ 6
Subtotal	<u>6</u>	<u>-</u>	<u>-</u>	<u>6</u>
Depreciable Capital Assets:				
Buildings	4,063	195	-	4,258
Improvements other than buildings	326	3	-	329
Machinery and equipment	<u>91,467</u>	<u>11,038</u>	<u>7,648</u>	<u>94,857</u>
Subtotal	<u>95,856</u>	<u>11,236</u>	<u>7,648</u>	<u>99,444</u>
Total Internal Service fund capital assets ..	<u>\$ 95,862</u>	<u>\$ 11,236</u>	<u>\$ 7,648</u>	<u>\$ 99,450</u>

NOTE E – CAPITAL ASSETS (continued)

Changes in Internal Service fund capital assets accumulated depreciation for the fiscal year ended June 30, 2005 are as follows (amounts in thousands):

	Balance June 30, 2004	Additions	Retirements	Balance June 30, 2005
Buildings	\$ 2,010	\$ 151	\$ -	\$ 2,161
Improvements other than buildings	232	2	26	208
Machinery and equipment	<u>51,507</u>	<u>8,902</u>	<u>4,255</u>	<u>56,154</u>
Total accumulated depreciation	<u>\$ 53,749</u>	<u>\$ 9,055</u>	<u>\$ 4,281</u>	<u>\$ 58,523</u>

Changes in Enterprise fund capital assets for the fiscal year ended June 30, 2005 are as follows (amounts in thousands):

	Balance June 30, 2004	Additions	Retirements	Balance June 30, 2005
Non-Depreciable Capital Assets:				
Land	\$ 323	\$ -	\$ -	\$ 323
Construction in progress	<u>7,827</u>	<u>-</u>	<u>7,509</u>	<u>318</u>
Subtotal	<u>8,150</u>	<u>-</u>	<u>7,509</u>	<u>641</u>
Depreciable Capital Assets:				
Buildings	30,545	9,570	301	39,814
Machinery and equipment	<u>62,970</u>	<u>2,899</u>	<u>1,803</u>	<u>64,066</u>
Subtotal	<u>93,515</u>	<u>12,469</u>	<u>2,104</u>	<u>103,880</u>
Total Enterprise fund capital assets	<u>\$ 101,665</u>	<u>\$ 12,469</u>	<u>\$ 9,613</u>	<u>\$ 104,521</u>

Changes in Enterprise fund capital assets accumulated depreciation for the fiscal year ended June 30, 2005 are as follows (amounts in thousands):

	Balance June 30, 2004	Additions	Retirements	Balance June 30, 2005
Buildings	\$ 11,592	\$ 1,364	\$ 333	\$ 12,623
Machinery and equipment	<u>44,146</u>	<u>3,693</u>	<u>2,508</u>	<u>45,331</u>
Total accumulated depreciation	<u>\$ 55,738</u>	<u>\$ 5,057</u>	<u>\$ 2,841</u>	<u>\$ 57,954</u>

NOTE E – CAPITAL ASSETS (continued)

Construction in progress included in general capital assets at June 30, 2005 includes project information as follows (amounts in thousands):

	Project Authorization	Amounts Expended but not Capitalized at June 30, 2005	Authorization Available
Capitol Complex	\$ 650,566	\$ 280,008	\$ 370,558
Department of Corrections Institutions	468,270	201,518	266,752
Educational Institutions	484,363	239,593	244,770
State Parks and Forests	176,227	85,757	90,470
State-wide Radio Project	116,102	106,748	9,354
Veterans Homes and Military Armories	65,523	31,065	34,458
Department of Public Welfare Institutions	64,839	29,343	35,496
Transportation Facilities	66,204	40,609	25,595
Historical and Museum Commission Facilities	53,618	26,634	26,984
State Police Facilities	47,384	32,997	14,387
Agriculture Facilities	8,996	8,458	538
Other	<u>10,720</u>	<u>1,925</u>	<u>8,795</u>
Total	<u>\$ 2,212,812</u>	<u>\$ 1,084,655</u>	<u>\$ 1,128,157</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, 2005 the amount of general capital assets related to the initial 1986 valuation amounts to \$1,761 million and does not include highway, bridge or waterway infrastructure.

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

Tuition Benefits Payable

The reported liability for tuition benefits payable of \$1,028,460 of the **Tuition Payment Fund**, an Enterprise Fund, at June 30, 2005, is based on several actuarial assumptions, including those related to future sales of tuition credits, tuition cost increases, investment experience and program expenses for the Tuition Account Program. The June 30, 2005 actuarial analysis includes the effects of a minor change in assumptions for expenses from the June 30, 2004 analysis. Per-unit tuition credit expense continues to decline as the Program expands. The per-unit credit expense assumption was decreased from 51 to 50 cents. The effect of this change increased the aggregate actuarial reserve (actuarial value of assets less liabilities) by \$4.0 million.

Insurance Loss Liability

The reported insurance loss liability of the **State Workers’ Insurance Fund (SWIF)**, an Enterprise Fund, is primarily based on historical claims experience. One of the assumptions used to determine the reported liability amount includes using a discount rate of 2.5 percent at December 31, 2004 and 2003. 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, 2004 and 2003, the following summary provides information on prior year reported insurance loss liability, incurred claims and payments, and current year reported insurance loss liability.

Year Ended December 31	Prior Year Liability	Incurred Claims		Payments		Current Year Liability
		Current	Prior	Current	Prior	
2004.....	\$1,228,548	\$ 358,970	\$ 12,616	\$ 56,150	\$ 170,174	\$1,373,810
2003.....	\$1,039,532	\$ 246,883	\$ 123,183	\$ 41,335	\$ 139,715	\$1,228,548

Additionally, nonmajor Enterprise funds reported \$706 of insurance loss liability at June 30, 2005 (amounts in thousands).

NOTE G - TAXES, LOANS AND LEASE RENTALS RECEIVABLE

Taxes Receivable: Taxes receivable at June 30, 2005 consisted of the following (amounts in thousands):

Statement of Net Assets

Governmental Activities	
Sales and use.....	\$ 1,020,067
Personal income.....	549,891
Corporation.....	840,295
Liquid fuels.....	178,252
Inheritance.....	399,868
Cigarette.....	64,446
Other.....	<u>22,231</u>
Total.....	<u>\$ 3,075,050</u>

Governmental activities taxes receivable includes \$926,325 expected to be collected after June 30, 2006 (amounts in thousands).

Fund Balance Sheets

	<u>General</u>	<u>Motor License</u>	<u>Nonmajor Governmental Funds</u>	<u>Fiduciary Funds</u>
Sales and use.....	\$ 1,020,067	\$ -	\$ -	\$ 24,277
Personal income.....	549,891	-	-	-
Corporation.....	840,295	-	-	-
Liquid fuels.....	-	178,252	-	-
Inheritance.....	399,868	-	-	-
Cigarette.....	64,446	-	-	-
Other.....	-	-	<u>22,231</u>	<u>2,514</u>
Total.....	<u>\$ 2,874,567</u>	<u>\$ 178,252</u>	<u>\$ 22,231</u>	<u>\$ 26,791</u>

General Fund taxes receivable includes \$926,325 expected to be collected after June 30, 2006 (amounts in thousands).

Loans Receivable: Loans receivable at June 30, 2005 consisted of the following (amounts in thousands):

Primary Government

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	
	<u>Special Revenue Funds</u>	<u>Enterprise Funds</u>	<u>Discretely Presented Component Units</u>
Mortgage loans.....	\$ -	\$ -	\$ 3,165,539
Student loans.....	-	-	5,699,272
Economic development loans.....	68,893	193,809	601,024
Drinking water, storm water and sewer system loans	9,334	-	1,534,209
Volunteer fire company loans.....	-	110,397	-
Other notes and loans.....	<u>15,348</u>	<u>-</u>	<u>9,028</u>
	93,575	304,206	11,009,072
Less: allowance for uncollectible amounts	<u>61,509</u>	<u>49,653</u>	<u>220,896</u>
Loans receivable, net.....	<u>\$ 32,066</u>	<u>\$ 254,553</u>	<u>\$ 10,788,176</u>

Special Revenue funds report \$27,486 in loans due after June 30, 2006 and the Enterprise funds report \$209,852 in loans due after June 30, 2006. Discretely presented component units reported \$9,646,949 in loans receivable due after June 30, 2006 (amounts in thousands).

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

The **General Fund** reported \$4,496 in loans receivable for program objectives, all of which represented governmental activities lending and of which, \$2,483 is due after June 30, 2006. Agency Funds reported \$3,097 in loans receivable to replace underground storage tanks, of which \$2,879 is due after June 30, 2006 (amounts in thousands).

Lease Rentals Receivable: The Capital Facilities Fund, a Capital Projects fund, reports expenditure amounts related to construction projects for educational institutions funded through the issuance of general obligation bonds, the principal and interest of which are paid through the collection of lease rental payments and deposited in the Capital Debt Fund, a Debt Service fund. At the conclusion of the lease terms, the project facilities are conveyed to the educational institutions. Accordingly, these lease arrangements are classified as direct financing leases. Lease rental receivables and associated deferred revenue equal to the principal lease payments to be received are recorded in the Capital Debt Fund. At June 30, 2005 the total remaining minimum lease payments to be received were \$1.1 million, consisting of principal present value of \$1 million and interest of \$.1 million.

The Pennsylvania Industrial Development Authority, a discretely presented component unit, reported a lease rental receivable with total remaining minimum payments to be received of \$26.4 million, consisting of principal present value of \$20.6 million and interest of \$5.8 million at June 30, 2005.

Minimum lease payments receivable for the five fiscal years succeeding June 30, 2005 are as follows (amounts in thousands):

<u>Fiscal Year Ending June 30</u>	<u>Primary Government</u>	<u>Discretely Presented Component Units</u>
2006.....	\$ 194	\$ 2,923
2007.....	193	5,212
2008.....	194	5,212
2009.....	193	5,212
2010.....	194	5,212

Except for \$194 owed to the primary government and \$2,923 owed to discretely presented component units, all amounts receivable under lease rentals are due after June 30, 2006 (amounts in thousands).

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS

Statement of Net Assets

Internal Balances

In the Statement of Net Assets, reported internal balances of (\$89,092)/\$88,733 for governmental activities/business-type activities differ by \$359 because the **State Workers’ Insurance Fund**, an Enterprise Fund, reports for its fiscal year ended December 31, 2004.

Interfund Balances

The composition of governmental and proprietary funds interfund balances reported at June 30, 2005 is as follows, with Major Fund titles in bold. Aggregate nonmajor governmental funds receivables from other funds and from component units, respectively, amount to \$58,231 and \$33,728; aggregate nonmajor enterprise funds receivables amount to \$3,674 and \$23; aggregate internal service funds receivables amount to \$10,569 and \$488 (amounts in thousands):

<u>FUND TYPE/FUND PRIMARY GOVERNMENT</u>	<u>DUE FROM</u>		<u>DUE TO</u>	
	<u>OTHER FUNDS</u>	<u>COMPONENT UNITS</u>	<u>OTHER FUNDS</u>	<u>COMPONENT UNITS</u>
General Fund	\$ 29,688	\$ 972	\$ 71,965	\$ 64
<u>Special Revenue:</u>				
Motor License Fund	12,729	24	21,868	7,284
Tobacco Settlement Fund	-	-	7,194	-
Hazardous Sites Cleanup Fund.....	-	-	29	-
State Racing Fund.....	-	-	6,149	-
Vocational Rehabilitation Fund.....	-	-	3,734	-
Pharmaceutical Assistance Fund.....	15,159	-	1	-
Agricultural Conservation Easement Purchase Fund.....	10,243	-	-	-
Public Transportation Assistance Fund.....	6,173	-	376	-
Other Funds.....	5,160	-	1,391	-
	<u>49,464</u>	<u>24</u>	<u>40,742</u>	<u>7,284</u>
<u>Capital Projects:</u>				
Capital Facilities Fund.....	13,165	33,728	612	-
Keystone Recreation, Park and Conservation Fund...	8,331	-	3	-
	<u>21,496</u>	<u>33,728</u>	<u>615</u>	<u>-</u>
<u>Enterprise:</u>				
Unemployment Compensation Fund	2,907	300	2,252	-
State Lottery Fund	-	-	69	-
Tuition Payment Fund	-	-	43	-
State Stores Fund.....	23	-	3,183	-
Rehabilitation Center Fund.....	3,522	-	24	-
Other Funds.....	129	23	44	-
	<u>6,581</u>	<u>323</u>	<u>5,615</u>	<u>-</u>
<u>Internal Service:</u>				
Purchasing Fund.....	6,686	304	367	-
Manufacturing Fund.....	3,883	184	108	-
	<u>10,569</u>	<u>488</u>	<u>475</u>	<u>-</u>
<u>Fiduciary - Pension Trust:</u>				
State Employees’ Retirement System.....	14,272	12,671	-	-
	<u>14,272</u>	<u>12,671</u>	<u>-</u>	<u>-</u>
Total primary government.....	\$ <u>132,070</u>	\$ <u>48,206</u>	\$ <u>119,412</u>	\$ <u>7,348</u>

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

<u>COMPONENT UNITS</u>	<u>DUE FROM</u>		<u>DUE TO</u>	
	<u>PRIMARY GOVERNMENT</u>	<u>COMPONENT UNITS</u>	<u>PRIMARY GOVERNMENT</u>	<u>COMPONENT UNITS</u>
Pennsylvania Turnpike Commission.....	\$ 7,191	\$ -	\$ -	\$ -
Pennsylvania Infrastructure Investment Authority	-	95	3	49
Pennsylvania Industrial Development Authority ..	<u>63</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>7,254</u>	<u>95</u>	<u>3</u>	<u>49</u>
<u>Fiduciary - Pension Trust:</u>				
Public School Employees' Retirement System....	<u>5,759</u>	<u>-</u>	<u>682</u>	<u>-</u>
Total component units.....	<u>\$ 13,013</u>	<u>\$ 95</u>	<u>\$ 685</u>	<u>\$ 49</u>

The amount of total reported interfund receivables of \$193,384 does not agree with total reported interfund payables of \$127,494 at June 30, 2005 due to different fiscal year ends and reporting differences for certain Funds included in the Fund Financial Statements at June 30, 2005. The amount reported for the Pennsylvania Turnpike Commission, a discretely presented component unit, is reported at its fiscal year ended May 31, 2005; the State Stores Fund, an Enterprise Fund, is reported at its fiscal year ended June 28, 2005; the amounts reported as interfund balances for the State Employees' Retirement System and Deferred Compensation Fund, Pension Trust Funds, and the **State Workers' Insurance Fund**, an Enterprise Fund, are reported at their fiscal years ended December 31, 2004. The following presents a reconciliation of interfund balances reported at June 30, 2005 and those amounts that would have been reported if all Funds reported at the same fiscal year end (amounts in thousands):

	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>	<u>Total</u>
Due from other funds.....	\$ 92,966	\$ 17,116	\$ 14,272	\$ -	\$ 124,354
Due from pension trust funds.....	7,682	34	-	-	7,716
Due from component units	34,724	811	12,671	95	48,301
Due from primary government	<u>-</u>	<u>-</u>	<u>5,759</u>	<u>7,254</u>	<u>13,013</u>
Total.....	<u>\$ 135,372</u>	<u>\$ 17,961</u>	<u>\$ 32,702</u>	<u>\$ 7,349</u>	<u>\$ 193,384</u>
Reported Interfund Receivables					\$ 193,384
State Employees' Retirement System decrease in receivables from January 1, 2005 through June 30, 2005					(26,492)
Pennsylvania Turnpike Commission increase in receivables from June 1, 2005 through June 30, 2005.....					93
Interfund receivables reported as accounts receivable by component units					49
Interfund receivables reported as tax receivables.....					4,076
Payroll accrual at June 30, 2005 – receivables attributable to State Employees' Retirement System.....					4,709
Payroll accrual at June 30, 2005 – receivables attributable to State Workers' Insurance Fund					<u>733</u>
Reconciled Interfund Receivables					<u>\$ 176,552</u>

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

	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>	<u>Total</u>
Due to other funds	\$ 104,268	\$ 5,940	\$ -	\$ -	\$ 110,208
Due to pension trust funds	9,054	150	-	-	9,204
Due to component units	7,348	-	-	49	7,397
Due to primary government	-	-	682	3	685
Total	<u>\$ 120,670</u>	<u>\$ 6,090</u>	<u>\$ 682</u>	<u>\$ 52</u>	<u>\$ 127,494</u>
Reported Interfund Payables					\$ 127,494
State Employees' Retirement System increase in payables from January 1, 2005 through June 30, 2005					6,180
Deferred Compensation Fund increase in payables from January 1, 2005 through June 30, 2005					7
Pennsylvania Turnpike Commission increase in payables from June 1, 2005 through June 30, 2005					45
State Workers' Insurance Fund increase in payables from January 1, 2005 through June 30, 2005					627
Interfund payables reported as accounts payable by component units					34,908
Interfund payables reported as accounts payable by Fiduciary Funds					7,266
Adjustments					<u>25</u>
Reconciled Interfund Payables					<u>\$ 176,552</u>

Advances – Fund Financial Statements

At June 30, 2005 the **General Fund** reported Advances to Other Funds of \$114,108. Specifically, this amount has been advanced as follows: \$2,300 to the **State Workers' Insurance Fund** and \$85,000 to the State Stores Fund, Enterprise Funds; \$2,175 to the **Motor License Fund** and \$10,333 to the Pharmaceutical Assistance Fund, Special Revenue Funds; and, \$14,300 to the Purchasing Fund, an Internal Service Fund. These amounts have been reported by the respective owing Funds as Advances from Other Funds, except for the **State Workers' Insurance Fund**, which reported an advance of \$1,815 at its fiscal year ended December 31, 2004. At June 30, 2005 the Hazardous Sites Cleanup Fund, a Special Revenue Fund, reported an Advance to Other Funds of \$3,000. This amount was advanced to the Small Business First Fund, an Enterprise Fund. The Underground Storage Tank Fund, an Agency Fund, advanced \$90,000 to the **General Fund** at June 30, 2005. At June 30, 2005 the **Motor License Fund** has reported an advance to the MCARE Fund, an Agency Fund, in the amount of \$110,000. The MCARE Fund also reported a \$97,000 advance from the Catastrophic Loss Benefits Continuation Fund, a Special Revenue Fund (amounts in thousands).

Transfers

A summary of transfers reported for the fiscal year ended June 30, 2005 is as follows, with Major Fund titles in bold. Aggregate nonmajor governmental fund transfers from other funds amount to \$1,213,531 during June 30, 2005 and include a \$300,000 transfer from the **State Lottery Fund** to the Pharmaceutical Assistance Fund. Aggregate nonmajor governmental transfers to other funds amount to \$8,112. Aggregate nonmajor proprietary transfers from other funds and transfers to other funds, respectively, amount to \$16,068 and \$57,300 (amounts in thousands):

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

<u>PRIMARY GOVERNMENT</u>	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
General Fund	\$ 62,912	\$ 936,549
<u>Special Revenue:</u>		
Tobacco Settlement Fund	-	30,721
Motor License Fund	-	59,829
State Racing Fund	-	6,112
Vocational Rehabilitation Fund.....	39,238	-
Pharmaceutical Assistance Fund.....	330,721	-
Energy Development Fund.....	10,000	-
Other Funds.....	<u>13,040</u>	<u>2,000</u>
	<u>392,999</u>	<u>98,662</u>
<u>Debt Service:</u>		
Land and Water Development Sinking Fund	178	-
Water Facilities Loan Redemption Fund.....	3,250	-
Capital Debt Fund	796,504	-
Local Criminal Justice Sinking Fund	3,941	-
Agricultural Conservation Easement Sinking Fund	2,520	-
Keystone Recreation, Park and Conservation Sinking Fund....	2,759	-
Disaster Relief Redemption Fund	2,146	-
Pennsylvania Economic Revitalization Sinking Fund.....	616	-
Volunteer Companies Loan Sinking Fund	732	-
Pennsylvania Infrastructure Investment Authority Redemption Fund	<u>7,886</u>	<u>-</u>
	<u>820,532</u>	<u>-</u>
<u>Enterprise:</u>		
State Lottery Fund	-	300,000
State Stores Fund.....	-	56,800
Pennsylvania Infrastructure Bank	16,068	-
Other Funds.....	<u>-</u>	<u>500</u>
	<u>16,068</u>	<u>357,300</u>
 Total transfers, fund financial statements.....	 1,292,511	 1,392,511
 Less: net elimination of governmental fund transfers	 951,279	 951,279
Less: General Fund transfer to agency fund.....	<u>-</u>	<u>100,000</u>
 Total transfers, Statement of Activities	 <u>\$ 341,232</u>	 <u>\$ 341,232</u>

Assigned Investment Income: 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 (in thousands).

<u>Assigning Fund</u>	<u>Receiving Fund</u>	<u>Reason</u>	<u>Amount</u>
Liquor License	General	Legal/contractual	\$ 46
Liquid Fuels Tax	Motor License	Legal/contractual	225
Land and Water Development	Land and Water Development Sinking	Legal/contractual	36
Remining Financial Assurance	Land and Water Development Sinking	Other than legal/contractual	108
Fire Insurance Tax	State Insurance	Legal/contractual	496
Fire Insurance Tax	Municipal Pension Aid	Legal/contractual	192

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

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

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

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

State Employees' Retirement System

Plan Description: The SERS is the administrator of a cost-sharing multiple-employer defined benefit retirement system established to provide pension benefits for employees of state government and certain other organizations. At December 31, 2004 there were 108 employer state agencies and other organizations participating in the SERS. The SERS provides retirement, death, and disability benefits.

Retirement Benefits: Article II of the Pennsylvania Constitution provides the General Assembly the authority to establish and amend benefit provisions. 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.

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

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

Funding Policy: Commonwealth law determines all member contribution rates. The active plan member contribution rate is 5 percent of covered payroll for most employees in Class A; for Class AA members, the contribution rate is 6.25 percent. Higher contributions are required for certain members of the General Assembly and judges and district justices who elect higher contribution rates. 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 rate-setting process is intended to provide employer contributions which, when combined with member contributions and investment returns, are adequate 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 were to be combined and refinanced over a ten-year period using level dollar funding and future actuarial gains and losses were to be amortized using ten-year level dollar funding. On December 10, 2003, Governor Rendell signed Act 2003-40 (Act 40) into law. The significant provisions of the law were to change certain actuarial methods and periods used to amortize actuarial assets and liabilities.

NOTE I - RETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

<u>Year ended December 31</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2004	\$ 105,229	100.0
2003	\$ 55,079	123.4
2002	\$ 22,906	221.9

At December 31, 2004, the SERS disclosed no long-term contracts for contributions to the plan.

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

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

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

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, 2005 there were 734 participating employers, generally school districts. The PSERS provides retirement, death, disability and health care benefits. In most cases, retirement benefits vest after 5 years of credited service. Members are eligible for full monthly retirement benefits upon reaching (a) age 62 with at least one year of service, (b) age 60 with 30 or more years of service, or (c) 35 or more years of service regardless of age.

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

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.

NOTE I - RETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS (continued)

The active plan member contribution rates for employees in Membership Class T-C and T-D hired before July 22, 1983 are 5.25 and 6.50 percent of covered payroll, respectively; for employees in Membership Class T-C and T-D hired after July 21, 1983, the rate are 6.25 and 7.50 percent, respectively. The increased member contribution rates for Class T-D became effective January 1, 2002. Commonwealth law determines member contribution rates.

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

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

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

Fiscal year Ended June 30	Annual Required Contribution	Percentage Contributed
2005	\$ 431,556	100
2004	\$ 321,091	100
2003	\$ 20,831	100

At June 30, 2005, the PSERS disclosed that \$126,485 of \$214,857 (in thousands) of member receivables for purchases of service credit is due subsequent to June 30, 2005.

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

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

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

NOTE I - RETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS (continued)**Other Postemployment Benefits**

The Commonwealth funds certain health care benefits for retired primary government and certain component unit employees (that meet specified length-of-service and age requirements) and their eligible dependents. These benefits are provided as a result of negotiated union contracts and through administrative policy. The Commonwealth recognizes the cost of providing these benefits as paid, which totaled \$434 million for the fiscal year ended June 30, 2005. Approximately 105,000 individuals were covered by these benefits during the fiscal year.

The Commonwealth provides several other postemployment benefits, including disability life insurance and certain benefits to beneficiaries of state police officers killed in the line of duty. The amount expended for these benefits was not material during the fiscal year ended June 30, 2005.

NOTE J - NOTES AND DEMAND REVENUE BONDS PAYABLE

Primary Government

During the fiscal year ended June 30, 2005, the Commonwealth did not issue any tax or bond anticipation notes or any other short-term debt and no short-term debt was repaid. At June 30, 2005 and 2004, no short-term debt was outstanding. A noncurrent other financing obligation is reported as a governmental activities liability for \$90,000 (in thousands) which is owed to the Underground Storage Tank Indemnification Fund, an Agency Fund, at June 30, 2005.

Discretely Presented Component Units

The Pennsylvania Higher Education Assistance Agency (PHEAA), a discretely presented component unit, has reported \$4,712,577 of demand revenue bonds outstanding and \$986,346 of notes payable, consisting of student loan financing of \$841,919, capital financing of \$70,096 and term financings of \$75,150, net of unamortized discount of \$819 at June 30, 2005 as follows (amounts in thousands):

	<u>Balance June 30, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2005</u>
Student loan demand revenue bonds due 2017-2045, at weighted average interest rates of 2.92 and 1.31 percent at June 30, 2005 and 2004, respectively.....	\$4,253,900	\$ 471,000	\$ -	\$ 4,724,900
Less: Deferred amount on current refundings of student loan demand revenue bonds.....	<u>13,122</u>	<u>-</u>	<u>799</u>	<u>12,323</u>
Total demand revenue bonds payable.....	<u>\$4,240,778</u>	<u>\$ 471,000</u>	<u>\$ 799</u>	<u>\$4,712,577</u>
Notes payable:				
Student loan financing, due 2006-2008, at weighted average interest rates of 3.29 and 1.60 percent at June 30, 2005 and 2004, respectively.....	\$ 728,619	\$ 808,300	\$ 695,000	\$ 841,919
Capital and other financing obligations:				
Capital financings, due 2006-2011 at weighted average interest rates of 6.11 and 6.09 percent at June 30, 2005 and 2004, respectively.....	74,000	-	3,904	70,096
Term financings, due 2007-2031, at weighted average interest rates of 5.12 and 5.17 percent at June 30, 2005 and 2004, respectively.....	81,119	-	5,969	75,150
Lines of credit, due on demand at weighted average interest rate of 3.01 percent at June 30, 2004	<u>32,000</u>	<u>10,000</u>	<u>42,000</u>	<u>-</u>
Subtotal	\$ 915,738	\$ 818,300	\$ 746,873	\$ 987,165
Less: unamortized discount	<u>889</u>	<u>-</u>	<u>70</u>	<u>819</u>
Total notes payable.....	<u>\$ 914,849</u>	<u>\$ 818,300</u>	<u>\$ 746,803</u>	<u>\$ 986,346</u>

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

The note and bond indentures, among other things, require the PHEAA to comply with various covenants including minimum parity levels as defined, student loan and investment yields, and program expenses. The demand bonds payable are subject to purchase, at par plus accrued interest, by the PHEAA on demand of the bondholders upon seven days prior irrevocable written notice. Under the irrevocable letters of credit, the trustee is entitled to draw an amount sufficient to pay the purchase price of the bonds delivered to it. The letters of credit are valid from 2005 through 2010. The PHEAA is required to pay annual commitment fees ranging from 18 to 33 basis points on the stated amount of the letter of credit coverage. At June 30, 2005 total letter of credit coverage was \$1.5 billion.

All student loan demand revenue bonds payable and financing notes payable are collateralized by student loans and investments. At June 30, 2005, \$5.7 billion of debt is collateralized by \$5.6 billion of student loan principal and related interest receivable, and \$193.4 million of investments and related interest receivable. Capital financings are collateralized with capital assets. Amounts due under other lines of credit are generally unsecured. At June 30, 2005 the PHEAA had \$18.1 million of available credit under student loan financing arrangements and \$105 million available under other lines of credit.

Debt service requirements subsequent to June 30, 2005, based upon stated maturities of bonds payable, notes payable and other financing obligations are as follows (amounts in thousands):

Year of Maturity	Student Loan Bonds and Notes		Other Financing Obligations	
	Principal	Interest	Principal	Interest
2006.....	\$ 143,009	\$ 161,986	\$ 4,705	\$ 7,657
2007.....	-	138,060	4,926	7,289
2008.....	698,910	138,060	3,235	7,115
2009.....	-	138,060	3,385	6,956
2010.....	-	138,060	3,330	6,802
2011-15.....	-	690,302	74,735	16,200
2016-20.....	538,900	659,725	9,380	11,975
2021-25.....	445,000	611,298	16,160	8,412
2026-30.....	600,000	533,902	20,625	3,826
2031-35.....	150,000	481,015	4,765	109
2036-40.....	641,000	443,505	-	-
2041-45.....	2,350,000	152,769	-	-
Total.....	<u>\$ 5,566,819</u>	<u>\$ 4,286,742</u>	<u>\$ 145,246</u>	<u>\$ 76,341</u>
Reported as:				
Demand revenue bonds payable.....	\$ 4,712,577		-	
Add: Deferred amount on current refundings..	<u>12,323</u>		-	
Total principal owed on demand revenue bonds payable.....	<u>4,724,900</u>		-	
Notes payable - current.....	143,009		-	
Notes payable - noncurrent.....	698,910		-	
Other financing obligations, current	-		\$ 4,705	
Other financing obligations, noncurrent..	-		139,722	
Add: Unamortized discount.....	-		<u>819</u>	
Total principal owed.	<u>\$ 5,566,819</u>		<u>\$ 145,246</u>	

The PHEAA has \$5.6 billion of student loan bonds and notes that are variable-rate debt, of which \$1.4 billion resets based upon auctions every seven days, \$2.5 billion resets based upon auctions every 28 days, \$791 million resets based upon auctions every 35 days, \$698.9 million is indexed to 91-day Treasury bills, and the remaining \$143 million is indexed to the 3-month LIBOR. PHEAA notes and bonds payable, as well as all other debt, are limited obligations of the PHEAA. The PHEAA has no taxing power, and the Commonwealth is not obligated to pay the principal, redemption price, if any, or interest on any of the PHEAA's debt.

Additionally, the Philadelphia Regional Port Authority reported current and non-current notes payable, respectively, of \$216 and \$3,168 (in thousands) at June 30, 2005; component unit organizations of the State System of Higher Education (SSHE) reported notes payable of \$155,417 (in thousands) at June 30, 2005. Also, the SSHE and the Port of Pittsburgh Commission, respectively, reported other financing obligations of \$75,709 and \$2,000 (in thousands) at June 30, 2005.

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

Long-term obligations of the Commonwealth’s governmental activities at June 30, 2005 and changes for the fiscal year ended June 30, 2005 are as follows (amounts in thousands):

GENERAL LONG-TERM OBLIGATIONS	Issue Dates	Interest Rates	Maturity Dates Through	Bonds Authorized But Unissued	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005
General Obligation Bonds Payable From								
Tax Revenues:								
Capital Facilities	1992-05	3.50-6.25%	2025	\$ 45,782,483	\$ 4,796,945	\$ 401,000	\$ 1,733,535	\$ 3,464,410
Disaster Relief	2000-01	5.00- 6.00%	2021	105,908	12,020	-	2,440	9,580
Land and Water Development.....	1992	6.00-6.25%	2012	300	1,755	-	155	1,600
Nursing Home Loan Development.....	-	-	-	31,000	-	-	-	-
Volunteer Companies Loan.....	1992-98	5.00-6.25%	2012	50,000	6,660	-	4,715	1,945
Vietnam Conflict Veterans Compensation	-	-	-	3,000	-	-	-	-
Water Facilities Loan	1992-97	5.00- 6.25%	2012	11,500	20,015	-	6,955	13,060
Pennsylvania Economic Revitalization	1992-95	5.00- 6.25%	2012	14,000	4,210	-	905	3,305
Pennsylvania Infrastructure Investment Authority.....	1992-01	5.00- 6.25%	2021	267,000	54,040	-	30,705	23,335
Agricultural Conservation Easement Purchase.....	1992-98	4.25- 6.25%	2014	-	19,665	-	8,150	11,515
Local Criminal Justice.....	1996-04	4.00-6.00%	2024	5,500	16,480	-	10,105	6,375
Keystone Recreation, Park and Conservation	1996-98	5.00- 5.38%	2008	-	14,090	-	10,635	3,455
Water Supply and Wastewater Treatment.....	-	-	-	250,000	-	-	-	-
Refunding Bonds	1992-04	3.00-6.40%	2021	-	<u>2,007,564</u>	<u>1,458,173</u>	<u>173,492</u>	<u>3,292,245</u>
Total principal				46,520,691	6,953,444	1,859,173	1,981,792	6,830,825
Unamortized premium on bonds issued.				-	327,826	197,291	23,234	501,883
Unamortized deferred net refunded loss				-	(56,104)	(136,645)	(10,710)	(182,039)
Total general obligation bonds payable				<u>46,520,691</u>	<u>7,225,166</u>	<u>1,919,819</u>	<u>1,994,316</u>	<u>7,150,669</u>
Other General Long-Term Obligations								
Payable From Tax and Other Revenues:								
Installment Purchase Obligations.....	-	-	-	-	7,153	604	3,370	4,387
Capital Lease Obligations.....	-	-	-	-	46,798	597	4,507	42,888
Self-Insurance—Note M *	-	-	-	-	815,508	484,458	480,008	819,958
Compensated Absences *	-	-	-	-	692,885	308,334	329,674	671,545
Other	-	-	-	-	812,320	754,720	259,697	1,307,343
Subtotal.....				-	<u>2,374,664</u>	<u>1,548,713</u>	<u>1,077,256</u>	<u>2,846,121</u>
TOTAL GENERAL LONG-TERM OBLIGATIONS				<u>\$ 46,520,691</u>	<u>\$ 9,599,830</u>	<u>\$ 3,468,532</u>	<u>\$ 3,071,572</u>	<u>\$ 9,996,790</u>

* The estimated current portion of self-insurance and compensated absence liabilities, respectively, is \$136,148 and \$110,073.

Revenue bond obligations of discretely presented component units at June 30, 2005 (May 31, 2005 for the Pennsylvania Turnpike Commission) and changes for the fiscal year then ended are as follows (amounts in thousands):

REVENUE BONDS PAYABLE	Issue Dates	Interest Rates	Maturity Dates Through	Bonds Authorized But Unissued	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005
Philadelphia Regional Port Authority	2003	Variable	2021		\$ 50,700	\$ -	\$ 2,400	\$ 48,300
Pennsylvania Housing Finance Agency.	1982-05	1.80-10.88%	2034		2,970,644	777,970	462,427	3,286,187
Pennsylvania Industrial Development Authority.....	1994-04	4.00-7.00%	2021		499,930	-	21,420	478,510
Pennsylvania Turnpike Commission.....	1998-04	2.50-5.50%	2041		2,226,875	269,245	44,160	2,451,960
Pennsylvania Infrastructure Investment Authority.....	1990-03	2.00-6.00%	2014		112,395	-	15,585	96,810
					<u>5,860,544</u>	<u>1,047,215</u>	<u>545,992</u>	<u>6,361,767</u>
Less: Bond discounts/(premiums)	-	-	-		(12,397)	5,038	1,806	(9,165)
Deferred costs of refunding.....	-	-	-		30,467	1,792	3,940	28,319
Deferred refunding loss.....	-	-	-		2,980	-	670	2,310
TOTAL REVENUE BONDS PAYABLE					<u>\$ 5,839,494</u>	<u>\$ 1,040,385</u>	<u>\$ 539,576</u>	<u>\$ 6,340,303</u>

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

Additionally, component unit organizations of the State System of Higher Education reported \$196,231 of revenue bonds payable at June 30, 2005.

Primary Government

The Commonwealth has pledged its full faith and credit for the payment of principal and interest on its general obligation bonds. Typically only the **General Fund** and the **Motor License Fund** transfer amounts to Debt Service funds for general obligation bond principal and interest payments. During the fiscal year ended June 30, 2005, respectively, these two Funds transferred \$753,934 and \$42,570 to the Capital Debt fund, which reported \$774,889 (nearly 97 percent) of total Debt Service funds principal and interest expenditures of \$798,999 (amounts in thousands). Except for Catastrophic Motor Vehicle Losses, which are funded by motorist violation fines, general long-term obligations other than general obligation bonds are funded by specific Funds where capital assets are procured using long-term vendor or other financing, where employees earn compensated absences or where self-insurance claims originate.

The total “Additions” of \$1,919,819 for General Obligations Bonds Payable from Tax Revenues at June 30, 2005 consists of total bond and refunding bonds issued of \$401,816 and \$1,468,439, respectively, plus premium on bonds/refunding bonds of \$197,291 for Governmental Funds (as reported in the Statement of Revenues, Expenditures and Changes in Fund Balances), less net principal accretion on maturing debt for capital appreciation bonds of \$11,082 less deferred net refunded loss of \$136,645 during the fiscal year ended June 30, 2005. Total Governmental Fund bond/refunding bonds issued of \$2,067,546 equal “Additions” of \$1,859,173 plus premium on bonds issued of \$197,291, plus net principal accretion on maturing debt for capital appreciation bonds of \$11,082. During the fiscal year ended June 30, 2005 \$23,234 of bond premium was amortized and credited to bond interest expense in the Statement of Activities; unamortized premium in the Statement of Net Assets at June 30, 2005 is \$501,883. Also, during the fiscal year ended June 30, 2005 \$10,710 of deferred net refunded loss was amortized and charged to bond interest expense in the Statement of Activities; unamortized deferred net refunded loss in the Statement of Net Assets at June 30, 2005 is \$182,039 (amounts in thousands).

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

The balance outstanding at June 30, 2005 for general obligation refunding bonds includes \$18.5 million of accreted value for capital appreciation bonds. No principal or interest is payable on the capital appreciation bonds until maturity.

Included in “Other” for Other General Long-Term Obligations payable from workers’ compensation assessments, investment income and/or **General Fund** tax revenues are the following at June 30, 2005 (amounts in thousands):

Workers’ Compensation Security Trust Claims.....	\$ 816,823
Catastrophic Loss Benefits Claims	108,128
Public Utility Realty Tax Act (PURTA).....	22,873
Litigation—Note N.....	354,988
Restricted Receipts	4,432
Arbitrage Rebate Tax.....	<u>99</u>
Total	<u>\$ 1,307,343</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 Trust Fund provides specific benefits to qualifying claimants who sustained severe injuries in motor vehicle accidents. The PURTA provides for a tax on utility realty property whereby amounts received during the fiscal year are used as a General Fund revenue source. The Act also provides for payment of a majority of the PURTA revenues as a distribution to local taxing authorities during the following fiscal year (normally in October). Such payments are appropriated for expenditure in the following fiscal year and are, therefore, not expendable during the fiscal year the related revenue is received. The other amounts included in General Long-Term Obligations at June 30, 2005 relating to Workers’ Compensation Claims, Catastrophic Loss Benefits Claims, Litigation and Arbitrage Rebate Tax are not payable with currently expendable available financial resources.

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

The Commonwealth’s constitutional debt limit, which allows for the incurrence of debt to be used for capital projects without electorate approval as specifically itemized in a capital budget, was \$45.7 billion as of August 31, 2005, with net debt outstanding of \$6.1 billion.

Discretely Presented Component Units

The Pennsylvania Housing Finance Agency (PHFA), the Pennsylvania Higher Education Assistance Agency (PHEAA), the Pennsylvania Industrial Development Authority, the Pennsylvania Turnpike Commission (PTC) and the Pennsylvania Infrastructure Investment Authority, discretely presented component units, have pledged substantially all of their revenues for the redemption of revenue bonds outstanding. Revenue bonds outstanding as reported in this note disclosure for the fiscal year ended June 30, 2005 (May 31, 2005 for the PTC) include bond premiums, deferred costs of refunding, and deferred refunding losses of \$9.2 million, \$28.3 million, and \$2.3 million, respectively.

The following table presents annual principal and interest payments for long-term debt outstanding for the primary government and discretely presented component units at June 30, 2005 (May 31, 2005 for the Pennsylvania Turnpike Commission) (amounts in thousands):

PRIMARY GOVERNMENT

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011-15</u>	<u>2016-20</u>
GENERAL OBLIGATION BONDS:							
Capital Facilities	\$ 447,583	\$ 438,755	\$ 421,683	\$ 402,546	\$ 385,568	\$ 1,378,615	\$ 674,505
Disaster Relief	2,043	1,961	1,879	1,797	1,711	2,149	14
Land and Water Development	253	253	253	251	255	762	-
Volunteer Companies Loan	628	616	403	239	86	247	-
Water Facilities Loan	3,060	2,057	1,860	1,858	1,856	5,547	-
Pennsylvania Economic Revitalization..	614	506	510	507	509	1,513	-
Pennsylvania Infrastructure Investment Authority	7,210	3,746	3,665	3,189	2,786	7,192	64
Agricultural Conservation Easement Purchase	1,943	1,897	1,853	1,808	1,762	4,796	-
Local Criminal Justice	1,203	886	859	832	561	1,961	1,205
Keystone Recreation, Park and Conservation	1,976	776	741	256	-	-	-
Refunding Bonds	<u>369,196</u>	<u>368,944</u>	<u>366,473</u>	<u>360,540</u>	<u>342,805</u>	<u>1,661,109</u>	<u>1,014,597</u>
Total Principal and Interest	835,709	820,397	800,179	773,823	737,899	3,063,890	1,690,385
Less: Interest Payments	<u>334,681</u>	<u>311,848</u>	<u>286,473</u>	<u>260,806</u>	<u>233,704</u>	<u>783,745</u>	<u>319,270</u>
Total general obligation bonds	501,028	508,549	513,706	513,017	504,195	2,280,145	1,371,115
Other General Long-Term Obligations ..	<u>604,012</u>	<u>106,792</u>	<u>109,527</u>	<u>182,665</u>	<u>176,898</u>	<u>563,531</u>	<u>675,911</u>
TOTAL GENERAL LONG- TERM OBLIGATIONS	\$ 1,105,040	\$ 615,341	\$ 623,233	\$ 695,682	\$ 681,093	\$ 2,843,676	\$ 2,047,026

The portion of Total General Long-Term Obligations due by June 30, 2006 amounts to \$1,105,040 (in thousands).

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

PRIMARY GOVERNMENT (continued)

	<u>2021-25</u>	<u>2026-30</u>	<u>2031-35</u>	<u>2036-40</u>	<u>2041-45</u>	<u>Total</u>
GENERAL OBLIGATION BONDS:						
Capital Facilities	\$ 616,878	\$ 15,727	\$ -	\$ -	\$ -	\$ 4,781,860
Disaster Relief	58	-	-	-	-	11,612
Land and Water Development	-	-	-	-	-	2,026
Volunteer Companies Loan	-	-	-	-	-	2,219
Water Facilities Loan	-	-	-	-	-	16,238
Pennsylvania Economic Revitalization ..	-	-	-	-	-	4,159
Pennsylvania Infrastructure Investment Authority	263	-	-	-	-	28,115
Agricultural Conservation Easement Purchase	-	-	-	-	-	14,059
Local Criminal Justice	958	-	-	-	-	8,465
Keystone Recreation, Park and Conservation	-	-	-	-	-	3,749
Refunding Bonds	<u>69,296</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,552,960</u>
Total Principal and Interest	687,453	15,727	-	-	-	9,425,462
Less: Interest Payments	<u>63,783</u>	<u>327</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,594,637</u>
Total general obligation bonds	623,670	15,400	-	-	-	6,830,825
Other General Long-Term Obligations ..	<u>426,785</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,846,121</u>
TOTAL GENERAL LONG- TERM OBLIGATIONS	<u>\$ 1,050,455</u>	<u>\$ 15,400</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,676,946</u>

DISCRETELY PRESENTED COMPONENT UNITS

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011-15</u>	<u>2016-20</u>
Philadelphia Regional Port Authority	\$ 4,850	\$ 4,330	\$ 4,427	\$ 4,406	\$ 4,411	\$ 22,161	\$ 22,040
Pennsylvania Housing Finance Agency ..	309,507	304,016	272,449	222,346	220,902	1,049,153	983,048
Pennsylvania Industrial Development Authority	45,823	48,955	52,425	66,258	45,791	232,220	144,852
Pennsylvania Turnpike Commission	154,395	154,682	155,003	155,336	155,736	783,811	731,189
Pennsylvania Infrastructure Investment Authority	19,140	18,133	16,788	15,802	14,718	30,482	-
Total Principal and Interest	533,715	530,116	501,092	464,148	441,558	2,117,827	1,881,129
Less: Interest Payments	<u>274,796</u>	<u>266,343</u>	<u>257,224</u>	<u>248,383</u>	<u>240,231</u>	<u>1,054,870</u>	<u>806,845</u>
TOTAL REVENUE BONDS	<u>\$ 258,919</u>	<u>\$ 263,773</u>	<u>\$ 243,868</u>	<u>\$ 215,765</u>	<u>\$ 201,327</u>	<u>\$ 1,062,957</u>	<u>\$ 1,074,284</u>
	<u>2021-25</u>	<u>2026-30</u>	<u>2031-35</u>	<u>2036-40</u>	<u>2041-45</u>	<u>Total</u>	
Philadelphia Regional Port Authority	\$ 4,412	\$ -	\$ -	\$ -	\$ -	\$ 71,037	
Pennsylvania Housing Finance Agency ..	812,732	730,655	407,957	39,588	-	5,352,353	
Pennsylvania Industrial Development Authority	34,943	-	-	-	-	671,267	
Pennsylvania Turnpike Commission	660,051	649,943	631,351	137,244	54,680	4,423,421	
Pennsylvania Infrastructure Investment Authority	-	-	-	-	-	115,063	
Total Principal and Interest	1,512,138	1,380,598	1,039,308	176,832	54,680	10,633,141	
Less: Interest Payments	<u>579,445</u>	<u>361,271</u>	<u>149,688</u>	<u>29,608</u>	<u>2,670</u>	<u>4,271,374</u>	
TOTAL REVENUE BONDS	<u>\$ 932,693</u>	<u>\$ 1,019,327</u>	<u>\$ 889,620</u>	<u>\$ 147,224</u>	<u>\$ 52,010</u>	<u>\$ 6,361,767</u>	

Additionally, component unit organizations of the State System of Higher Education reported \$196,231 of revenue bonds payable at June 30, 2005.

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

The Commonwealth has entered into certain agreements to lease various facilities and equipment. Such agreements are in-substance purchases (capital leases) and are reported as Capital Lease Obligations. In addition, the Commonwealth also makes purchases using installment purchase arrangements. The following is a schedule by fiscal year of future minimum payments under capital leases and installment purchase obligations, together with the present value of the net minimum lease payments as of June 30, 2005 (amounts in thousands):

	<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</u>
Fiscal year ending June 30			
2006.....	\$ 7,653	\$ 1,575	\$ 45,700
2007.....	6,797	1,117	45,540
2008.....	6,437	831	45,052
2009.....	6,336	595	60,670
2010.....	6,221	503	58,163
2011-15.....	30,891	2,254	200,907
2016-20.....	6,178	-	194,271
2021-25.....	-	-	<u>106,626</u>
Total minimum lease payments.....	70,513	6,875	756,929
Less: amount representing estimated executory cost included in minimum lease payments.....	<u>8,911</u>	-	-
Net minimum lease payments and Installment purchases.....	61,602	6,875	756,929
Less: amount representing interest.....	<u>18,713</u>	<u>2,488</u>	<u>217,929</u>
Total Capital Lease and Installment Purchase Obligations.....	<u>\$ 42,889</u>	<u>\$ 4,387</u>	<u>\$ 539,000</u>

At June 30, 2005 general capital assets included \$89.7 million of buildings and \$11.8 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, 2005 reported by the State System of Higher Education (SSHE), a discretely presented component unit, relate to various capital projects currently under construction for which a related public financing authority is the lessor. Revenue bonds were issued by the public financing authority to provide funding for these capital projects. SSHE capital assets include \$107.8 million of construction in progress related to capital leases at June 30, 2005.

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, 2005 the SPSBA has \$1.4 billion of debt outstanding. Neither the SPSBA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are included in the accompanying financial statements.

The Pennsylvania Higher Educational Facilities Authority (PHEFA), a discretely presented component unit, finances projects through the issuance of tax-exempt instruments (bonds, notes 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, 2005 the PHEFA has \$4.9 billion of debt outstanding. Neither the PHEFA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are included in the accompanying financial statements.

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

The Pennsylvania Economic Development Financing Authority (PEDFA) finances projects on behalf of local industrial and commercial development authorities to promote economic growth within the Commonwealth. Revenue bonds issued by the PEDFA represent limited obligations payable solely from Authority financed project revenues. At June 30, 2005 the PEDFA has \$1.7 billion of debt outstanding. Neither PEDFA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are included in the accompanying financial statements.

The Pennsylvania Energy Development Authority (PEDA) finances projects related to energy conservation and research. Fees are assessed to recover related processing and application costs incurred. The bonds issued by the Authority represent limited obligations payable solely from payments made by the borrowing entities. The majority of the bonds are secured by the property financed. Upon repayment of a bond, ownership of acquired property transfers from the trustees to the entity served by the bond issuance. The PEDA has \$28.1 million in revenue bonds outstanding at June 30, 2005. The Commonwealth has no obligation for this debt. Accordingly, neither the financed assets nor the bonds are included in the accompanying financial statements.

NOTE L - REFUNDED DEBT**Primary Government**

During the fiscal year ended June 30, 2005 the Commonwealth issued \$798.8 million and \$670.5 million in general obligation bonds, Third Series of 2004 and Third Refunding Series of 2004, respectively, with average interest rates of 4.95 percent and 5.35 percent to advance refund \$800.5 million and \$703.2 million of previously issued general obligation bonds with average interest rates of 5.33 percent and 5.09 percent. The net refunding bond proceeds of \$880 million (including bond premium of \$82.2 million) and \$759.0 million (including bond premium of \$88.9 million), respectively, after payment of underwriting fees, insurance, and other issuance costs, were deposited in irrevocable trusts to provide for all future debt service payments on the refunded bonds. As a result, the bonds refunded are considered to be defeased and have been removed from the Commonwealth's financial statements. The Commonwealth refunded its previously issued bonds to reduce debt service payable on its general obligation bonds by \$57.8 million and \$43.5 million, respectively, and to obtain economic gains of \$42.1 million and \$29.3 million.

In prior years, the Commonwealth defeased certain general obligation bonds by placing the proceeds of refunding bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. At June 30, 2005, \$1,799.4 million of general obligation bonds outstanding that were previously accounted for in the Commonwealth's financial statements have been defeased through advance refundings.

Discretely Presented Component Units

During the fiscal year ended June 30, 2005 the Pennsylvania Housing Finance Agency (PHFA) redeemed prior to maturity \$17.8 million of Multi-Family Housing Bonds, issues 1982B and FHA-1992, \$750 thousand of Multi-Family Development Bonds, Series 1993-F, and \$5.4 million of Multi-Family Development Refunding Bonds, issue 1993A, using mortgage prepayments. An extraordinary gain of \$1.2 million resulted from the redemptions as unamortized bond discounts and the related costs of issuance for the bonds redeemed were expensed.

Also during the fiscal year ended June 30, 2005, the PHFA redeemed prior to maturity \$142 million of Single Family Mortgage Revenue Bonds, Series 1993-36, 1994-38, 1994-41, 1995-45, 1995-46, 1996-47, 1996-48, 1996-50, 1996-51, 1996-52, 1996-53, 1997-54, 1997-55, 1997-56, 1997-57, 1997-58, 1997-59, 1997-60, 1997-61, 1998-62, 1998-63, 1998-64, 1999-65, 1999-66, 1999-67, 1999-68, 2000-69, 2000-70, 2001-72, 2002-73, 2002-74, 2003-77, 2003-79, 2004-81, 2004-82, 2004-83, 2004-85, and Draw-Down Series, using mortgage prepayments. Extraordinary losses of \$425 thousand resulted from the redemptions as unamortized bond discounts and related costs of issuance for the bonds redeemed were expensed. Additionally, during this year, the PHFA redeemed prior to maturity \$220.1 million of Single Family Mortgage Revenue Bonds, Series 1993-36, 1994-38, 1994-41, 1994-42, 1995-45, 1996-49, 1996-50, 1996-51, 1996-52, 1996-53, 1997-54, 1997-55, 1997-56, 1997-57, 1997-58, 1997-60, 1999-67, 1999-68, 2000-69, and 2000-70. Although a deferred loss of \$1.8 million resulted from the refundings, the PHFA in effect obtained an economic gain of \$47.2 million and was able to reduce its aggregate debt service payments as a result of these transactions by a total of \$11.4 million over the next 30 years.

At June 30, 2005, \$5.5 million of bonds outstanding that were previously accounted for in the financial statements of the PHFA have been defeased through refundings.

At May 31, 2005, \$414.2 million of bonds outstanding that were previously accounted for in the financial statements of the Pennsylvania Turnpike Commission have been defeased through refundings.

At June 30, 2005, \$36.9 million of bonds outstanding that were previously accounted for in the financial statements of the State System of Higher Education have been defeased through refundings.

NOTE M - SELF-INSURANCE

The Commonwealth is self-insured for statutory workers' compensation, which includes indemnity and medical benefits (employee disability), for its employees injured on the job. The Commonwealth is also self-insured for annuitant medical/hospital claims and for tort liability claims. Major tort risks include automobile, employee and general torts. For property losses, the Commonwealth has \$1 million retention with excess commercial insurance coverage up to \$250 million per occurrence. The Commonwealth is also self-insured for claims against the Department of Transportation (transportation claims). The Commonwealth has established various administrative policies that are intended to avoid or limit the aforementioned risks.

There were no reductions in commercial insurance coverage during the fiscal year ended June 30, 2005. No settlements exceeded commercial insurance coverage during any of the past three fiscal years.

Accrued liabilities for tort and transportation claims are established based on reserves computed from the Commonwealth's claim experience; such claims are not discounted. These liabilities include liabilities for allocated claim adjustment expenditures/expenses and include salvage and subrogation. Salvage and subrogation were not material for the fiscal year ended June 30, 2005. No accrued liability has been reported for property losses.

At June 30, 2005, 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 \$298,843 and \$310,398. Business-type activities liabilities are primarily owed by the **State Workers' Insurance Fund** (\$1,375) and the State Stores Fund (\$15,892), Enterprise Funds. All accrued self-insurance liabilities at June 30, 2005 are summarized as follows (amounts in thousands):

	Governmental Activities		Business Type Activities		Fiduciary Fund Types	
	Current	Non-current	Current	Non-current	Current	Non-current
Employee disability.....	\$ 79,436	\$ 301,544	\$ 3,841	\$ 14,581	\$ 60	\$ 227
Annuitant medical/hospital ..	34,497	-	-	-	-	-
Automobile tort.....	3,050	17,531	-	-	-	-
Employee tort.....	3,400	27,638	-	-	-	-
General tort.....	767	41,697	-	-	-	-
Transportation.....	15,000	295,398	-	-	-	-
Totals.....	<u>\$136,150</u>	<u>\$ 683,808</u>	<u>\$ 3,841</u>	<u>\$ 14,581</u>	<u>\$ 60</u>	<u>\$ 227</u>

The following summary provides aggregated information on June 30, 2004 reported self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2005 and reported self-insurance liabilities at June 30, 2005 (amounts in thousands):

	June 30, 2004	Incurred Claims		Payments		June 30, 2005
	Liability	Current	Prior	Current	Prior	Liability
Employee disability.....	\$ 394,990	\$ 57,655	\$ 16,889	\$ 8,522	\$ 61,323	\$ 399,689
Annuitant medical/hospital ..	32,044	390,484	-	355,987	32,044	34,497
Automobile tort.....	20,310	8,431	(5,540)	868	1,752	20,581
Employee tort.....	30,188	2,215	8,215	-	9,580	31,038
General tort.....	47,478	12,032	(15,965)	29	1,052	42,464
Transportation.....	308,097	77,322	(68,280)	353	6,388	310,398
Totals.....	<u>\$ 833,107</u>	<u>\$ 548,139</u>	<u>\$(64,681)</u>	<u>\$ 365,759</u>	<u>\$112,139</u>	<u>\$ 838,667</u>

NOTE M - SELF-INSURANCE (continued)

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

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

NOTE N – COMMITMENTS AND CONTINGENCIES

Construction and Other Commitments: At June 30, 2005, the Department of Transportation and at May 31, 2005, the Pennsylvania Turnpike Commission, a discretely presented component unit, have contractual commitments of approximately \$2,108.7 million and \$647 million, respectively, for various highway construction and mass transit projects. Financing for these future expenditures will be primarily from approved federal grants and general obligation bond proceeds. In addition, the Commonwealth has a variety of contractual and other commitments for future subsidies and purchases of goods and services for approximately \$5.8 billion at June 30, 2005. Actual expenditures are contingent upon approved spending authority and/or availability of financial resources.

Loan Commitments: At June 30, 2005, the following discretely presented component units had approved loans that had not been disbursed (amounts in millions):

Pennsylvania Housing Finance Agency.....	\$	44
Pennsylvania Industrial Development Authority.....	\$	121
Pennsylvania Infrastructure Investment Authority.....	\$	298

Commitment to Purchase Student Loans: At June 30, 2005 the Pennsylvania Higher Education Assistance Agency, a discretely presented component unit, had commitments to purchase approximately \$900 million of student loans.

Operating Lease Commitments: The Commonwealth and its discretely presented component units have commitments to lease certain buildings and equipment. Future minimum rental commitments for non-cancelable operating leases as of June 30, 2005 were as follows (amounts in thousands):

Fiscal year ending June 30:	<u>Primary Government</u>	<u>Discretely Presented Component Units</u>
2006	\$ 261,897	\$ 10,990
2007	155,225	8,595
2008	121,273	4,005
2009	86,314	1,294
2010	62,237	486
2011-2016	<u>183,523</u>	<u>413</u>
Total Minimum Lease Payments	<u>\$ 870,469</u>	<u>\$ 25,783</u>

Rental expenditures/expenses for all operating leases for the fiscal year ended June 30, 2005 amounted to \$305.2 million (\$296.8 million for primary government and \$8.4 million for discretely presented component units).

Child Support Payments: At June 30, 2005, the Commonwealth is contingently liable for approximately \$22 million in payments received by a contractor to be used for child support payments.

Litigation: The Commonwealth is a defendant in numerous legal proceedings pertaining to matters normally incidental to routine operations. Such litigation includes, but is not limited to, claims asserted against the Commonwealth arising from alleged torts, alleged breaches of contracts, condemnation proceedings and other alleged violations of Commonwealth and Federal laws. The Commonwealth has recorded accrued liabilities at June 30, 2005 with respect to torts as described in Note M, and other General Long-Term Obligations with respect to other matters of litigation in the amount of \$354.9 million for which the likelihood of an unfavorable outcome is probable.

Additionally, the Commonwealth is currently involved in certain legal proceedings for which the likelihood of an unfavorable outcome is reasonably possible, for which liabilities have not been accrued as of June 30, 2005. Unfavorable outcomes for such cases, which the Commonwealth is vigorously contesting, could range from approximately \$157 million to \$1,063 million for the **General Fund**; \$36 million to \$559 million for Special Revenue Funds; \$8 million to \$34 million for the Capital Facilities Fund, a Capital Projects fund; \$4 million for the **State Workers' Insurance Fund**, an Enterprise Fund; and \$.3 million to \$1.1 billion of possible additional liabilities for the State Employees' Retirement System, a fiduciary fund. The range for the **Motor License Fund**, a Special Revenue Fund, is from zero to \$269 million.

The range of potential liability for governmental activities is from \$201 million to \$1.7 billion and \$4 million for business-type activities, respectively, at June 30, 2005.

NOTE N – COMMITMENTS AND CONTINGENCIES (continued)

Federal Grants: The Commonwealth receives significant financial assistance from the Federal government in the form of grants and entitlements, including several non-cash programs (which are not included in the basic financial statements). Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit Act or to financial and compliance audits by the grantor agencies of the Federal government or their designees. Disallowances and sanctions as a result of these audits may become liabilities of the Commonwealth. The Commonwealth is currently involved in administrative and legal proceedings, with certain Federal agencies, contesting various disallowances and sanctions related to Federal Assistance Programs ranging from \$75 to \$416 million at June 30, 2005. The Commonwealth's management believes ultimate disallowances and sanctions, if any, will not have a material effect on the basic financial statements.

Student Loan Guarantees: The Pennsylvania Higher Education Assistance Agency (PHEAA), a discretely presented component unit, guarantees loans made by private lenders to certain resident students. Total original principal of outstanding guarantees issued by PHEAA approximated \$30.1 billion at June 30, 2005. Under the Federal Family Education Loan Program, as amended, the PHEAA has entered into agreements with the U.S. Department of Education for reinsurance of death, disability, bankruptcy, default, school closure and borrower ineligibility claims paid to lenders. Pursuant to these agreements, PHEAA receives reimbursement of claims paid to lenders, provided that PHEAA is in compliance with numerous Federal requirements. Reinsurance rates vary from 75 percent to 100 percent depending upon default rates in the portfolio guaranteed by PHEAA and upon the time period when specific loans were guaranteed by PHEAA. During the fiscal year ended June 30, 2005, PHEAA's default rate was in a range that permitted the maximum reinsurance reimbursement from the U.S. Department of Education.

Lottery Prizes: The **State Lottery Fund**, an Enterprise Fund, awards a variety of prizes, including immediate, lump-sum cash prizes and certain large prizes, which provide for periodic payments to winners for specific periods of time (in some cases throughout the winners' lifetimes, and to designated beneficiaries). At June 30, 2005, the amount of future payments owed to prizewinners is \$1.1 billion. To satisfy its financial obligation to these prizewinners, the Fund purchases annuity contracts from insurance companies whereby the insurance companies make periodic payments to prizewinners. Generally, in the event of insurance company default, the Fund is liable for the related annuity payments. However, certain prizewinners voluntarily assign their annuity rights to other parties and receive lump-sum payments in return. In the event of insurance company default where annuity rights have been voluntarily assigned by prizewinners, the Fund is not liable for the related annuity payments. At June 30, 2005, prizewinners have voluntarily assigned future payments of \$448 million.

NOTE O - CERTAIN AGENCY FUND CLAIMS LIABILITIES

The Pennsylvania Medical Care Availability and Reduction of Error Fund, an Agency Fund, acts as a service agent to facilitate the payment of medical malpractice claims exceeding basic liability coverage carried by healthcare providers practicing in the Commonwealth. The fund levies healthcare provider surcharges, as a percentage of insurance premiums for basic coverage, to pay claims and administrative expenses paid on behalf of healthcare providers during the prior year. The actuarially computed liability to the healthcare providers for claims outstanding at June 30, 2005 totals \$2.4 billion. The claims will be funded exclusively through surcharge assessment in future years as claims are settled and paid.

The Underground Storage Tank Indemnification Fund (the Fund), an Agency Fund, is used to collect fees from underground storage tank owners and operators sufficient to pay owners and operators for costs associated with corrective actions or for bodily injury or property damage caused by underground tank leaks and other releases. Owners and operators are assessed actuarially determined amounts to accumulate sufficient assets to pay claims. The Fund actuary has estimated potential claims of \$4.7 billion at June 30, 2005. 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, 2005. Owners and operators will be assessed for any claims exceeding Fund assets and no financial liability is reported for those claims.

NOTE P - DEFERRED COMPENSATION

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

Of the \$1,382 million in assets reported in the Deferred Compensation Fund, a Pension Trust Fund, at December 31, 2004, \$1,333 million relates to primary government employees and \$44 million relates to employees of discretely presented component units. The remaining balance of \$5 million relates to organizations not included in the Commonwealth's financial reporting entity.

NOTE Q - JOINT VENTURE

The Commonwealth and various labor unions representing Commonwealth employees participate in a joint venture, the Pennsylvania Employees Benefit Trust Fund (PEBTF). The PEBTF establishes and provides health and welfare benefits for active Commonwealth employees and is a third party administrator for Commonwealth annuitant medical/hospital benefits. The Commonwealth has, in its collective bargaining agreements with unions subject to the agreement, obligated itself to provide certain contributions on behalf of all bargaining unit employees. The Commonwealth also remits contractually established contributions on behalf of non-union employees and other employees covered by contracts between the Commonwealth and other unions. During the fiscal year ended June 30, 2005, total contributions amounted to approximately \$1,093 million. Neither the Commonwealth nor the unions have an equity interest in the PEBTF.

At June 30, 2005, the PEBTF reported total assets of \$162 million, total liabilities of \$77 million, total benefit obligations of \$75 million, and an excess of net assets over benefit obligations of \$10 million. The financial status of the PEBTF is monitored on an ongoing basis; financial stress is evident as a result of increasing benefit and other expenses. During the fiscal year ended June 30, 2005 the PEBTF reported an increase in net assets over benefit obligations of \$16 million for the Active Plan program.

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

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

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

NOTE R – SUBSEQUENT EVENTS

Subsequent to June 30, 2005 (May 31, 2005 for the Pennsylvania Turnpike Commission), several discretely presented component units issued debt, as follows:

On June 21, 2005, the Pennsylvania Turnpike Commission (PTC) approved a resolution to issue Series 2005 Registration Fee Revenue Bonds in an amount not to exceed \$525 million. The proceeds of the bond issuance will be used to pay bond issuance costs and advance refund Series 2001 Registration Fee Revenue Bonds.

In July 2005 Pennsylvania Higher Educational Facilities Authority (PHEFA), issued Series AC tax-exempt bonds in the amount of \$52,650,000 and Series AD tax-exempt bonds in the amount of \$7,310,000. In connection with the bond issuance, Pennsylvania State System of Higher Education (PASSHE) entered into a loan agreement with PHEFA under which PASSHE pledged its full faith and credit for repayment of the bonds. The bonds were issued to provide funds to undertake various capital projects at Universities within PASSHE.

On July 13, 2005 the Pennsylvania Higher Education Assistance Agency (PHEAA) issued \$400 million of variable-rate student loan demand revenue bonds indexed to the three month LIBOR with an initial weighted average rate of 3.68%.

On August 30, 2005 the PHEAA issued \$200 million of variable-rate student loan demand revenue bonds that reset based upon auctions every 28 days with an initial rate of 3.67%.

On September 13, 2005 the PHEAA issued \$200 million of variable-rate student loan demand revenue bonds that reset based upon auctions every 28 days with an initial rate of 3.72%.

On September 13, 2005, the Pennsylvania Housing Finance Agency (PHFA) issued \$125 million of Single Family Mortgage Revenue Bonds, Series 2005 90. The proceeds from these bond issuances were used to finance new loans purchases and refund existing bonds.

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Required Supplementary Information



Philadelphia

BUDGETARY COMPARISON SCHEDULE

Budgeted Major Funds

General Fund

For the Fiscal Year Ended June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Taxes, net of refunds.....	\$ 22,327,600	\$ 227,173	\$ 22,554,773	\$ 157,748	\$ 22,712,521
Liquor store profits transfer.....	54,900	-	54,900	-	54,900
Licenses and fees.....	122,000	(447)	121,553	(423)	121,130
Fines, penalties and interest.....	29,100	1,487	30,587	1,407	31,994
Investment income.....	91,050	14,909	105,959	14,110	120,069
Unclaimed property.....	112,400	47,137	159,537	44,613	204,150
Departmental services.....	3,162,902	(196,815)	2,966,087	-	2,966,087
Miscellaneous.....	68,950	(2,658)	66,292	(2,516)	63,776
TOTAL STATE PROGRAMS.....	25,968,902	90,786	26,059,688	214,939	26,274,627
Federal Programs.....	15,754,061	591,877	16,345,938	(267,034)	16,078,904
TOTAL REVENUES.....	41,722,963	682,663	42,405,626	(52,095)	42,353,531
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	1,004,265	23,002	1,027,267	(5,829)	1,021,438
Protection of persons and property.....	2,734,038	363,015	3,097,053	(14,994)	3,082,059
Health and human services.....	10,784,710	(341,169)	10,443,541	(24,782)	10,418,759
Public education.....	9,775,144	(14,826)	9,760,318	(862)	9,759,456
Recreation and cultural enrichment.....	297,667	(7,652)	290,015	(1,502)	288,513
Debt service.....	400,525	(181)	400,344	-	400,344
Economic development.....	660,105	5,394	665,499	(2,897)	662,602
Transportation.....	383,287	3,703	386,990	(37)	386,953
TOTAL STATE PROGRAMS.....	26,039,741	31,286	26,071,027	(50,903)	26,020,124
Federal Programs.....	15,754,061	591,877	16,345,938	(267,034)	16,078,904
TOTAL EXPENDITURES.....	41,793,802	623,163	42,416,965	(317,937)	42,099,028
REVENUES OVER/(UNDER)					
EXPENDITURES.....	(70,839)	59,500	(11,339)	265,842	254,503
OTHER FINANCING SOURCES (USES):					
Prior year lapses.....	-	97,214	97,214	-	97,214
Transfer to Budget Stabilization Reserve Fund.....	-	-	-	(64,380)	(64,380)
TOTAL OTHER FINANCING SOURCES (USES).....	-	97,214	97,214	(64,380)	32,834
REVENUES AND OTHER SOURCES OVER					
(UNDER) EXPENDITURES AND OTHER USES.....	(70,839)	156,714	85,875	201,462	287,337
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2004, RESTATED.....	77,482	-	77,482	-	77,482
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2005.....	\$ 6,643	\$ 156,714	\$ 163,357	\$ 201,462	\$ 364,819

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

BUDGETARY COMPARISON SCHEDULE

Budgeted Major Funds

Special Revenue Fund-Motor License

For the Fiscal Year Ended June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Taxes, net of refunds.....	\$ 1,167,460	\$ -	\$ 1,167,460	\$ (7,586)	\$ 1,159,874
Licenses and fees.....	845,800	-	845,800	31,097	876,897
Fines, penalties and interest.....	30,700	-	30,700	3,212	33,912
Investment income.....	33,300	-	33,300	24,355	57,655
Departmental services.....	52,949	(12,183)	40,766	-	40,766
Miscellaneous.....	24,600	-	24,600	3,935	28,535
TOTAL STATE PROGRAMS.....	2,154,809	(12,183)	2,142,626	55,013	2,197,639
Federal Programs.....	1,457,085	64,300	1,521,385	(421,456)	1,099,929
TOTAL REVENUES.....	3,611,894	52,117	3,664,011	(366,443)	3,297,568
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	66,092	642	66,734	(2,000)	64,734
Protection of persons and property.....	510,846	15,461	526,307	(7,078)	519,229
Public education.....	1,230	-	1,230	-	1,230
Recreation and cultural enrichment.....	2,000	-	2,000	(1,000)	1,000
Debt service.....	21,977	-	21,977	-	21,977
Transportation.....	1,532,835	(27,286)	1,505,549	(1,800)	1,503,749
TOTAL STATE PROGRAMS.....	2,134,980	(11,183)	2,123,797	(11,878)	2,111,919
Federal Programs.....	1,457,085	64,300	1,521,385	(421,456)	1,099,929
TOTAL EXPENDITURES.....	3,592,065	53,117	3,645,182	(433,334)	3,211,848
REVENUES OVER (UNDER) EXPENDITURES.....	19,829	(1,000)	18,829	66,891	85,720
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	13,099	13,099	-	13,099
TOTAL OTHER FINANCING SOURCES.....	-	13,099	13,099	-	13,099
REVENUES AND OTHER SOURCES OVER EXPENDITURES.....	19,829	12,099	31,928	66,891	98,819
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2004.....	113,590	-	113,590	-	113,590
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2005.....	\$ 133,419	\$ 12,099	\$ 145,518	\$ 66,891	\$ 212,409

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1 - Budget Preparation Process

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

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

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

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

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

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, corporation taxes, and personal income taxes applicable to the **General Fund**, and liquid fuels taxes applicable to the **Motor License Fund**. These taxes are estimated to be owed to the Commonwealth but are not collected by fiscal year end. Also, over-estimates of prior year encumbrances are lapsed in the subsequent year and under-estimates are charged to subsequent year appropriation authority.

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

Note 3 - Reconciliation of Budgetary to GAAP Basis Amounts

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>Major Budgeted Funds</u>	
	<u>General Fund</u>	<u>Motor License Fund</u>
Budgetary basis — revenues and other sources over (under) expenditures and other uses.....	<u>\$287,337</u>	<u>\$98,819</u>
Adjustments:		
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(89,316)	809,875
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	<u>(335,426)</u>	<u>(711,786)</u>
Net adjustments.....	<u>(424,742)</u>	<u>98,089</u>
Modified accrual basis – net change in governmental fund balance.....	<u><u>\$(137,405)</u></u>	<u><u>\$196,908</u></u>

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

Note 4 – Budgetary Compliance

The General Assembly passes, and the Governor approves (or reduces or vetoes), individual appropriations as part of the annual budget adoption process. Budgetary expenditure control occurs at the appropriation level; this is the lowest level of legislative spending control. Encumbrances and expenditures within individual appropriations may not exceed total amounts appropriated plus actual augmentations (certain revenues credited to specific appropriations). Also, appropriation transfers between or within departments and any supplemental appropriations require both legislative and gubernatorial approval. The legislatively adopted budget for the **General Fund** includes \$622.5 million in supplemental appropriations approved during the fiscal year ended June 30, 2005.

A separately available report, the “Status of Appropriations,” demonstrates budgetary expenditure compliance for the **General Fund** for the fiscal year ended June 30, 2005. This report includes a variety of detail information and summaries related to individual appropriations. A second “Status of Appropriations” report (for Special Funds) demonstrates compliance for the four budgeted Special Revenue funds: **Motor License**, Workers’ Compensation Administration, Banking Department and Milk Marketing. Both “Status” reports are available online at the Office of the Budget internet site: <http://www.budget.state.pa.us>. The Governor controls spending by using executive authorizations for Special Revenue funds not controlled by legislatively adopted budgets.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Total reported actual expenditures for “Total State Programs” included in the Budgetary Comparison Schedule – Budgeted Major Funds are based on appropriation, augmentation and lapse amounts reported in the respective June 30, 2005 “Status of Appropriations” (Total All Current State Ledgers) as follows (in thousands):

	“Status” Page Reference	Total Approved Appropriations	Total Actual + Augmentations	Total Actual - Lapses	Actual Expenditure = Amounts
General Fund amounts	7 ¹	\$ 24,104,940	\$ 2,966,087	\$ 50,903	\$ 27,020,124
Less: tax refunds.....	7 ¹	<u>(1,000,000)</u>	<u>-</u>	<u>-</u>	<u>(1,000,000)</u>
Amount reported.....		\$ <u>23,104,940</u>	\$ <u>2,966,087</u>	\$ <u>50,903</u>	\$ <u>26,020,124</u>
Special Revenue Funds:					
Motor License Fund	48	\$ 2,900,489	\$ 1,120,794	\$ 11,878	\$ 4,009,405
less: reductions ²		<u>(817,458)</u>	<u>(1,080,028)</u>	<u>-</u>	<u>(1,897,486)</u>
Amount reported.....		\$ <u>2,083,031</u>	\$ <u>40,766</u>	\$ <u>11,878</u>	\$ <u>2,111,919</u>
Workers’ Compensation					
Administration Fund	248	\$ 55,000	\$ 184	\$ -	\$ 55,184
Banking Department Fund	90	\$ 14,519	\$ -	\$ 5	\$ 14,514
Milk Marketing Fund.....	96	\$ 2,799	\$ -	\$ 5	\$ 2,794

Total actual expenditures for “Federal Programs” for the **General Fund** are derived from the **General Fund** “Status,” page no. 232 “Summary of All Current Federal Ledgers by Character of Expenditure” as follows (in thousands): Commitments of \$630,369, Expenditures of \$13,482,582, and Available Balances of \$1,965,953 for a total of \$16,078,904. This total does not include \$250,900 for the Department of Public Welfare “Medical Assistance Provider Retention” appropriation, which is included in “State Programs” departmental services.

Total actual expenditures for “Federal Programs”, for the **Motor License Fund** are derived from the Special Funds “Status,” page no. 76 “Summary of Federal Ledgers by Type” as follows (in thousands): Commitments of \$3,755, Expenditures of \$13,460, and Available Balances of \$5,210 for a total of \$22,425; plus \$1,077,504 (source in footnote 3 below) for a Motor License Fund total of \$1,099,929.

¹ Page no. 7, “Summary of All Current State Ledgers by Character of Expenditure,” **General Fund** “Status of Appropriations.”

² Excludes the following non-appropriated restricted revenue accounts, beginning on page 51, Special Funds “Status of Appropriations:” 010-78-571-04-10; 010-78-572-04-10; 010-78-579-04-10; 010-73-132-04-20; 010-38-226-04-20; 010-78-172-04-20; 010-78-173-04-20; 010-78-174-04-20; and 010-78-177-04-20 through 010-78-185-04-20.

³ The amount of \$1,077,504 is found in the Year-to-Date column for “Total Federal Revenue Augmenting Current State Expenditure Symbols” on page 116 of the June 30, 2005 “Report of Revenues and Receipts”. This amount, less \$220,468 (for revenue codes 010811-008181-101; 010811-008232-101; 010811-008284-101; 010811-008284-102; 010811-008289-101; and 010811-008289-102) equals \$857,036, the net reduction of federal funds from **Motor License Fund** Actual Augmentations.

Note 5 – Restatement of June 30, 2004 Unreserved/Undesignated General Fund Fund Balance (Budgetary Basis)

The Budgetary Comparison Schedule reflects a restatement of \$732 thousand to the June 30, 2004 budgetary basis Unreserved/Undesignated fund balance. The restatement includes in fund balance, the results of \$496 thousand and \$4 thousand, respectively, being transferred from the Pennsylvania Emergency Management Agency (PEMA) July 1996 and November 1996 Storm Disaster Relief-Public Assistance appropriations to the September 2004 Storm Relief appropriation, and \$250 thousand being transferred from the PEMA’s 2001-02 Drought and Water Storage Disaster appropriation to the August 2004 Storm Relief appropriation, as well as other minor adjustment reductions totaling approximately \$18 thousand.

Combining Financial Statements

Including
Nonmajor Budgetary Comparison Schedules



Cucumber Falls, Ohioopyle State Park

Fayette County

COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS

June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
ASSETS				
Cash.....	\$ 3,153	\$ -	\$ 432	\$ 3,585
Temporary investments.....	1,142,379	100,335	548,218	1,790,932
Long-term investments.....	457,464	-	-	457,464
Receivables, net:				
Taxes.....	22,231	-	-	22,231
Accounts.....	30,376	3,802	6,290	40,468
Accrued interest.....	3,669	339	1,901	5,909
Notes and loans.....	32,065	-	-	32,065
Lease rentals.....	-	1,021	-	1,021
Other.....	3	-	-	3
Due from other funds.....	32,911	-	21,496	54,407
Due from pension trust funds.....	3,824	-	-	3,824
Due from component units.....	-	-	33,728	33,728
Due from Federal government.....	18,548	-	-	18,548
Due from political subdivisions.....	-	-	61	61
Advances to other funds.....	100,000	-	-	100,000
TOTAL ASSETS.....	\$ 1,846,623	\$ 105,497	\$ 612,126	\$ 2,564,246
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities.....	\$ 123,192	\$ -	\$ 104,734	\$ 227,926
Securities lending obligations.....	258,327	16,790	80,084	355,201
Due to other funds.....	11,514	-	615	12,129
Due to pension trust funds.....	166	-	-	166
Due to political subdivisions.....	9,406	-	30,544	39,950
Due to other governments.....	717	-	-	717
Unearned revenue.....	26,349	4,822	-	31,171
Advances from other funds.....	10,333	-	-	10,333
TOTAL LIABILITIES.....	440,004	21,612	215,977	677,593
Fund balances:				
Reserved for:				
Encumbrances.....	119,592	-	732,728	852,320
Advances.....	100,000	-	-	100,000
Loans receivable.....	32,065	-	-	32,065
Other.....	61,037	-	3,507	64,544
Unreserved:				
Designated for:				
Capital projects.....	-	-	133,024	133,024
Debt service:				
Retirement of general obligation bonds.....	-	83,885	-	83,885
Other.....	4,355	-	-	4,355
Undesignated (deficit).....	1,089,570	-	(473,110)	616,460
TOTAL FUND BALANCES.....	1,406,619	83,885	396,149	1,886,653
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 1,846,623	\$ 105,497	\$ 612,126	\$ 2,564,246

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

For the Fiscal Year Ended June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
REVENUES:				
Taxes.....	\$ 204,152	\$ -	\$ 83,167	\$ 287,319
Licenses and fees.....	378,225	-	-	378,225
Intergovernmental.....	153,722	-	-	153,722
Charges for sales and services.....	127,836	-	60,008	187,844
Investment income.....	61,335	553	9,718	71,606
Lease rental principal and interest.....	-	190	-	190
Other.....	8,685	640	21	9,346
TOTAL REVENUES	933,955	1,383	152,914	1,088,252
EXPENDITURES:				
Current:				
Direction and supportive services.....	1,175	-	34,909	36,084
Protection of persons and property.....	255,732	59	1,466	257,257
Health and human services.....	432,530	-	-	432,530
Public education.....	219	-	17,590	17,809
Recreation and cultural enrichment.....	115,449	-	30,916	146,365
Economic development.....	201,336	-	121,206	322,542
Transportation.....	175,124	-	156,902	332,026
Capital outlay.....	4,270	-	301,904	306,174
Debt service:				
Principal retirement.....	-	478,112	-	478,112
Interest and fiscal charges.....	-	320,887	-	320,887
TOTAL EXPENDITURES	1,185,835	799,058	664,893	2,649,786
REVENUES UNDER EXPENDITURES	(251,880)	(797,675)	(511,979)	(1,561,534)
OTHER FINANCING SOURCES (USES):				
Bonds issued.....	-	-	401,816	401,816
Refunding bonds issued.....	-	1,468,439	-	1,468,439
Premium on bonds/refunding bonds issued.....	-	171,070	26,221	197,291
Transfers in.....	392,999	820,532	-	1,213,531
Transfers out.....	(8,112)	-	-	(8,112)
Payment to refunded bond escrow agent.....	-	(1,639,510)	-	(1,639,510)
NET OTHER FINANCING SOURCES.....	384,887	820,531	428,037	1,633,455
NET CHANGE IN FUND BALANCES.....	133,007	22,856	(83,942)	71,921
FUND BALANCES JULY 1, 2004.....	1,273,612	61,029	480,091	1,814,732
FUND BALANCES JUNE 30, 2005.....	\$ 1,406,619	\$ 83,885	\$ 396,149	\$ 1,886,653

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Special Revenue Funds

Including
Nonmajor Budgetary Comparison Schedules



*Washington's Headquarters, Valley Forge National Historic Park
Montgomery County*

**SPECIAL REVENUE FUNDS
DESCRIPTION
NONMAJOR FUNDS**

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

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

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

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 workmen's compensation insurance in the Commonwealth.

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

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

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

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

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

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

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

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

COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

June 30, 2005

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Budgeted Funds											Total
	Banking Department	Milk Marketing	Workers' Compensation Admin.	Workers' Compensation Security	Catastrophic Loss Benefits	Pharmaceutical Assistance	Recycling	Fish and Boat	Game	Hazardous Sites Cleanup	Other	
ASSETS												
Cash.....	\$ 120	\$ -	\$ 36	\$ 67	\$ -	\$ 7	\$ -	\$ 407	\$ 112	\$ 1,600	\$ 804	\$ 3,153
Temporary investments.....	37,720	3,371	70,032	135,917	13,106	120,282	74,920	50,990	38,903	39,042	558,096	1,142,379
Long-term investments.....	-	-	-	457,464	-	-	-	-	-	-	-	457,464
Receivables, net												
Taxes.....	-	-	-	-	-	-	-	-	-	-	22,231	22,231
Accounts.....	4,680	-	11	511	-	24,989	-	14	95	34	42	30,376
Accrued interest.....	59	-	-	3,052	-	-	-	-	-	-	558	3,669
Loans.....	-	-	-	-	-	-	71	-	-	-	31,994	32,065
Other.....	-	-	-	-	-	-	-	-	-	-	3	3
Due from other funds.....	-	-	-	-	-	15,159	-	1,083	186	-	16,483	32,911
Due from pension trust funds.....	-	-	-	-	3,824	-	-	-	-	-	-	3,824
Due from Federal government.....	-	-	-	-	-	-	-	4,702	89	-	13,757	18,548
Advances to other funds.....	-	-	-	-	97,000	-	-	-	-	3,000	-	100,000
TOTAL ASSETS.....	\$ 42,579	\$ 3,371	\$ 70,079	\$ 597,011	\$ 113,930	\$ 160,437	\$ 74,991	\$ 57,196	\$ 39,385	\$ 43,676	\$ 643,968	\$ 1,846,623
LIABILITIES AND FUND BALANCES												
Liabilities:												
Accounts payable and accrued liabilities.....	\$ 1,201	\$ 168	\$ 2,457	\$ 6,485	\$ 1,827	\$ 38,345	\$ 4,347	\$ 4,040	\$ 5,469	\$ 2,949	\$ 55,904	\$ 123,192
Securities lending obligations.....	6,029	539	7,110	101,516	2,095	19,227	11,976	8,151	6,219	6,241	89,224	258,327
Due to other funds.....	53	15	258	61	23	1	151	126	495	17	10,314	11,514
Due to pension trust funds.....	9	1	29	-	-	-	-	18	25	12	72	166
Due to political subdivisions.....	-	-	-	-	-	-	7,410	6	-	4	1,986	9,406
Due to other governments.....	50	4	98	-	-	-	-	114	84	51	316	717
Unearned revenue.....	3,600	1,148	418	-	-	-	-	2,979	-	-	18,204	26,349
Advances from other funds.....	-	-	-	-	-	10,333	-	-	-	-	-	10,333
TOTAL LIABILITIES.....	10,942	1,875	10,370	108,062	3,945	67,906	23,884	15,434	12,292	9,274	176,020	440,004
Fund balances:												
Reserved for:												
Encumbrances.....	114	321	1,554	11,797	215	-	17,382	2,048	1,976	3,247	80,938	119,592
Advances.....	-	-	-	-	97,000	-	-	-	-	3,000	-	100,000
Loans receivable.....	-	-	-	-	-	-	71	-	-	-	31,994	32,065
Other.....	-	-	686	-	-	2,029	2,514	1,750	656	4,117	49,285	61,037
Unreserved:												
Designated for:												
Other.....	-	-	-	-	-	-	-	-	-	-	4,355	4,355
Undesignated.....	31,523	1,175	57,469	477,152	12,770	90,502	31,140	37,964	24,461	24,038	301,376	1,089,570
TOTAL FUND BALANCES.....	31,637	1,496	59,709	488,949	109,985	92,531	51,107	41,762	27,093	34,402	467,948	1,406,619
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 42,579	\$ 3,371	\$ 70,079	\$ 597,011	\$ 113,930	\$ 160,437	\$ 74,991	\$ 57,196	\$ 39,385	\$ 43,676	\$ 643,968	\$ 1,846,623

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

For the Fiscal Year Ended June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Budgeted Funds										Total	
	Banking Department	Milk Marketing	Workers' Compensation Admin.	Workers' Compensation Security	Catastrophic Loss Benefits	Pharmaceutical Assistance	Recycling	Fish and Boat	Game	Hazardous Sites Cleanup		Other
REVENUES:												
Taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 204,152	\$ 204,152
Licenses and fees.....	5,061	2,527	10	25,606	-	-	46,067	28,627	40,215	2,033	228,079	378,225
Intergovernmental.....	-	-	-	-	-	-	-	8,870	9,357	-	135,495	153,722
Charges for sales and services.....	13,468	-	55,163	-	3,824	-	-	1,781	22,255	-	31,345	127,836
Investment income.....	1,191	95	995	31,517	(332)	1,978	2,889	1,449	1,444	1,992	18,117	61,335
Other.....	5	1	123	9	8	-	17	420	9	5,168	2,925	8,685
TOTAL REVENUES	19,725	2,623	56,291	57,132	3,500	1,978	48,973	41,147	73,280	9,193	620,113	933,955
EXPENDITURES:												
Current:												
Direction and supportive services.....	334	-	38	(182)	-	-	-	-	-	-	985	1,175
Protection of persons and property.....	12,211	2,227	1,824	7,191	10,067	-	53,666	-	-	39,915	128,631	255,732
Health and human services.....	-	-	47,449	-	-	330,881	-	-	-	-	54,200	432,530
Public education.....	-	-	-	-	-	-	-	-	-	-	219	219
Recreation and cultural enrichment.....	-	-	-	-	-	-	-	37,767	60,355	-	17,327	115,449
Economic development.....	-	-	145	-	-	-	-	-	-	-	201,191	201,336
Transportation.....	-	-	-	-	-	-	-	-	-	-	175,124	175,124
Capital outlay.....	-	-	-	-	-	-	-	707	2,816	-	747	4,270
TOTAL EXPENDITURES	12,545	2,227	49,456	7,009	10,067	330,881	53,666	38,474	63,171	39,915	578,424	1,185,835
REVENUES OVER (UNDER)												
EXPENDITURES	7,180	396	6,835	50,123	(6,567)	(328,903)	(4,693)	2,673	10,109	(30,722)	41,689	(251,880)
OTHER FINANCING SOURCES (USES):												
Transfers in.....	-	-	-	-	-	330,721	500	2,260	-	-	59,518	392,999
Transfers out.....	-	-	-	-	-	-	-	-	-	-	(8,112)	(8,112)
NET OTHER FINANCING SOURCES (USES)	-	-	-	-	-	330,721	500	2,260	-	-	51,406	384,887
NET CHANGE IN FUND BALANCES	7,180	396	6,835	50,123	(6,567)	1,818	(4,193)	4,933	10,109	(30,722)	93,095	133,007
FUND BALANCES, JULY 1, 2004	24,457	1,100	52,874	438,826	116,552	90,713	55,300	36,829	16,984	65,124	374,853	1,273,612
FUND BALANCES, JUNE 30, 2005	\$ 31,637	\$ 1,496	\$ 59,709	\$ 488,949	\$ 109,985	\$ 92,531	\$ 51,107	\$ 41,762	\$ 27,093	\$ 34,402	\$ 467,948	\$ 1,406,619

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

For the Fiscal Year Ended June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Licenses and fees.....	\$ 13,327	\$ 1,322	\$ 14,649	\$ (704)	\$ 13,945
Fines, penalties and interest.....	240	20	260	22	282
Investment income.....	813	282	1,095	245	1,340
Miscellaneous.....	-	1	1	7	8
TOTAL REVENUES.....	14,380	1,625	16,005	(430)	15,575
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	323	-	323	(5)	318
Protection of persons and property.....	14,196	-	14,196	-	14,196
TOTAL EXPENDITURES.....	14,519	-	14,519	(5)	14,514
REVENUES OVER (UNDER) EXPENDITURES.....	(139)	1,625	1,486	(425)	1,061
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	167	167	-	167
TOTAL OTHER FINANCING SOURCES.....	-	167	167	-	167
REVENUES AND OTHER SOURCES OVER (UNDER)					
EXPENDITURES.....	(139)	1,792	1,653	(425)	1,228
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2004.....	26,897	-	26,897	-	26,897
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2005.....	\$ 26,758	\$ 1,792	\$ 28,550	\$ (425)	\$ 28,125

Reconciliation of Budgetary to GAAP Basis Amounts

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

Budgetary basis — revenues and other sources over expenditures (from Actual column above).....	<u>\$ 1,228</u>
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	3,983
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	<u>1,969</u>
Net adjustments.....	<u>5,952</u>
Modified accrual basis — net change in governmental fund balance.....	<u>\$ 7,180</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 124 to 126 are an integral part of this schedule. -

BUDGETARY COMPARISON SCHEDULE

Budgeted Nonmajor Funds

Special Revenue Fund-Milk Marketing

For the Fiscal Year Ended June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Licenses and fees.....	\$ 2,525	\$ (16)	\$ 2,509	\$ (43)	\$ 2,466
Fines, penalties and interest.....	12	8	20	42	62
Investment income.....	77	14	91	5	96
Miscellaneous.....	1	1	2	(1)	1
TOTAL REVENUES.....	2,615	7	2,622	3	2,625
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	5	-	5	(5)	-
Protection of persons and property.....	2,794	-	2,794	-	2,794
TOTAL EXPENDITURES.....	2,799	-	2,799	(5)	2,794
REVENUES OVER (UNDER)					
EXPENDITURES.....	(184)	7	(177)	8	(169)
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	3	3	-	3
TOTAL OTHER FINANCING SOURCES.....	-	3	3	-	3
REVENUES AND OTHER SOURCES OVER					
(UNDER) EXPENDITURES.....	(184)	10	(174)	8	(166)
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2004.....	1,310	-	1,310	-	1,310
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2005.....	\$ 1,126	\$ 10	\$ 1,136	\$ 8	\$ 1,144

Reconciliation of Budgetary to GAAP Basis Amounts

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

Budgetary basis — revenues and other sources under expenditures (from Actual column above).....	<u>\$ (166)</u>
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(5)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	<u>567</u>
Net adjustments.....	<u>562</u>
Modified accrual basis — net change in governmental fund balance.....	<u>\$ 396</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 124 to 126 are an integral part of this schedule. -

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

For the Fiscal Year Ended June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Difference</u>	<u>Final Budget</u>	<u>Difference</u>	<u>Actual (Budgetary Basis)</u>
REVENUES:					
State Programs:					
Taxes, net of refunds.....	\$ 55,006	\$ -	\$ 55,006	\$ (12)	\$ 54,994
Fines, penalties and interest.....	15	-	15	(5)	10
Investment income.....	1,112	(4)	1,108	(388)	720
Departmental services.....	184	-	184	-	184
Miscellaneous.....	193	(1)	192	(67)	125
TOTAL REVENUES.....	56,510	(5)	56,505	(472)	56,033
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	55,000	-	55,000	-	55,000
Economic development.....	184	-	184	-	184
TOTAL EXPENDITURES.....	55,184	-	55,184	-	55,184
REVENUES OVER (UNDER)					
EXPENDITURES.....	1,326	(5)	1,321	(472)	849
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	4,629	4,629	-	4,629
TOTAL OTHER FINANCING SOURCES.....	-	4,629	4,629	-	4,629
REVENUES AND OTHER SOURCES OVER					
(UNDER) EXPENDITURES.....	1,326	4,624	5,950	(472)	5,478
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2004.....	47,505	-	47,505	-	47,505
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2005.....	\$ 48,831	\$ 4,624	\$ 53,455	\$ (472)	\$ 52,983

Reconciliation of Budgetary to GAAP Basis Amounts

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

Budgetary basis — revenues and other sources over expenditures (from Actual column above).....	<u>\$ 5,478</u>
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(4,371)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	<u>5,728</u>
Net adjustments.....	<u>1,357</u>
Modified accrual basis — net change in governmental fund balance.....	<u>\$ 6,835</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 124 to 126 are an integral part of this schedule. -

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Debt Service Funds



Winter Sunrise
Lancaster County

**DEBT SERVICE FUNDS
DESCRIPTION
NONMAJOR FUNDS**

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

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

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

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

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

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

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

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

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

COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS

Debt Service Funds

June 30, 2005

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)	Pennsylvania		Pennsylvania	Water	Land and	Other	Total	
	Disaster Relief Redemption	Infrastructure Investment Authority Redemption						Capital Debt
ASSETS								
Temporary investments.....	\$ -	\$ -	\$ 100,054	\$ -	\$ -	\$ 107	\$ 174	\$ 100,335
Receivables, net								
Accounts.....	-	-	3,802	-	-	-	-	3,802
Accrued interest.....	-	-	338	-	-	-	1	339
Lease rentals.....	-	-	1,021	-	-	-	-	1,021
TOTAL ASSETS.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 105,215</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 107</u>	<u>\$ 175</u>	<u>\$ 105,497</u>
LIABILITIES AND FUND BALANCES								
Liabilities:								
Securities lending obligations.....	\$ -	\$ -	\$ 16,743	\$ -	\$ -	\$ 18	\$ 29	\$ 16,790
Unearned revenue.....	-	-	4,822	-	-	-	-	4,822
TOTAL LIABILITIES.....	<u>-</u>	<u>-</u>	<u>21,565</u>	<u>-</u>	<u>-</u>	<u>18</u>	<u>29</u>	<u>21,612</u>
Fund balances:								
Unreserved:								
Designated for:								
Debt service:								
Retirement of general obligation bonds.....	-	-	83,650	-	-	89	146	83,885
TOTAL FUND BALANCES.....	<u>-</u>	<u>-</u>	<u>83,650</u>	<u>-</u>	<u>-</u>	<u>89</u>	<u>146</u>	<u>83,885</u>
TOTAL LIABILITIES AND FUND BALANCES.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 105,215</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 107</u>	<u>\$ 175</u>	<u>\$ 105,497</u>

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

Debt Service Funds

For the Fiscal Year Ended June 30, 2005

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)	Pennsylvania		Pennsylvania	Water	Land and	Other	Total	
	Disaster Relief Redemption	Infrastructure Investment Authority Redemption						Capital Debt
REVENUES:								
Investment income.....	\$ -	\$ -	\$ 425	\$ -	\$ -	\$ 127	\$ 1	\$ 553
Lease rental principal and interest.....	-	-	190	-	-	-	-	190
Other.....	-	-	640	-	-	-	-	640
TOTAL REVENUES	-	-	1,255	-	-	127	1	1,383
EXPENDITURES:								
Current:								
Protection of persons and property.....	-	-	59	-	-	-	-	59
Debt service:								
Principal retirement.....	1,510	6,020	459,792	405	2,325	155	7,905	478,112
Interest and fiscal charges.....	636	1,866	315,097	214	925	102	2,047	320,887
TOTAL EXPENDITURES	2,146	7,886	774,948	619	3,250	257	9,952	799,058
REVENUES UNDER EXPENDITURES	(2,146)	(7,886)	(773,693)	(619)	(3,250)	(130)	(9,951)	(797,675)
OTHER FINANCING SOURCES (USES):								
Refunding bonds issued.....	-	-	1,468,439	-	-	-	-	1,468,439
Premium on bonds/refunding bonds issued.....	-	-	171,070	-	-	-	-	171,070
Transfers in.....	2,146	7,886	796,504	616	3,250	178	9,952	820,532
Payment to refunded bond escrow agent.....	-	-	(1,639,510)	-	-	-	-	(1,639,510)
NET OTHER FINANCING SOURCES	2,146	7,886	796,503	616	3,250	178	9,952	820,531
NET CHANGE IN FUND BALANCES	-	-	22,810	(3)	-	48	1	22,856
FUND BALANCES, JULY 1, 2004	-	-	60,840	3	-	41	145	61,029
FUND BALANCES, JUNE 30, 2005	\$ -	\$ -	\$ 83,650	\$ -	\$ -	\$ 89	\$ 146	\$ 83,885

Capital Projects Funds



Andy Warhol Museum, Pittsburgh
Allegheny County

**CAPITAL PROJECTS FUNDS
DESCRIPTION
NONMAJOR FUNDS**

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

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

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

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

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

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

COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS
Capital Projects Funds

June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	<u>Capital Facilities</u>	<u>Keystone Recreation, Park and Conservation</u>	<u>Local Criminal Justice</u>	<u>Land and Water Development</u>	<u>Total</u>
ASSETS					
Cash.....	\$ 22	\$ 410	\$ -	\$ -	\$ 432
Temporary investments.....	348,850	196,829	602	1,937	548,218
Receivables, net:					
Accounts.....	6,290	-	-	-	6,290
Accrued interest.....	1,210	683	2	6	1,901
Due from other funds.....	13,165	8,331	-	-	21,496
Due from component units.....	33,728	-	-	-	33,728
Due from political subdivisions.....	61	-	-	-	61
TOTAL ASSETS.....	<u>\$ 403,326</u>	<u>\$ 206,253</u>	<u>\$ 604</u>	<u>\$ 1,943</u>	<u>\$ 612,126</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities.....	\$ 100,244	\$ 4,490	\$ -	\$ -	\$ 104,734
Securities lending obligations.....	50,926	28,734	100	324	80,084
Due to other funds.....	612	3	-	-	615
Due to political subdivisions.....	29,688	856	-	-	30,544
TOTAL LIABILITIES.....	<u>181,470</u>	<u>34,083</u>	<u>100</u>	<u>324</u>	<u>215,977</u>
Fund balances:					
Reserved for:					
Encumbrances.....	690,824	39,146	2,758	-	732,728
Other.....	1,870	-	-	1,637	3,507
Unreserved:					
Designated for:					
Capital projects.....	-	133,024	-	-	133,024
Undesignated deficit.....	(470,838)	-	(2,254)	(18)	(473,110)
TOTAL FUND BALANCES.....	<u>221,856</u>	<u>172,170</u>	<u>504</u>	<u>1,619</u>	<u>396,149</u>
TOTAL LIABILITIES AND FUND BALANCES.....	<u>\$ 403,326</u>	<u>\$ 206,253</u>	<u>\$ 604</u>	<u>\$ 1,943</u>	<u>\$ 612,126</u>

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

Capital Projects Funds

For the Fiscal Year Ended June 30, 2005

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

	Capital Facilities	Keystone Recreation, Park and Conservation	Local Criminal Justice	Land and Water Development	Total
REVENUES:					
Taxes.....	\$ -	\$ 83,167	\$ -	\$ -	\$ 83,167
Charges for sales and services.....	60,008	-	-	-	60,008
Investment income.....	6,130	3,560	22	6	9,718
Other.....	21	-	-	-	21
TOTAL REVENUES	66,159	86,727	22	6	152,914
EXPENDITURES:					
Current:					
Direction and supportive services.....	34,909	-	-	-	34,909
Protection of persons and property.....	823	-	643	-	1,466
Public education.....	-	17,590	-	-	17,590
Recreation and cultural enrichment.....	-	30,916	-	-	30,916
Economic development.....	121,206	-	-	-	121,206
Transportation.....	156,902	-	-	-	156,902
Capital outlay.....	301,632	272	-	-	301,904
TOTAL EXPENDITURES	615,472	48,778	643	-	664,893
REVENUES OVER (UNDER) EXPENDITURES	(549,313)	37,949	(621)	6	(511,979)
OTHER FINANCING SOURCES:					
Bonds issued.....	401,816	-	-	-	401,816
Premium on bonds/refunding bonds issued.....	26,221	-	-	-	26,221
NET OTHER FINANCING SOURCES	428,037	-	-	-	428,037
NET CHANGE IN FUND BALANCES	(121,276)	37,949	(621)	6	(83,942)
FUND BALANCES, JULY 1, 2004	343,132	134,221	1,125	1,613	480,091
FUND BALANCES, JUNE 30, 2005	\$ 221,856	\$ 172,170	\$ 504	\$ 1,619	\$ 396,149

Enterprise Funds



Philadelphia Museum of Art

Philadelphia

**ENTERPRISE FUNDS
DESCRIPTION
NONMAJOR FUNDS**

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

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

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

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

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

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

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

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

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

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

COMBINING STATEMENT OF NET ASSETS-NONMAJOR PROPRIETARY FUNDS
Enterprise Funds

June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	State Stores (June 28, 2005)	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Sub. Insurance	PA Infrastructure Bank	Minority Business Development	Other	Total
ASSETS									
Current assets:									
Cash	\$ 15,108	\$ 832	\$ 167	\$ 397	\$ 109	\$ -	\$ 10	\$ 94	\$ 16,717
Temporary investments.....	110,943	38,028	15,993	39,237	56,859	44,265	7,409	21,301	334,035
Receivables:									
Accounts	2,808	-	-	-	-	173	-	211	3,192
Accrued interest.....	-	218	89	65	-	-	11	5	388
Loans.....	-	18,095	14,242	9,741	-	1,441	683	499	44,701
Other	-	5	-	33	-	-	2	-	40
Due from other funds	23	-	-	-	-	-	-	3,632	3,655
Due from pension trust funds.....	-	-	-	-	-	-	-	19	19
Due from component units.....	-	-	-	-	-	-	-	23	23
Inventory.....	187,850	-	-	-	-	-	-	4	187,854
Prepaid expenses.....	1,048	-	-	-	-	-	-	-	1,048
Total current assets	<u>317,780</u>	<u>57,178</u>	<u>30,491</u>	<u>49,473</u>	<u>56,968</u>	<u>45,879</u>	<u>8,115</u>	<u>25,788</u>	<u>591,672</u>
Noncurrent assets:									
Receivables:									
Loans.....	-	75,727	95,755	23,549	-	12,629	1,019	1,173	209,852
Non-depreciable capital assets:									
Land.....	323	-	-	-	-	-	-	-	323
Construction in progress.....	-	-	-	-	-	-	-	318	318
Depreciable capital assets:									
Buildings and building improvements.....	21,507	-	-	-	-	-	-	18,307	39,814
Machinery and equipment.....	56,160	-	-	-	-	-	-	4,775	60,935
Less: accumulated depreciation	(43,870)	-	-	-	-	-	-	(12,623)	(56,493)
Net depreciable capital assets.....	<u>33,797</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,459</u>	<u>44,256</u>
Total noncurrent assets	<u>34,120</u>	<u>75,727</u>	<u>95,755</u>	<u>23,549</u>	<u>-</u>	<u>12,629</u>	<u>1,019</u>	<u>11,950</u>	<u>254,749</u>
TOTAL ASSETS.....	<u>351,900</u>	<u>132,905</u>	<u>126,246</u>	<u>73,022</u>	<u>56,968</u>	<u>58,508</u>	<u>9,134</u>	<u>37,738</u>	<u>846,421</u>
LIABILITIES									
Current liabilities:									
Accounts payable and accrued liabilities.....	101,377	56	-	25	249	999	3	1,371	104,080
Securities lending obligations.....	18,470	6,000	2,556	6,216	9,089	7,076	1,184	3,478	54,069
Due to other funds.....	3,048	-	-	-	6	-	-	60	3,114
Due to pension trust funds.....	135	-	-	-	1	-	-	1	137
Due to other governments.....	726	-	-	-	3	-	-	5	734
Unearned revenue.....	-	-	95	-	2,436	-	-	2	2,533
Self insurance.....	3,314	6	-	3	18	-	1	214	3,556
Compensated absences.....	4,400	-	-	-	58	-	-	16	4,474
Advances from other funds.....	85,000	3,000	-	-	-	-	-	-	88,000
Total current liabilities.....	<u>216,470</u>	<u>9,062</u>	<u>2,651</u>	<u>6,244</u>	<u>11,860</u>	<u>8,075</u>	<u>1,188</u>	<u>5,147</u>	<u>260,697</u>
Non-current liabilities:									
Insurance loss liability.....	-	-	-	-	706	-	-	-	706
Compensated absences.....	23,102	-	-	-	306	-	-	1,826	25,234
Self insurance.....	12,579	21	-	11	70	-	2	810	13,493
Total non-current liabilities.....	<u>35,681</u>	<u>21</u>	<u>-</u>	<u>11</u>	<u>1,082</u>	<u>-</u>	<u>2</u>	<u>2,636</u>	<u>39,433</u>
TOTAL LIABILITIES.....	<u>252,151</u>	<u>9,083</u>	<u>2,651</u>	<u>6,255</u>	<u>12,942</u>	<u>8,075</u>	<u>1,190</u>	<u>7,783</u>	<u>300,130</u>
NET ASSETS:									
Invested in capital assets, net of related debt.....	34,120	-	-	-	-	-	-	10,777	44,897
Restricted for:									
Transportation.....	-	-	-	-	-	50,433	-	-	50,433
Other purposes.....	65,629	123,822	123,595	66,767	44,026	-	7,944	19,178	450,961
TOTAL NET ASSETS.....	<u>\$ 99,749</u>	<u>\$ 123,822</u>	<u>\$ 123,595</u>	<u>\$ 66,767</u>	<u>\$ 44,026</u>	<u>\$ 50,433</u>	<u>\$ 7,944</u>	<u>\$ 29,955</u>	<u>\$ 546,291</u>

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

Enterprise Funds

For the Fiscal Year Ended June 30, 2005

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	State Stores (June 28, 2005)	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Sub. Insurance	PA Infrastructure Bank	Minority Business Development	Other	Total
OPERATING REVENUES:									
Sales and services.....	\$ 1,183,667	\$ -	\$ -	\$ 209	\$ 5,297	\$ 34	\$ 7	\$ 2,139	\$ 1,191,353
Investment income.....	-	2,227	483	1,666	1,351	827	206	605	7,365
Interest on loans.....	-	3,469	1,997	1,094	-	280	100	667	7,607
Other.....	-	7	-	1	-	-	2	1,932	1,942
OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTABLE ACCOUNTS.....									
	1,183,667	5,703	2,480	2,970	6,648	1,141	315	5,343	1,208,267
Provision for uncollectable accounts.....	(804)	(4,376)	(66)	-	-	-	388	-	(4,858)
NET OPERATING REVENUES.....	1,182,863	1,327	2,414	2,970	6,648	1,141	703	5,343	1,203,409
OPERATING EXPENSES:									
Cost of sales and services.....	1,085,071	727	1	3,016	2,902	3	77	4,448	1,096,245
Depreciation.....	2,936	-	-	-	-	-	-	1,228	4,164
TOTAL OPERATING EXPENSES.....	1,088,007	727	1	3,016	2,902	3	77	5,676	1,100,409
OPERATING INCOME (LOSS).....	94,856	600	2,413	(46)	3,746	1,138	626	(333)	103,000
NONOPERATING REVENUES (EXPENSES):									
Investment income.....	3,378	-	-	-	-	-	-	194	3,572
Other expenses.....	(64)	-	-	-	-	-	-	-	(64)
NONOPERATING REVENUES (EXPENSES), NET.....	3,314	-	-	-	-	-	-	194	3,508
INCOME BEFORE TRANSFERS.....	98,170	600	2,413	(46)	3,746	1,138	626	(139)	106,508
TRANSFERS:									
Transfers in.....	-	-	-	-	-	16,068	-	-	16,068
Transfers out.....	(56,800)	(500)	-	-	-	-	-	-	(57,300)
TOTAL TRANSFERS.....	(56,800)	(500)	-	-	-	16,068	-	-	(41,232)
CHANGE IN NET ASSETS.....	41,370	100	2,413	(46)	3,746	17,206	626	(139)	65,276
TOTAL NET ASSETS-JULY 1, 2004.....	58,379	123,722	121,182	66,813	40,280	33,227	7,318	30,094	481,015
TOTAL NET ASSETS-JUNE 30, 2005.....	\$ 99,749	\$ 123,822	\$ 123,595	\$ 66,767	\$ 44,026	\$ 50,433	\$ 7,944	\$ 29,955	\$ 546,291

COMBINING STATEMENT OF CASH FLOWS-NONMAJOR PROPRIETARY FUNDS

Enterprise Funds

For the Fiscal Year Ended June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	State Stores (June 28, 2005)	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Insurance	PA Infrastructure Bank	Minority Business Development	Other	Total
CASH FLOWS FROM OPERATING ACTIVITIES:									
Receipts from customers.....	\$ 1,183,532	\$ -	\$ -	\$ -	\$ 5,488	\$ -	\$ -	\$ -	\$ 1,189,020
Receipts from borrowers.....	-	(18,428)	5,403	(1,869)	-	-	61	2,445	(12,388)
Receipt of premiums.....	-	-	-	-	-	(347)	-	362	15
Payments to claimants.....	-	-	-	-	(2,689)	-	-	-	(2,689)
Payments to borrowers.....	-	(707)	-	-	-	-	-	-	(707)
Payments to suppliers.....	(1,084,304)	-	(260)	(3,060)	-	993	(71)	(4,582)	(1,091,284)
Other receipts (payments).....	(64)	34	-	1	5	-	2	1,936	1,914
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.	99,164	(19,101)	5,143	(4,928)	2,804	646	(8)	161	83,881
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:									
Transfers in.....	-	-	-	-	-	16,068	-	-	16,068
Transfers out.....	(56,800)	(500)	-	-	-	-	-	-	(57,300)
Net borrowings under advances from other funds.....	500	-	-	-	-	-	-	-	500
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES.....	(56,300)	(500)	-	-	-	16,068	-	-	(40,732)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:									
Acquisition and construction of capital assets.....	(3,990)	-	-	-	-	-	-	(855)	(4,845)
Loss on disposition of capital assets.....	64	-	-	-	-	-	-	-	64
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....	(3,926)	-	-	-	-	-	-	(855)	(4,781)
CASH FLOWS FROM INVESTING ACTIVITIES:									
Purchase of investments.....	(726,973)	(7,577)	(15,429)	(8,013)	(3,677)	(22,223)	(1,173)	(22,712)	(807,777)
Sales and maturities of investments.....	681,591	32,495	9,367	15,012	1,665	2,783	1,310	23,383	767,606
Investment income.....	3,378	2,143	425	1,580	1,817	888	249	846	11,326
Change in securities lending obligations.....	3,359	(7,212)	460	(3,486)	(2,502)	1,838	(410)	(882)	(8,835)
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES...	(38,645)	19,849	(5,177)	5,093	(2,697)	(16,714)	(24)	635	(37,680)
NET INCREASE (DECREASE) IN CASH.....	293	248	(34)	165	107	-	(32)	(59)	688
CASH AT JULY 1, 2004.....	14,815	584	201	232	2	-	43	152	16,029
CASH AT JUNE 30, 2005.....	\$ 15,108	\$ 832	\$ 167	\$ 397	\$ 109	\$ -	\$ 11	\$ 93	\$ 16,717

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

Operating income (loss).....	\$ 94,856	\$ 600	\$ 2,414	\$ (46)	\$ 3,746	\$ 1,138	\$ 626	\$ (334)	\$ 103,000
Depreciation and amortization.....	2,936	-	-	-	-	-	-	1,228	4,164
Provision for uncollectible accounts.....	804	4,376	66	-	-	-	(388)	-	4,858
Non-operating revenues (expenses).....	(64)	-	-	-	-	-	-	454	390
Reclassification of investment income.....	-	(2,227)	(483)	(1,666)	(1,351)	(827)	(206)	(603)	(7,363)
Change in assets and liabilities:									
Accounts receivable.....	(369)	(21,896)	3,392	(3,172)	(1)	(661)	(46)	438	(22,315)
Due from fiduciary funds.....	-	-	-	-	-	-	-	(12)	(12)
Inventory.....	5,622	-	-	-	-	-	-	-	5,622
Due from other funds.....	331	-	-	-	-	-	-	(431)	(100)
Due from component units.....	-	-	-	-	-	-	-	5	5
Other current assets.....	(98)	-	-	-	-	-	-	-	(98)
Accounts payable and accrued liabilities.....	(5,999)	19	(260)	(58)	10	996	4	150	(5,138)
Due to other funds.....	117	-	-	-	(21)	-	-	(921)	(825)
Due to other governments.....	99	-	-	-	(2)	-	-	(2)	95
Unearned revenue.....	-	-	14	-	194	-	-	2	210
Insurance loss liability.....	-	-	-	-	(140)	-	-	-	(140)
Other liabilities.....	929	27	-	14	369	-	2	187	1,528
Total Adjustments.....	4,308	(19,701)	2,729	(4,882)	(942)	(492)	(634)	495	(19,119)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	\$ 99,164	\$ (19,101)	\$ 5,143	\$ (4,928)	\$ 2,804	\$ 646	\$ (8)	\$ 161	\$ 83,881
Increase (decrease) in fair value of investments during the fiscal year.....	\$ (523)	\$ (407)	\$ 58	\$ (264)	\$ (466)	\$ (61)	\$ (43)	\$ (55)	\$ (1,761)

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

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Internal Service Funds



*Steamtown, National Historic Site
Lackawanna County*

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.

COMBINING STATEMENT OF NET ASSETS- NONMAJOR PROPRIETARY FUNDS

Internal Service Funds

June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<u>ASSETS</u>			
Current assets:			
Cash	\$ 3,584	\$ 472	\$ 4,056
Temporary investments.....	15,031	43,461	58,492
Receivables:			
Accounts	6	503	509
Due from other funds	6,673	3,883	10,556
Due from pension trust funds.....	13	-	13
Due from component units.....	304	184	488
Due from Federal government.....	-	66	66
Due from political subdivisions.....	6	45	51
Inventory.....	237	10,576	10,813
Other assets.....	-	105	105
Total current assets	<u>25,854</u>	<u>59,295</u>	<u>85,149</u>
Noncurrent assets:			
Non-depreciable capital assets:			
Land.....	-	6	6
Depreciable capital assets:			
Land improvements.....	-	329	329
Buildings and building improvements.....	-	4,258	4,258
Machinery and equipment.....	70,705	24,152	94,857
Less: accumulated depreciation	<u>(41,717)</u>	<u>(16,806)</u>	<u>(58,523)</u>
Net depreciable capital assets.....	<u>28,988</u>	<u>11,933</u>	<u>40,921</u>
Total noncurrent assets	<u>28,988</u>	<u>11,939</u>	<u>40,927</u>
TOTAL ASSETS	<u>54,842</u>	<u>71,234</u>	<u>126,076</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable and accrued liabilities.....	19,409	3,822	23,231
Securities lending obligations.....	2,403	6,947	9,350
Due to other funds.....	364	98	462
Due to pension trust funds.....	3	10	13
Due to other governments.....	15	29	44
Unearned revenue.....	-	8	8
Self insurance liabilities.....	73	216	289
Compensated absences.....	92	202	294
Advances from other funds.....	14,300	-	14,300
Total current liabilities.....	<u>36,659</u>	<u>11,332</u>	<u>47,991</u>
Non-current liabilities:			
Compensated absences.....	485	1,058	1,543
Self insurance.....	277	820	1,097
Total non-current liabilities.....	<u>762</u>	<u>1,878</u>	<u>2,640</u>
TOTAL LIABILITIES	<u>37,421</u>	<u>13,210</u>	<u>50,631</u>
NET ASSETS:			
Invested in capital assets, net of related debt.....	28,988	11,939	40,927
Restricted for:			
Other purposes.....	-	46,085	46,085
Unrestricted (deficit).....	<u>(11,567)</u>	<u>-</u>	<u>(11,567)</u>
TOTAL NET ASSETS	<u>\$ 17,421</u>	<u>\$ 58,024</u>	<u>\$ 75,445</u>

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

Internal Service Funds

For the Fiscal Year Ended June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
OPERATING REVENUES:			
Sales and services.....	\$ 49,839	\$ 36,734	\$ 86,573
Investment income.....	33	-	33
Other.....	-	57	57
	<u>49,872</u>	<u>36,791</u>	<u>86,663</u>
NET OPERATING REVENUES.....			
OPERATING EXPENSES:			
Cost of sales and services.....	39,769	33,606	73,375
Depreciation.....	7,479	1,576	9,055
	<u>47,248</u>	<u>35,182</u>	<u>82,430</u>
TOTAL OPERATING EXPENSES			
OPERATING INCOME.....	<u>2,624</u>	<u>1,609</u>	<u>4,233</u>
NONOPERATING REVENUES (EXPENSES):			
Investment income.....	404	1,390	1,794
Other revenues.....	311	-	311
Other expenses.....	(963)	-	(963)
	<u>(248)</u>	<u>1,390</u>	<u>1,142</u>
TOTAL NONOPERATING REVENUES (EXPENSES), NET....			
CHANGE IN NET ASSETS.....	2,376	2,999	5,375
TOTAL NET ASSETS, JULY 1, 2004.....	<u>15,045</u>	<u>55,025</u>	<u>70,070</u>
TOTAL NET ASSETS, JUNE 30, 2005.....	<u>\$ 17,421</u>	<u>\$ 58,024</u>	<u>\$ 75,445</u>

COMBINING STATEMENT OF CASH FLOWS-NONMAJOR PROPRIETARY FUNDS

Internal Service Funds

For the Fiscal Year Ended June 30, 2005

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers.....	\$ 51,277	\$ 38,189	\$ 89,466
Payments to suppliers.....	(43,548)	(33,047)	(76,595)
Other receipts.....	-	57	57
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	<u>7,729</u>	<u>5,199</u>	<u>12,928</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets.....	\$ (7,367)	\$ (1,263)	\$ (8,630)
Loss on disposition of capital assets.....	963	-	963
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....	<u>(6,404)</u>	<u>(1,263)</u>	<u>(7,667)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments.....	(270,677)	(21,180)	(291,857)
Sales and maturities of investments.....	263,935	17,241	281,176
Investment income.....	428	1,439	1,867
Change in securities lending obligations.....	655	(1,447)	(792)
NET CASH USED FOR INVESTING ACTIVITIES.....	<u>(5,659)</u>	<u>(3,947)</u>	<u>(9,606)</u>
NET DECREASE IN CASH.....	(4,334)	(11)	(4,345)
CASH AT JULY 1, 2004.....	7,918	483	8,401
CASH AT JUNE 30, 2005.....	<u>\$ 3,584</u>	<u>\$ 472</u>	<u>\$ 4,056</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income.....	\$ 2,624	\$ 1,609	\$ 4,233
Depreciation and amortization.....	7,479	1,576	9,055
Non-operating revenues.....	(685)	-	(685)
Change in assets and liabilities:			
Accounts receivable.....	8	214	222
Inventory.....	220	(405)	(185)
Due from other funds.....	432	1,855	2,287
Due from other governments.....	-	(66)	(66)
Due from component units.....	467	(178)	289
Due from political subdivisions.....	-	80	80
Other current assets.....	-	(46)	(46)
Accounts payable and accrued liabilities.....	(3,380)	(863)	(4,243)
Due to other funds.....	(45)	54	9
Due to other governments.....	7	9	16
Other liabilities.....	602	1,360	1,962
Total Adjustments.....	<u>5,105</u>	<u>3,590</u>	<u>8,695</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	<u>\$ 7,729</u>	<u>\$ 5,199</u>	<u>\$ 12,928</u>
Increase (decrease) in fair value of investments during the fiscal year.....	\$ 315	\$ (72)	\$ 243

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

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Pension (and Other Employee Benefit) Trust Funds



Eagles Mere
Sullivan County

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

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

PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

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

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

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

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

June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust			Total
	State Employees' Retirement System (December 31, 2004)	Deferred Compensation (December 31, 2004)	Public School Employees' Retirement System	
ASSETS				
Cash.....	\$ -	\$ 2,389	\$ 34,459	\$ 36,848
Temporary investments.....	770,250	29,223	10,903,237	11,702,710
Long-term investments.....	28,763,188	1,346,203	48,601,040	78,710,431
Receivables, net:				
Accrued interest.....	96,323	124	-	96,447
Pension contributions.....	-	5,046	363,932	368,978
Investment proceeds.....	197,578	-	974,114	1,171,692
Other.....	2,443	11	178,168	180,622
Due from other funds.....	14,272	-	-	14,272
Due from primary government.....	-	-	5,759	5,759
Due from component units.....	12,671	-	-	12,671
Due from political subdivisions.....	1,518	-	-	1,518
Due from other governments.....	-	-	21	21
Depreciable capital assets:				
Capital assets.....	-	-	10,957	10,957
Less: accumulated depreciation.....	-	-	(10,084)	(10,084)
Net depreciable capital assets.....	-	-	873	873
TOTAL ASSETS.....	29,858,243	1,382,996	61,061,603	92,302,842
LIABILITIES				
Liabilities:				
Accounts payable and accrued liabilities.....	35,533	782	39,724	76,039
Investment purchases payable.....	251,672	-	2,064,363	2,316,035
Securities lending obligations.....	2,929,639	-	6,600,684	9,530,323
Due to primary government.....	-	-	682	682
Other liabilities.....	-	112	244,724	244,836
TOTAL LIABILITIES.....	3,216,844	894	8,950,177	12,167,915
NET ASSETS:				
Held in trust for:				
Pension and other employee benefits.....	26,641,399	-	51,936,397	78,577,796
Healthcare benefits.....	-	-	175,029	175,029
Employee salary deferrals.....	-	1,382,102	-	1,382,102
TOTAL NET ASSETS.....	\$ 26,641,399	\$ 1,382,102	\$ 52,111,426	\$ 80,134,927

Investments by subdivision:				
Short-term funds.....	\$ 770,250	\$ -	\$ 4,302,553	\$ 5,072,803
U.S. Treasury and government agency obligations	2,549,600	-	2,959,042	5,508,642
Corporate obligations.....	1,732,155	-	3,653,564	5,385,719
International obligations.....	727,208	-	1,959,710	2,686,918
Equities.....	12,197,850	-	27,859,789	40,057,639
Collective trust funds.....	3,498,043	1,375,426	-	4,873,469
Real estate.....	2,137,445	-	2,285,617	4,423,062
Alternative investments.....	2,991,248	-	4,985,069	7,976,317
Securities lending collateral.....	2,929,639	-	6,600,684	9,530,323
Domestic mortgage-backed securities.....	-	-	4,898,249	4,898,249
Total investments by subdivision.....	\$ 29,533,438	\$ 1,375,426	\$ 59,504,277	\$ 90,413,141
Temporary investments.....	\$ 770,250	\$ 29,223	\$ 10,903,237	\$ 11,702,710
Long-term investments.....	28,763,188	1,346,203	48,601,040	78,710,431
Total.....	\$ 29,533,438	\$ 1,375,426	\$ 59,504,277	\$ 90,413,141

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

For the Fiscal Year Ended June 30, 2005

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust			Total
	State Employees'	Deferred	Public School	
	Retirement System (December 31, 2004)	Compensation (December 31, 2004)	Employees' Retirement System	
ADDITIONS:				
Pension contributions:				
Employer.....	\$ 106,703	\$ -	\$ 457,808	\$ 564,511
Employee.....	309,923	135,897	955,509	1,401,329
Total contributions.....	<u>416,626</u>	<u>135,897</u>	<u>1,413,317</u>	<u>1,965,840</u>
Investment income:				
Net appreciation in fair value of investments.....	3,198,538	86,642	4,462,384	7,747,564
Interest income.....	280,221	20,635	1,795,687	2,096,543
Dividend income.....	124,099	-	-	124,099
Rental and other income.....	154,855	-	-	154,855
Total investment activity income.....	<u>3,757,713</u>	<u>107,277</u>	<u>6,258,071</u>	<u>10,123,061</u>
Less: investment expenses				
Investment activity expense.....	(196,859)	(1,422)	(192,677)	(390,958)
Net investment earnings.....	<u>3,560,854</u>	<u>105,855</u>	<u>6,065,394</u>	<u>9,732,103</u>
Securities lending activities:				
Income.....	40,854	-	125,882	166,736
Expenses.....	(32,385)	-	(109,779)	(142,164)
Total securities lending income.....	<u>8,469</u>	<u>-</u>	<u>16,103</u>	<u>24,572</u>
Total net investment income.....	<u>3,569,323</u>	<u>105,855</u>	<u>6,081,497</u>	<u>9,756,675</u>
TOTAL ADDITIONS.....	<u>3,985,949</u>	<u>241,752</u>	<u>7,494,814</u>	<u>11,722,515</u>
DEDUCTIONS:				
Benefit payments.....	1,853,117	36,467	3,850,750	5,740,334
Refunds of contributions.....	6,138	-	16,233	22,371
Administrative expenses.....	21,244	221	42,645	64,110
Other expenses.....	-	37,917	10,859	48,776
TOTAL DEDUCTIONS:.....	<u>1,880,499</u>	<u>74,605</u>	<u>3,920,487</u>	<u>5,875,591</u>
CHANGE IN PLAN NET ASSETS HELD IN TRUST FOR:				
Pension and other employee benefits.....	2,105,450	167,147	3,596,748	5,869,345
Healthcare benefits.....	-	-	(22,421)	(22,421)
Net assets, July 1, 2004.....	24,535,949	1,214,955	48,537,099	74,288,003
Net assets, June 30, 2005.....	<u>\$ 26,641,399</u>	<u>\$ 1,382,102</u>	<u>\$ 52,111,426</u>	<u>\$ 80,134,927</u>

Agency Funds



Walter's Mill Bridge

Somerset County

AGENCY FUNDS DESCRIPTION

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

AGENCY FUNDS

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

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

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

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

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

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

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

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

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

There are a total of fifteen individual agency funds.

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

Agency Funds

June 30, 2005

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Statutory Liquidator	Medical Care Availability & Reduction of Error	Medical Prof. Liability Catastrophe Loss	Underground Storage Tank Indemnification	Municipal Pension Aid	Fire Insurance Tax	Agency Custodian Accounts	Other	PA Life and Health Insurance Guaranty Association (December 31, 2004)	PA Property and Casualty Insurance Guaranty Association (December 31, 2004)	Total Agency Funds
ASSETS											
Cash.....	\$ -	\$ 683	\$ -	\$ 893	\$ -	\$ -	\$ 8,327	\$ 145	\$ 2,529	\$ 6,981	\$ 19,558
Cash with fiscal agents.....	137,005	-	-	-	-	-	-	-	-	-	137,005
Temporary investments.....	566,351	168,826	-	57,720	224,546	98,075	13,003	41,729	247,169	82,933	1,500,352
Long-term investments.....	1,298,675	-	-	87,426	-	-	-	-	-	40,283	1,426,384
Receivables, net:											
Taxes.....	-	-	-	-	-	-	-	26,791	-	-	26,791
Accounts.....	277,135	75,682	-	-	-	-	15,027	-	-	2,416	370,260
Accrued interest.....	225	-	-	593	779	332	1	130	-	-	2,060
Loans.....	-	-	-	3,097	-	-	-	-	-	-	3,097
Other.....	-	-	-	-	-	-	-	-	-	183,671	183,671
Advances to other funds.....	-	-	-	90,000	-	-	-	-	-	-	90,000
Other assets.....	1,730,605	-	-	-	-	-	4,761	-	-	282	1,735,648
TOTAL ASSETS.....	\$ 4,009,996	\$ 245,191	\$ -	\$ 239,729	\$ 225,325	\$ 98,407	\$ 41,119	\$ 68,795	\$ 249,698	\$ 316,566	\$ 5,494,826
LIABILITIES											
Accounts payable and accrued liabilities.....	\$ 74	\$ 10,948	\$ -	\$ 17,242	\$ -	\$ -	\$ 6,909	\$ 221	\$ -	\$ -	\$ 35,394
Securities lending obligations.....	42,261	26,987	-	26,366	32,780	16,412	-	6,959	-	-	151,765
Due to political subdivisions.....	-	-	-	192	192,545	81,995	-	58,954	-	-	333,686
Due to other governments.....	-	8	-	1	-	-	-	-	-	-	9
Advances from other funds.....	-	207,000	-	-	-	-	-	-	-	-	207,000
Self insurance liabilities.....	-	248	-	40	-	-	-	-	-	-	288
Other liabilities.....	3,967,661	-	-	195,888	-	-	34,210	2,661	249,698	316,566	4,766,684
TOTAL LIABILITIES.....	\$ 4,009,996	\$ 245,191	\$ -	\$ 239,729	\$ 225,325	\$ 98,407	\$ 41,119	\$ 68,795	\$ 249,698	\$ 316,566	\$ 5,494,826

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Agency Funds

For the Fiscal Year Ended June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>
STATUTORY LIQUIDATOR FUND				
ASSETS				
Cash with fiscal agents.....	\$ 46,013	\$ 129,623	\$ 38,631	\$ 137,005
Temporary investments.....	900,749	3,677,615	4,012,013	566,351
Long-term investments.....	905,069	1,424,086	1,030,480	1,298,675
Receivables, net:				
Accounts.....	260,069	17,066	-	277,135
Accrued interest.....	233	-	8	225
Other assets.....	619,334	1,111,271	-	1,730,605
TOTAL ASSETS	<u>\$ 2,731,467</u>	<u>\$ 6,359,661</u>	<u>\$ 5,081,132</u>	<u>\$ 4,009,996</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ -	\$ 74	\$ -	\$ 74
Securities lending obligations.....	46,800	42,262	46,801	42,261
Other liabilities.....	2,684,667	1,754,923	471,929	3,967,661
TOTAL LIABILITIES	<u>\$ 2,731,467</u>	<u>\$ 1,797,259</u>	<u>\$ 518,730</u>	<u>\$ 4,009,996</u>
MEDICAL CARE AVAILABILITY AND REDUCTION OF ERROR FUND				
ASSETS				
Cash.....	\$ 31,457	\$ 10,511,153	\$ 10,541,927	\$ 683
Temporary investments.....	103,896	5,385,812	5,320,882	168,826
Receivables, net:				
Accounts.....	117,282	107,826	149,426	75,682
Due from other funds.....	-	663	663	-
TOTAL ASSETS	<u>\$ 252,635</u>	<u>\$ 16,005,454</u>	<u>\$ 16,012,898</u>	<u>\$ 245,191</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 15,169	\$ 1,043,726	\$ 1,047,947	\$ 10,948
Securities lending obligations.....	22,096	26,987	22,096	26,987
Due to other funds.....	-	57	57	-
Due to political subdivisions.....	-	21	21	-
Due to other governments.....	10	8	10	8
Advances from other funds.....	220,000	427,000	440,000	207,000
Self insurance liabilities.....	216	248	216	248
Other liabilities.....	(4,856)	(243,393)	(248,249)	-
TOTAL LIABILITIES	<u>\$ 252,635</u>	<u>\$ 1,254,654</u>	<u>\$ 1,262,098</u>	<u>\$ 245,191</u>
MEDICAL PROFESSIONAL LIABILITY CATASTROPHE LOSS FUND				
ASSETS				
Cash.....	\$ -	\$ 565,565	\$ 565,565	\$ -
Temporary investments.....	843	26	869	-
TOTAL ASSETS	<u>\$ 843</u>	<u>\$ 565,591</u>	<u>\$ 566,434</u>	<u>\$ -</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 663	\$ -	\$ 663	\$ -
Securities lending obligations.....	179	-	179	-
Due to other funds.....	-	663	663	-
Other liabilities.....	1	-	1	-
TOTAL LIABILITIES	<u>\$ 843</u>	<u>\$ 663</u>	<u>\$ 1,506</u>	<u>\$ -</u>
UNDERGROUND STORAGE TANK INDEMNIFICATION FUND				
ASSETS				
Cash.....	\$ 1,373	\$ 7,420,710	\$ 7,421,190	\$ 893
Temporary investments.....	40,416	724,982	707,678	57,720
Long-term investments.....	92,736	455,618	460,928	87,426
Receivables, net:				
Accounts.....	-	3	3	-
Accrued interest.....	169	763	339	593
Loans.....	3,676	7,467	8,046	3,097
Advances to other funds.....	100,000	10,000	20,000	90,000
TOTAL ASSETS	<u>\$ 238,370</u>	<u>\$ 8,619,543</u>	<u>\$ 8,618,184</u>	<u>\$ 239,729</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 16,597	\$ 156,172	\$ 155,527	\$ 17,242
Securities lending obligations.....	27,105	26,366	27,105	26,366
Due to other funds.....	-	37	37	-
Due to political subdivisions.....	190	1,071	1,069	192
Due to other governments.....	1	1	1	1
Self insurance liabilities.....	36	40	36	40
Other liabilities.....	194,441	227,137	225,690	195,888
TOTAL LIABILITIES	<u>\$ 238,370</u>	<u>\$ 410,824</u>	<u>\$ 409,465</u>	<u>\$ 239,729</u>

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

For the Fiscal Year Ended June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
MUNICIPAL PENSION AID FUND				
ASSETS				
Cash.....	\$ -	\$ 5,555,069	\$ 5,555,069	\$ -
Temporary investments.....	222,151	876,940	874,545	224,546
Receivables, net:				
Accrued interest.....	181	779	181	779
TOTAL ASSETS	\$ 222,332	\$ 6,432,788	\$ 6,429,795	\$ 225,325
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 1	\$ -	\$ 1	\$ -
Securities lending obligations.....	38,818	38,539	44,577	32,780
Due to political subdivisions.....	183,513	9,032	-	192,545
TOTAL LIABILITIES	\$ 222,332	\$ 47,571	\$ 44,578	\$ 225,325
FIRE INSURANCE TAX FUND				
ASSETS				
Cash.....	\$ -	\$ 1,526,112	\$ 1,526,112	\$ -
Temporary investments.....	90,986	216,437	209,348	98,075
Receivables, net:				
Accrued interest.....	74	332	74	332
TOTAL ASSETS	\$ 91,060	\$ 1,742,881	\$ 1,735,534	\$ 98,407
LIABILITIES				
Securities lending obligations.....	\$ 15,899	\$ 16,412	\$ 15,899	\$ 16,412
Due to political subdivisions.....	75,161	19,783	12,949	81,995
TOTAL LIABILITIES	\$ 91,060	\$ 36,195	\$ 28,848	\$ 98,407
AGENCY CUSTODIAL ACCOUNTS				
ASSETS				
Cash.....	\$ 8,480	\$ 44,897	\$ 45,050	\$ 8,327
Temporary investments.....	12,882	15,309	15,188	13,003
Receivables, net:				
Accounts.....	13,389	19,304	17,666	15,027
Accrued interest.....	1	1	1	1
Other assets.....	5,016	4,756	5,011	4,761
TOTAL ASSETS	\$ 39,768	\$ 84,267	\$ 82,916	\$ 41,119
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 6,505	\$ 7,235	\$ 6,831	\$ 6,909
Other liabilities.....	33,263	40,526	39,579	34,210
TOTAL LIABILITIES	\$ 39,768	\$ 47,761	\$ 46,410	\$ 41,119

(continued)

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

For the Fiscal Year Ended June 30, 2005

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
OTHER FUNDS				
ASSETS				
Cash.....	\$ 41	\$ 11,038,213	\$ 11,038,109	\$ 145
Temporary investments.....	38,882	3,541,423	3,538,576	41,729
Receivables, net:				
Taxes.....	14,663	26,797	14,669	26,791
Accounts.....	4,119	4,077	8,196	-
Accrued interest.....	27	131	28	130
TOTAL ASSETS	\$ 57,732	\$ 14,610,641	\$ 14,599,578	\$ 68,795
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 170	\$ 56,195	\$ 56,144	\$ 221
Securities lending obligations.....	6,904	6,959	6,904	6,959
Due to other funds.....	-	302	302	-
Due to political subdivisions.....	48,139	109,634	98,819	58,954
Other liabilities.....	2,519	142	-	2,661
TOTAL LIABILITIES	\$ 57,732	\$ 173,232	\$ 162,169	\$ 68,795
PENNSYLVANIA LIFE AND HEALTH				
INSURANCE GUARANTY ASSOCIATION				
ASSETS				
Cash.....	\$ 1,219	\$ 8,407	\$ 7,097	\$ 2,529
Temporary investments.....	250,025	43,300	46,156	247,169
TOTAL ASSETS	\$ 251,244	\$ 51,707	\$ 53,253	\$ 249,698
LIABILITIES				
Other liabilities.....	\$ 251,244	\$ -	\$ 1,546	\$ 249,698
TOTAL LIABILITIES	\$ 251,244	\$ -	\$ 1,546	\$ 249,698
PENNSYLVANIA PROPERTY AND CASUALTY				
INSURANCE GUARANTY ASSOCIATION				
ASSETS				
Cash.....	\$ 5,945	\$ 79,600	\$ 78,564	\$ 6,981
Temporary investments.....	33,428	51,691	2,186	82,933
Long-term investments.....	17,053	23,230	-	40,283
Receivables, net:				
Accounts.....	222	2,194	-	2,416
Other.....	249,995	-	66,324	183,671
Other assets.....	288	-	6	282
TOTAL ASSETS	\$ 306,931	\$ 156,715	\$ 147,080	\$ 316,566
LIABILITIES				
Other liabilities.....	\$ 306,931	\$ 80,358	\$ 70,723	\$ 316,566
TOTAL LIABILITIES	\$ 306,931	\$ 80,358	\$ 70,723	\$ 316,566

(continued)

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

For the Fiscal Year Ended June 30, 2005

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>
TOTAL — AGENCY FUNDS				
ASSETS				
Cash.....	\$ 48,515	\$ 36,749,726	\$ 36,778,683	\$ 19,558
Cash with fiscal agents.....	46,013	129,623	38,631	137,005
Temporary investments.....	1,694,258	14,533,535	14,727,441	1,500,352
Long-term investments.....	1,014,858	1,902,934	1,491,408	1,426,384
Receivables, net:				
Taxes.....	14,663	26,797	14,669	26,791
Accounts.....	395,081	150,470	175,291	370,260
Accrued interest.....	685	2,006	631	2,060
Loans.....	3,676	7,467	8,046	3,097
Other.....	249,995	-	66,324	183,671
Due from other funds.....	-	663	663	-
Advances to other funds.....	100,000	10,000	20,000	90,000
Other assets.....	624,638	1,116,027	5,017	1,735,648
TOTAL ASSETS	<u>\$ 4,192,382</u>	<u>\$ 54,629,248</u>	<u>\$ 53,326,804</u>	<u>\$ 5,494,826</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 39,105	\$ 1,263,402	\$ 1,267,113	\$ 35,394
Securities lending obligations.....	157,801	157,525	163,561	151,765
Due to other funds.....	-	1,059	1,059	-
Due to political subdivisions.....	307,003	139,541	112,858	333,686
Due to other governments.....	11	9	11	9
Advances from other funds.....	220,000	427,000	440,000	207,000
Self insurance liabilities.....	252	288	252	288
Other liabilities.....	3,468,210	1,859,693	561,219	4,766,684
TOTAL LIABILITIES	<u>\$ 4,192,382</u>	<u>\$ 3,848,517</u>	<u>\$ 2,546,073</u>	<u>\$ 5,494,826</u>

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Statistical Section



Jim Thorpe
Carbon County

REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES

TABLE 1
For the Last Ten Fiscal Years Ended June 30

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>(Restated)</u> <u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
REVENUES BY SOURCE										
Taxes.....	\$ 17,220,048	\$ 18,168,581	\$ 19,043,735	\$ 20,105,276	\$ 20,956,743	\$ 22,621,745	\$ 20,636,762	\$ 21,469,170	\$ 23,237,117	\$ 24,973,125
Licenses and fees.....	796,150	804,429	1,004,050	1,019,256	1,143,789	1,237,179	1,246,232	1,350,016	1,475,948	1,568,659
Intergovernmental.....	9,517,277	9,499,083	9,669,407	10,563,455	11,093,738	12,154,600	13,259,463	14,575,716	16,379,096	16,585,336
Charges for sales and services.....	1,311,375	1,516,527	1,697,933	2,057,375	2,489,196	2,388,536	2,535,775	2,019,842	2,068,019	4,027,745
Investment income.....	152,724	174,604	225,805	258,525	396,499	465,178	29,615	249,791	402,132	322,199
Lottery receipts	1,699,277	1,722,558	1,684,015	1,659,305	1,695,371	1,788,333	-	-	-	-
Other	228,931	187,592	178,042	214,254	656,086	647,322	755,226	837,918	957,494	552,422
TOTAL REVENUES	\$ 30,925,782	\$ 32,073,374	\$ 33,502,987	\$ 35,877,446	\$ 38,431,422	\$ 41,302,893	\$ 38,463,073	\$ 40,502,453	\$ 44,519,806	\$ 48,029,486
EXPENDITURES BY FUNCTION										
Direction and Supportive services	\$ 2,630,517	\$ 2,468,746	\$ 2,586,529	\$ 2,722,917	\$ 2,817,426	\$ 3,329,980	\$ 968,563	\$ 914,794	\$ 1,538,729	\$ 2,134,421
Protection of persons and property.....	2,345,462	2,462,026	2,613,021	2,785,269	2,933,612	3,072,205	3,876,449	3,882,843	3,886,666	3,892,572
Health and human services.....	13,651,317	13,907,167	14,341,539	15,320,410	16,486,542	19,204,847	18,990,802	20,510,849	21,689,392	24,118,288
Public education.....	7,417,504	7,397,274	7,714,443	7,842,732	8,283,144	8,677,284	8,814,273	10,198,076	10,529,504	11,400,985
Recreation and cultural enrichment.....	348,639	369,467	396,087	436,601	510,732	568,757	480,245	471,920	382,179	442,783
Economic development.....	285,092	300,310	338,984	469,005	539,068	745,143	1,245,292	1,507,584	1,334,071	1,310,093
Transportation.....	2,832,031	2,912,583	3,243,334	3,654,269	3,679,188	4,065,124	4,003,291	3,935,785	2,310,434	2,607,793
Capital outlay.....	319,195	253,758	360,238	582,863	586,801	655,248	694,219	407,080	2,008,141	1,805,913
Debt service:										
Principal retirement.....	447,790	437,880	435,090	443,675	479,350	477,001	479,395	998,396	455,890	478,112
Interest and fiscal charges.....	289,138	287,866	263,356	262,669	277,044	281,590	278,428	313,681	311,686	320,887
TOTAL EXPENDITURES	\$ 30,566,685	\$ 30,797,077	\$ 32,292,621	\$ 34,520,410	\$ 36,592,907	\$ 41,077,179	\$ 39,830,957	\$ 43,141,008	\$ 44,446,692	\$ 48,511,847

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

NET BONDED DEBT PER CAPITA

TABLE 2
For the Last Ten Fiscal Years

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)			
<u>At Fiscal Year Ended June 30</u>	<u>Net Bonded Debt</u>	<u>Population</u>	<u>Debt Per Capita</u>
1995	\$ 5,040,662	12,044	\$ 418
1996	5,061,530	12,038	420
1997	4,841,729	12,015	403
1998	4,841,324	12,002	403
1999	5,253,614	11,994	438
2000	5,366,621	12,281	437
2001	5,545,081	12,287	451
2002	6,071,938	12,335	492
2003	6,800,841	12,365	550
2004	6,953,444	12,406	560

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

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

TABLE 3
For the Last Ten Fiscal Years

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)			
<u>For The Fiscal Year Ended June 30</u>	<u>Debt Service Requirements Funded by General Fund</u>	<u>Budgetary Basis General Fund Expenditures⁽¹⁾</u>	<u>%</u>
1996	\$ 551,133	\$ 23,480,336	2.35
1997	649,759	23,384,414	2.78
1998	624,642	24,891,340	2.51
1999	761,572	26,624,901	2.86
2000	627,817	28,755,784	2.18
2001	382,924	29,717,425	1.29
2002	551,189	31,666,564	1.74
2003	608,323	34,350,113	1.77
2004	669,379	35,785,999	1.87
2005	400,359	39,790,874	1.00

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

COMPUTATION OF LEGAL DEBT MARGIN

TABLE 4

As of August 31, 2005

COMMONWEALTH OF PENNSYLVANIA

Average annual tax revenues deposited in the previous five fiscal years.....	\$ 26,141,233,164
Constitutional factor.....	<u>x 1.75</u>
Constitutional debt limit for debt incurred without the approval of the electors	45,747,158,037
Less outstanding net debt (non-electorate approved)	<u>6,146,947,312</u>
Legal debt margin.....	<u>\$ 39,600,210,725</u>

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

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

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

The figures above are abstracted from a certification of the Auditor General dated August 31, 2005.

SCHEDULE OF REVENUE BOND COVERAGE

TABLE 5
For the Last Ten Fiscal Years

COMMONWEALTH OF PENNSYLVANIA

Pennsylvania Turnpike Commission ^(b)							
(Expressed in Thousands)							
For the Fiscal Year Ended May 31	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1996	\$ 389,774	\$ 162,150	\$ 227,624	\$ 23,900	\$ 75,644	\$ 99,544	2.29
1997	398,897	158,705	240,192	22,845	74,462	97,307	2.47
1998	410,266	165,763	244,503	28,240	72,274	100,514	2.43
1999	441,235	190,179	251,056	29,085	86,483	115,568	2.17
2000	458,728	180,671	278,057	36,775	90,784	127,559	2.18
2001	490,494	212,365	278,129	48,245	106,949	155,194	1.79
2002	530,363	216,077	314,286	274,200	122,209	396,409	0.79
2003	548,576	233,542	315,034	58,475	113,016	171,491	1.84
2004	549,981	237,385	312,596	56,960	128,199	185,159	1.69
2005	700,257	270,706	429,551	59,230	126,988	186,218	2.31

Pennsylvania Industrial Development Authority ^(b)							
(Expressed in Thousands)							
For the Fiscal Year Ended June 30	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1996	\$ 30,487	\$ 2,898	\$ 27,589	\$ 10,695	\$ 19,747	\$ 30,442	0.91
1997	32,963	2,865	30,098	12,955	22,314	35,269	0.85
1998	35,967	2,861	33,106	19,380	22,852	42,232	0.78
1999	30,227	3,187	27,040	20,660	21,845	42,505	0.64
2000	34,581	3,315	31,266	22,585	20,615	43,200	0.72
2001	38,807	3,102	35,705	23,005	19,487	42,492	0.84
2002	31,360	4,236	27,124	23,695	18,830	42,525	0.64
2003	34,559	3,447	31,112	18,815	30,217	49,032	0.63
2004	20,860	3,029	17,831	22,120	28,666	50,786	0.35
2005	28,324	3,206	25,118	21,270	27,470	48,740	0.52

Pennsylvania Housing Finance Agency ^(b)							
(Expressed in Thousands)							
For the Fiscal Year Ended June 30	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest ^(a)	Total	
1996	\$ 208,048	\$ 16,979	\$ 191,069	\$ 40,839	\$ 146,452	\$ 187,291	1.02
1997	222,736	16,748	205,988	39,463	157,989	197,452	1.04
1998	247,841	17,931	229,910	43,558	172,268	215,826	1.06
1999	237,346	19,544	217,802	54,438	175,337	229,775	0.95
2000	249,336	20,303	229,033	93,240	176,399	269,639	0.85
2001	260,049	24,398	235,651	62,582	174,349	236,931	0.99
2002	231,306	25,701	205,605	75,934	166,224	242,158	0.85
2003	196,179	25,408	170,771	74,092	169,225	243,317	0.70
2004	194,942	30,482	164,460	78,385	148,547	226,932	0.72
2005	203,511	31,894	171,617	164,276	125,726	290,002	0.59

^(a) Excludes interest on notes payable.

^(b) Discretely Presented Component Unit.

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

**TABLE 6
For the Last Ten Calendar Years**

COMMONWEALTH OF PENNSYLVANIA

<u>Calendar Year</u>	(Expressed in Thousands)		<u>%</u>
	<u>United States</u>	<u>Pennsylvania</u>	
1995	262,803	12,044	4.58
1996	265,228	12,038	4.54
1997	267,783	12,015	4.49
1998	270,248	12,002	4.44
1999	272,690	11,994	4.40
2000	282,178	12,285	4.35
2001	285,094	12,298	4.31
2002	287,974	12,328	4.28
2003	290,810	12,370	4.30
2004	293,655	12,406	4.20

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

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

**TABLE 7
For the Last Ten Calendar Years**

COMMONWEALTH OF PENNSYLVANIA

<u>Calendar Year</u>	(Expressed in Thousands)	
	<u>Demand Deposits</u>	<u>Time and Savings Deposits</u>
1995	\$ 7,124,441	\$ 51,766,777
1996	4,233,735	37,254,292
1997	4,764,449	40,036,785
1998	4,581,076	35,885,048
1999	4,469,669	38,497,993
2000	4,680,714	40,344,204
2001	7,203,956	50,123,973
2002	7,371,263	53,839,174
2003	8,496,642	59,370,232
2004	8,851,627	64,052,763

SOURCE: Pennsylvania Department of Banking

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

TABLE 8
For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands
Except Percents)

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
PENNSYLVANIA										
Civilian labor force.....	5,838	5,903	5,984	5,936	5,969	5,972	6,073	6,290	6,170	6,275
Employment.....	5,495	5,590	5,673	5,661	5,707	5,722	5,786	5,934	5,826	5,927
Unemployment.....	343	313	311	275	262	250	287	356	344	348
Rate %.....	5.9	5.3	5.2	4.6	4.4	4.2	4.7	5.7	5.6	5.5
UNITED STATES										
Civilian labor force.....	132,304	133,943	136,297	137,674	139,368	146,863	141,815	144,863	146,510	147,401
Employment.....	124,900	126,708	129,558	131,464	133,488	135,208	135,073	136,485	137,736	139,252
Unemployment.....	7,404	7,235	6,739	6,210	5,880	5,655	6,742	8,378	8,774	8,149
Rate %.....	5.6	5.4	4.9	4.5	4.2	4	4.8	5.8	6	5.5

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

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

TABLE 9

For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA

Calendar Year	TOTAL PERSONAL INCOME (Millions of Dollars)			PER CAPITA PERSONAL INCOME (Dollars)		
	United States	Pennsylvania	%	United States	Pennsylvania	%
1995	\$ 6,192,235	\$ 285,923	4.60	\$ 23,562	\$ 23,738	100.70
1996	6,538,103	299,001	4.60	24,270	24,467	100.81
1997	6,928,545	313,457	4.50	25,412	25,635	100.88
1998	7,418,497	330,733	4.46	26,893	27,008	100.43
1999	7,779,511	342,357	4.40	27,880	27,916	100.13
2000	8,398,811	365,626	4.35	29,760	29,759	100.00
2001	8,677,490	378,350	4.36	30,413	30,752	101.11
2002	8,922,320	391,354	4.39	30,941	31,727	102.54
2003	9,199,008	395,669	4.30	31,632	31,998	101.15
2004	9,672,205	413,730	4.28	32,937	33,348	101.25

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

For the Calendar Year 2004

COMMONWEALTH OF PENNSYLVANIA

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

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

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

TABLE 11

COMMONWEALTH OF PENNSYLVANIA

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

SOURCE: *Ward’s Business Directory 2004*

June 30, 2005

COMMONWEALTH OF PENNSYLVANIA

Date of Ratification of U.S. Constitution	December 12, 1787
Form of Government	Legislative-Executive-Judicial
Miles of State Highway	39,893
Land Area – in square miles	45,000
State Police Protection:	
Number of Stations	90
Number of State Police	4,185
Higher Education (Universities, Colleges and Community Colleges):	
Number of campuses in state	238
Number of educators	25,298
Number of students	709,061
Recreation:	
Number of State Parks	117
Area of State Parks	282,039 Acres
Area of State Forests	2,015,965 Acres

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