

Commonwealth of Pennsylvania



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2010

Edward G. Rendell
Governor



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Commonwealth of Pennsylvania

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

Edward G. Rendell, Governor



Prepared By:

Mary A. Soderberg, Secretary
Office of the Budget

Anna Maria Kiehl, CPA
Chief Accounting Officer

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Commonwealth of Pennsylvania
 Comprehensive Annual Financial Report
 For the Fiscal Year Ended June 30, 2010

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COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

MARY SODERBERG
SECRETARY
OFFICE OF THE BUDGET

December 22, 2010

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, 2010. The Office of the Budget, Office of Comptroller Operations, prepared this report, which includes the Basic Financial Statements, pursuant to the power vested in the Governor under Section 701 of the Administrative Code and delegated to the Secretary of the Budget by Executive Order No. 1984-3, dated October 11, 1984.

The Basic Financial Statements were prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). We believe the financial statements are fairly stated in all material respects and that they are presented in a manner designed to fairly report the Commonwealth's financial position, results of operations, and changes in net assets/fund balances. All disclosures necessary to enable the Governor, the members of the General Assembly, the public, and the financial community to fully understand the Commonwealth's operations and financial affairs have been included. Responsibility for the completeness and fairness of the presentation, including all disclosures, rests with the Commonwealth of Pennsylvania, Office of the Budget, Office of Comptroller Operations. The Commonwealth relies on its comprehensive framework of internal control in the preparation of basic financial statements. The Commonwealth has established a cost-effective system of internal controls; that is however, subject to inherent limitations, as is in any system of internal controls, in that there is reasonable, but not absolute, assurance as to the effectiveness of the internal control system.

The Commonwealth's June 30, 2010 Basic Financial Statements have been jointly audited by the Department of the Auditor General and KPMG LLP, an independent public accounting firm. The independent auditors' opinion is included in the beginning of the Financial Section of this CAFR. The auditors' opinion provides a reasonable basis for users to rely on the information included in the Basic Financial Statements.

Management's Discussion and Analysis (MD&A), which precedes the June 30, 2010 Basic Financial Statements, provides an overview of the Commonwealth's financial position and activities thus helping readers to understand the government-wide statements. This section immediately follows the auditors' opinion. In addition to the MD&A and BFS, this CAFR includes: budgetary comparison schedules, combining fund financial statements; supporting schedules; certain narrative information describing individual funds; and statistical tables presenting financial trends, revenue capacity, debt capacity, demographic and economic information, capital asset and operating information about the Commonwealth.

PROFILE OF THE GOVERNMENT

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

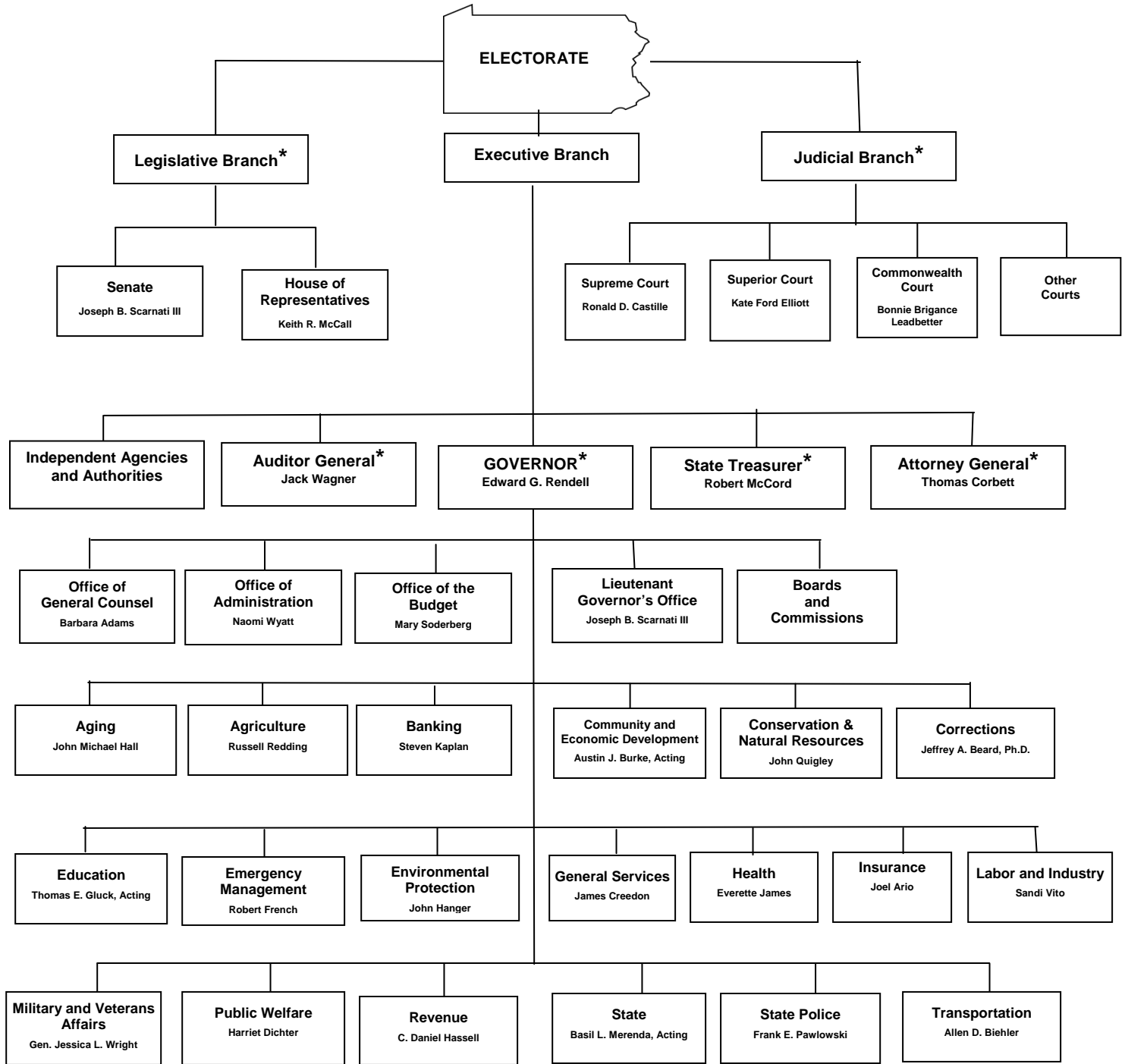
The Commonwealth of Pennsylvania provides a wide range of services to enhance the quality of life for its 12.6 million citizens. The Commonwealth divides these essential services into seven broad program categories, consisting of direction and supportive services, protection of persons and property, health and human services, public education,

economic development, transportation, and recreation and cultural enrichment. This programmatic approach enables Pennsylvania to effectively serve its citizens.

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

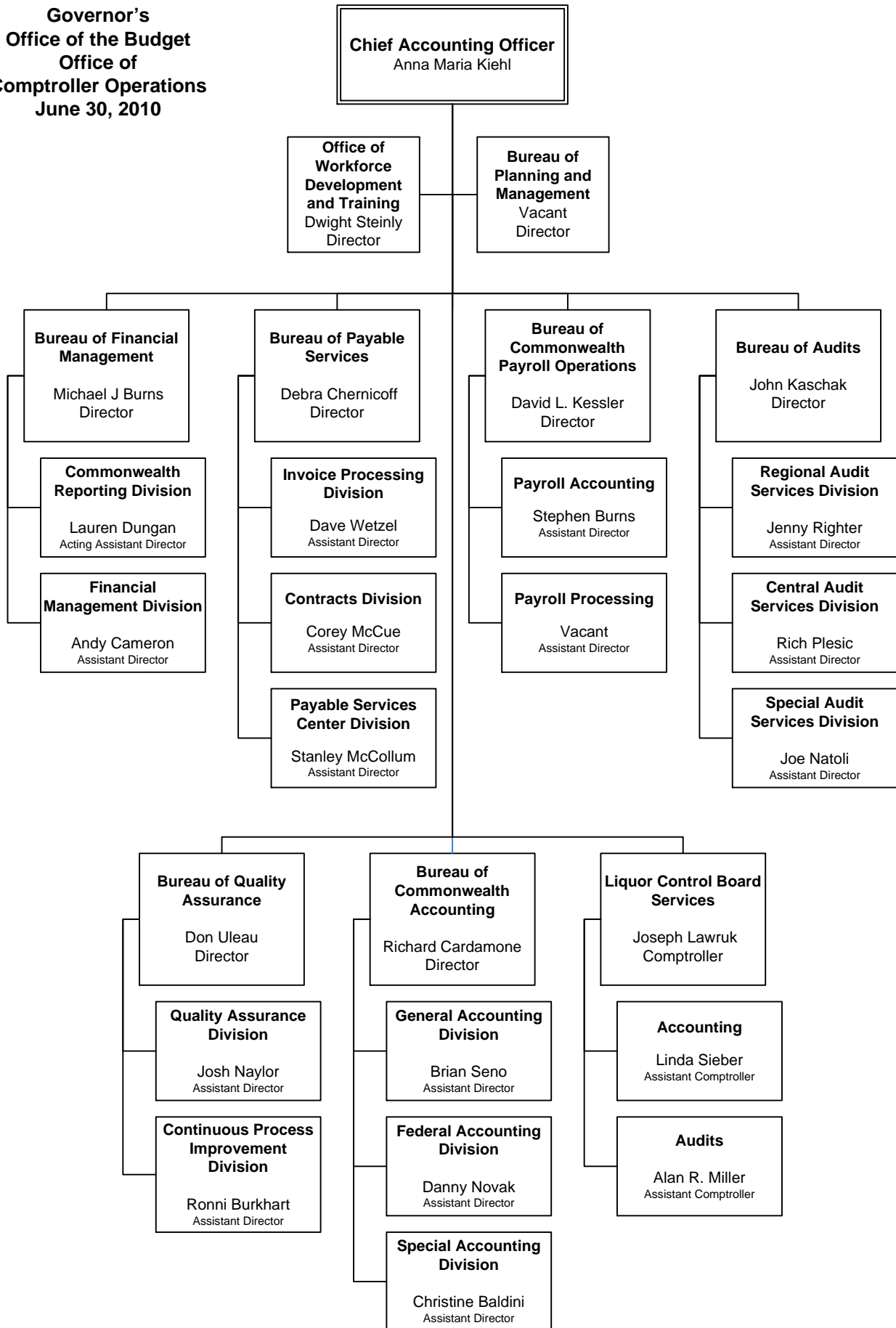
Pennsylvania government has three distinct branches: the legislative branch, the judicial branch, and the executive branch. The legislative branch, comprised of the Senate and House of Representatives, develops and passes the Commonwealth's laws. The judicial branch, made up of the Pennsylvania Supreme Court as well as other specialized courts, serves the Commonwealth by interpreting the laws put in place by the legislative branch. The executive branch, consisting of the elected Governor, Auditor General, Attorney General, State Treasurer, and other appointed entities, works to enforce the laws established by the legislative branch. With these three branches of the Pennsylvania state government, an effective system of checks and balances is created. The following organization charts identify specific Commonwealth officials and staff within Comptroller Operations at June 30, 2010.

COMMONWEALTH OF PENNSYLVANIA ORGANIZATION AND OFFICIALS CHART June 30, 2010



* Independently Elected

**Governor's
Office of the Budget
Office of
Comptroller Operations
June 30, 2010**



**GENERAL FUND
BUDGETARY BASIS**

The General Fund, the Commonwealth's largest operating fund, may be used to assess Pennsylvania's financial position and activities for the fiscal year ended June 30, 2010. 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 81.9 percent of the non-federal General Fund budgetary basis revenues. General Fund expenditures are reported in the following functional assignments, along with the related percentage of non-federal expenditures: direction and supportive services (3.66), protection of persons and property (13.05), health and human services (37.45), public education (40.14), recreation and cultural enrichment (.91), economic development (1.35), transportation (.04) and transfers to debt service funds (3.40) for all obligations except those incurred for highway or other special revenue fund purposes.

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

A discussion of the Commonwealth's annual budget process is included as Required Supplementary Information (RSI) immediately following the Notes to the Financial Statements. The legally adopted budget provides statutory control over spending. Under Commonwealth law, expenditures cannot exceed amounts appropriated. Budgetary control is exercised by specific, line-item appropriations. The Budgetary Comparison Schedule, included as RSI, provides original budget, final budget and actual budgetary results for the fiscal year ended June 30, 2010.

**BUDGETARY BASIS 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 Fund Balance <u>(Deficit)</u>	Budgetary Basis Increase <u>(Decrease)</u>
2006 (revised)	\$ 522.2	\$ 157.4
2007	530.9	8.7
2008 (revised)	585.3	54.4
2009 (revised)	(2,025.4)	(2,610.7)
2010	(294.2)	1,731.2

During the fiscal year ended June 30, 2010, total General Fund revenues and other sources exceeded expenditures and other uses by \$1,731.2 and, at June 30, 2010, the Commonwealth reported an unreserved/undesignated fund deficit (budgetary basis) of \$(294.2) in the General Fund. This compares to a budgetary basis fund balance of \$(2,025.4) (revised) at June 30, 2009. The budgetary basis results for the fiscal year ended June 30, 2010 include revenue collections totaling \$51,488.7, less appropriation authorizations totaling \$49,907.9, plus other net financing sources totaling \$150.4. Included in the \$49,907.9 appropriation authorizations are \$(38.7) of state supplemental appropriation reductions and \$397.1 in Federal supplemental appropriations authorized during the fiscal year ended June 30, 2010 (amounts in millions).

ECONOMIC CONDITION

The worst economic recession since the Great Depression continues to adversely impact the national economy and Pennsylvania's economic growth correlates directly to the national economy. While the bottom of the recession likely occurred in June 2009, the economy has not rebounded as quickly as was expected. The national unemployment rate still hovers around 10 percent. Pennsylvania's economic performance depends on job growth; while job losses were lower than the national average, all sectors with the exception of health services, education and government experienced job losses. Increased unemployment will negatively impact projected revenue from the personal income tax. On a positive note, analysts predict job growth will resume in 2011 at a rate of 1.5 percent annually. Consumer spending remains weak given higher debt levels, depleted consumer wealth and tight credit. Improvements in the housing sector are slowly taking hold and business investment is stabilizing. Given these factors, it is encouraging that the Commonwealth outperformed the national economy by recording a lower loss in gross state product (-2.0 percent) than the national gross domestic product (-2.5 percent). Federal American Recovery and Reinvestment Act (ARRA) funding continues to assist state governments which face declining state revenues and burgeoning budget deficits as a result of the economic contraction. ARRA funding is expected to end in 2011; this will require very difficult budgetary and management decisions for 2011 and later years.

Each year, the Governor's Executive Budget includes estimates of total revenues, available balances carried forward and expenditures for all Commonwealth funds for a budget year and four subsequent fiscal years. These multi-year projections illustrate expected revenue and spending changes, which inform the Commonwealth's policy makers about the status of the Commonwealth's budget. Based on the enacted budget for the 2010-11 fiscal year, the Commonwealth expects to receive General Fund revenues and transfers of \$25.6 billion and to spend \$25.3 billion from the Commonwealth's General Fund. The excess revenues will be used to finance the \$294 million unreserved/undesignated fund deficit from the 2009-2010 fiscal year. The next Executive Budget will be available in March 2011 and will include planned revenues and expenditures for five fiscal years, through the fiscal year ending June 30, 2016.

CERTIFICATE OF ACHIEVEMENT

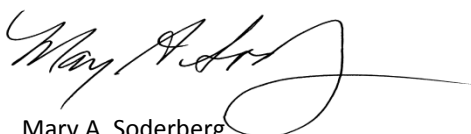
The CAFR will be submitted to the Government Finance Officers Association of the United States and Canada (GFOA) to determine its eligibility for the GFOA's Certificate of Achievement for Excellence in Financial Reporting. The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth of Pennsylvania for its Comprehensive Annual Financial Report as of and for the fiscal year ended June 30, 2009. This represents the twenty-fourth 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, 2010 conforms to the GFOA's award criteria.

ACKNOWLEDGMENTS

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

Sincerely,



Mary A. Soderberg
Secretary
Office of the Budget



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

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, 2009

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.



President

Executive Director



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

Financial Section





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



KPMG LLP
Suite 200
30 North Third Street
PO Box 1190
Harrisburg, PA 17108-1190

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 (the Commonwealth), as of and for the year ended June 30, 2010, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not jointly audit the financial statements of the Tobacco Settlement Fund, a major Special Revenue Fund, the Tuition Payment Fund, a major Enterprise Fund, and certain component units, which represent 99 percent of total assets, 98 percent of total net assets and 99 percent of total revenues of the aggregate discretely presented component units. We also did not jointly audit 99 percent of the total assets, 99 percent of total net assets and 99 percent of the total additions of the Pension and Other Employee Benefit Trust Funds and 100 percent of the total assets, 100 percent of the total net assets, and 100 percent of the total additions of the Private Purpose Trust Fund, which, in total comprises 85 percent of total assets, 94 percent of total net assets and 71 percent of total additions/revenues of the aggregate remaining fund information. The financial statements of the Tobacco Settlement Fund, Tuition Payment Fund, and these component units, and the Pension and Other Employee Benefit and Private Purpose Trust Funds were audited by other auditors, including KPMG LLP and the Department of the Auditor General acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Tobacco Settlement Fund, Tuition Payment Fund, and those component units, and the Pension and Other Employee Benefit and Private Purpose Trust Funds, are based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with US generally accepted accounting principles.

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

Management's discussion and analysis, schedules of funding progress and employer contributions of other postemployment benefit plans, and budgetary comparison information on pages 18 through 37 and 144 through 148 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 and component unit financial statements, budgetary comparison schedules for budgeted non-major special

revenue funds, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund and component unit financial statements and budgetary comparison schedules for budgeted non-major special revenue funds have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.



December 22, 2010



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

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) of the Commonwealth of Pennsylvania's Comprehensive Annual Financial Report (CAFR) is presented as Required Supplementary Information and provides a review and analysis of the Commonwealth's financial statements for the fiscal year ended June 30, 2010 and a comparison to the prior fiscal year. The MD&A should be reviewed in conjunction with the Letter of Transmittal, which begins on page 6 of this report, and with the Commonwealth's financial statements, which follow.

Executive Summary

Government-wide Statements at-a-glance

Net Assets – Governmental activities net assets totaled \$23.5 billion at June 30, 2010, compared to \$23.2 billion at June 30, 2009. This represents a year over year increase of \$0.3 billion, following a prior fiscal year decrease in net assets of \$2.1 billion. For business-type activities, overall net assets were negative \$1.2 billion at June 30, 2010, a decrease of \$1.8 billion compared to \$0.6 billion at June 30, 2009. On a combined basis, Total Net Assets for Governmental Activities and Business-Type Activities decreased by \$1.5 billion for the primary government during the fiscal year ended June 30, 2010.

General Obligation Bonds – During the fiscal year, total general obligation bond indebtedness increased by \$1.4 billion (\$2.7 billion issued and \$1.3 billion repaid) from \$9.1 billion to \$10.5 billion. Total governmental activities liabilities, including the aforementioned increase in general obligation bond indebtedness of \$1.4 billion, increased by \$2.7 billion.

Fund Statements at-a-glance

Governmental Funds – Total Fund Balances – Were \$6.351 billion at June 30, 2010 compared to \$6.089 billion at June 30, 2009, for a year-over-year increase of \$0.262 billion.

General Fund – Fund Balance – Was \$284.8 million at June 30, 2010, compared to \$515.2 million at June 30, 2009, for a year-over-year decrease of \$230.40 million.

Overview and discussion of basic financial statements

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

Government-wide financial statements

Government-wide financial statements portray the Commonwealth's overall financial position (Statement of Net Assets) at June 30, 2010 and its aggregate revenues and expenses (Statement of Activities) for the fiscal year ended June 30, 2010. The Statement of Net Assets presents the assets, liabilities, and net assets for the Commonwealth as a whole. The Statement of Activities presents, by function or program, the expenses, offsetting revenues, and changes in net assets. Both statements classify amounts by Governmental Activities, Business-Type Activities, and Component Units. The component units are organizations that are legally separate from the Commonwealth's primary government. Information related to component units is not included in the MD&A. Each component unit is identified and described in Note A – Summary of Significant Accounting Policies, Financial Reporting Entity. Audited financial statements for component units are available through the Commonwealth Chief Accounting Officer.

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

Fund financial statements – governmental funds

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

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

Government-wide financial analysis

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

	Governmental			Business-Type			Total		
	2010	2009	Change	2010	2009	Change	2010	2009	Change
Assets:									
Cash and investments.....	\$ 10.7	\$ 10.4	\$ 0.3	\$ 4.6	\$ 4.6	\$ -	\$ 15.3	\$ 15.0	\$ 0.3
Capital assets (net).....	28.6	26.7	1.9	0.1	0.1	-	28.7	26.8	1.9
All other assets.....	7.9	7.1	0.8	1.6	1.4	0.2	9.5	8.5	1.0
Total assets.....	47.2	44.2	3.0	6.3	6.1	0.2	53.5	50.3	3.2
Liabilities:									
Accounts payable.....	5.9	6.0	(0.1)	0.9	0.9	-	6.8	6.9	(0.1)
All other current liabilities....	4.2	3.7	0.5	4.1	2.1	2.0	8.3	5.8	2.5
Total current liabilities.....	10.1	9.7	0.4	5.0	3.0	2.0	15.1	12.7	2.4
Bonds payable.....	9.8	8.5	1.3	-	-	-	9.8	8.5	1.3
All other long-term liabilities	3.8	2.8	1.0	2.5	2.5	-	6.3	5.3	1.0
Total long-term liabilities.....	13.6	11.3	2.3	2.5	2.5	-	16.1	13.8	2.3
Total Liabilities.....	23.7	21.0	2.7	7.5	5.5	2.0	31.2	26.5	4.7
Net assets:									
Invested in capital assets, net of related debt.....	24.1	22.8	1.3	0.1	0.1	-	24.2	22.9	1.3
Restricted.....	4.3	4.5	(0.2)	0.6	0.9	(0.3)	4.9	5.4	(0.5)
Deficit.....	(4.9)	(4.1)	(0.8)	(1.9)	(0.4)	(1.5)	(6.8)	(4.5)	(2.3)
Total net assets.....	\$ 23.5	\$ 23.2	\$ 0.3	\$ (1.2)	\$ 0.6	\$ (1.8)	\$ 22.3	\$ 23.8	\$ (1.5)

Changes in assets and liabilities

During the fiscal year ended June 30, 2010, total governmental activities cash and investments increased by \$339.8 million, even after subtracting a year-over-year decrease in securities lending collateral holdings of over \$230 million. The current fiscal year's cash and investments increase follows a \$4.1 billion decrease during the prior year. The net capital assets increase of nearly \$1.9 billion follows a \$1.6 billion increase in the prior fiscal year. The current year increase in capital assets, net, of nearly \$1.9 billion consists of: 1) an expansion of, and improvements to, the Commonwealth's reported highway and bridge infrastructure assets during the fiscal year ended June 30, 2010 (additions of over \$1,734 million), an increase in

buildings (additions of over \$407 million) and increases in other depreciable/amortizable general capital assets (additions of \$191 million), amounting to \$2,332 million; 2) net additions of land, highway right of way, and projects 'in process' of \$762 million; less 3) asset retirements (\$59 million) and less 4) net current year depreciation/amortization expense of \$1,135 million. Governmental activities accounts payable and accrued liabilities balances decreased by \$0.1 billion primarily due to lower reported accounts payable balances within the General Fund, including a \$507 million decrease for a captioning change for unclaimed property (escheats) liability, offset by higher accounts payable balances for several General Fund agencies, net, amounting to nearly \$352 million. All other governmental activities current liabilities increased by \$0.5 billion, primarily due to the previously-mentioned reporting captioning change for unclaimed property (escheats) liability (\$110 million increase) and higher year over year General Fund amounts due to political subdivisions for a variety of agencies (\$319 million), a higher amount due to the Federal government of \$176 million for Federal funding owed to the Federal government (reported by the Motor License Fund) based on project-specific monitoring of Department of Transportation project status (differentiating between construction projects and non-construction projects), a higher amount of general obligation bonds payment due within one year (\$73 million), a higher amount of compensated absence and several other liabilities expected to be paid within one year (\$34 million and \$68 million, respectively) offset by a \$236 decrease in securities lending obligations, due to a smaller year over year Treasury Department securities lending program, and offset by a lower year over year liability for pollution remediation obligations expected to be paid within one year (\$14 million).

Year over year changes in business-type activities assets (\$0.2 billion increase) and liabilities (\$2.0 billion increase) resulted in a net decrease in net assets of \$1.8 billion. Total assets increased because reported inventory for the State Stores Fund and higher unemployment taxes receivable reported for the Unemployment Compensation Fund each increased by approximately \$100 million, compared to prior year balances. Total liabilities increased primarily because of a higher amount advanced from the Federal government to the Unemployment Compensation Fund (nearly \$2.5 billion increase) and a higher year over year tuition benefits liability reported by the Tuition Payment Fund (\$61 million higher), offset by lower year over year securities lending obligations, due to the relatively smaller Treasury Department securities lending program (\$384 million decrease), and a smaller year over year State Workers Insurance Fund insurance loss liability (\$81 million decrease).

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

	Governmental Activities			Business-Type Activities			Total		
	2010	2009	Change	2010	2009	Change	2010	2009	Change
Revenues:									
Program revenues:									
Charges for sales and services.....	\$ 3.9	\$ 4.1	\$ (0.2)	\$ 10.3	\$ 7.5	\$ 2.8	\$ 14.2	\$ 11.6	\$ 2.6
Operating grants and contributions	25.7	20.2	5.5	4.9	1.8	3.1	30.6	22.0	8.6
Total program revenues.....	29.6	24.3	5.3	15.2	9.3	5.9	44.8	33.6	11.2
General revenues:									
Taxes and investment income.....	28.3	27.6	0.7	-	-	-	28.3	27.6	0.7
Total general revenues.....	28.3	27.6	0.7	-	-	-	28.3	27.6	0.7
Total revenues.....	57.9	51.9	6.0	15.2	9.3	5.9	73.1	61.2	11.9
Expenses:									
Governmental activities:									
Direction and supportive services...	2.0	1.5	0.5	-	-	-	2.0	1.5	0.5
Protection of persons and property.	5.6	5.5	0.1	-	-	-	5.6	5.5	0.1
Public education.....	14.4	14.0	0.4	-	-	-	14.4	14.0	0.4
Health and human services.....	28.2	26.5	1.7	-	-	-	28.2	26.5	1.7
Economic development.....	1.6	1.6	-	-	-	-	1.6	1.6	-
Transportation.....	5.0	4.3	0.7	-	-	-	5.0	4.3	0.7
Recreation and cultural enrichment	0.6	0.6	-	-	-	-	0.6	0.6	-
Interest.....	0.4	0.4	-	-	-	-	0.4	0.4	-
Business-type activities:									
State lottery.....	-	-	-	3.1	3.2	(0.1)	3.1	3.2	(0.1)
Unemployment compensation.....	-	-	-	11.7	6.4	5.3	11.7	6.4	5.3
Liquor control.....	-	-	-	1.5	1.4	0.1	1.5	1.4	0.1
Workers' compensation.....	-	-	-	0.3	0.4	(0.1)	0.3	0.4	(0.1)
Tuition payment.....	-	-	-	0.2	0.1	0.1	0.2	0.1	0.1
Total expenses.....	57.8	54.4	3.4	16.8	11.5	5.3	74.6	65.9	8.7
Excess/(deficiency) before transfers.....	0.1	(2.5)	2.6	(1.6)	(2.2)	0.6	(1.5)	(4.7)	3.2
Transfers.....	0.2	0.4	(0.2)	(0.2)	(0.4)	0.2	-	-	-
Increase (decrease) in net assets.....	0.3	(2.1)	\$ 2.4	(1.8)	(2.6)	\$ 0.8	(1.5)	(4.7)	\$ 3.2
Net assets, beginning.....	23.2	25.3		0.6	3.2		23.8	28.5	
Net assets, ending.....	\$ 23.5	\$ 23.2		\$ (1.2)	\$ 0.6		\$ 22.3	\$ 23.8	

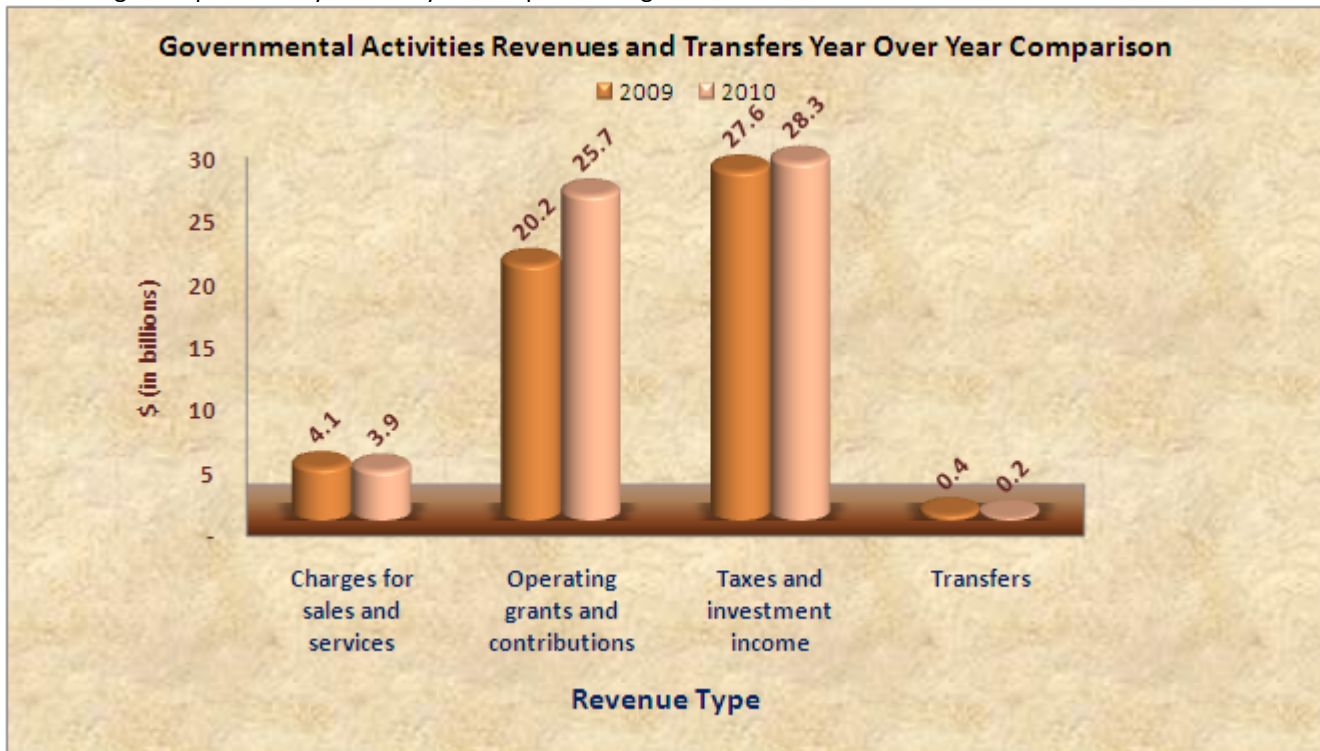
Overall changes in net assets

During the fiscal year ended June 30, 2010, the overall financial position (net assets) of the Commonwealth, including both governmental and business-type activities, decreased by \$1.5 billion, or 6.30 percent of total beginning net assets of \$23.8 billion. For governmental activities, the net increase in net assets was \$0.3 billion or 1.29 percent of beginning net assets of \$23.2 billion. Total investments, excluding the State Employees' Retirement System, the Public School Employees' Retirement System and all other fiduciary funds, amounted to nearly \$14.2 billion and total cash balances were over \$1.1 billion at June 30, 2010. Reported investments decreased by \$124 million in comparison to prior year balances (\$14.3 billion); investments increased by nearly \$744 million when the year over year decrease in the Treasury Department securities lending program (\$620 million) is included. Cash balances increased by over \$490 million, from \$633 million reported at June 30, 2009; almost all of this increase (\$476 million) is attributable to the reported increase in cash by the Unemployment Compensation Fund. The current fiscal year increase in governmental activities net assets (\$0.3 billion) represents a \$2.4 billion increase from the prior fiscal year's decrease of \$2.1 billion. The current fiscal year increase in Governmental Activities net assets represents an improvement in the Commonwealth's overall financial position when compared to the prior fiscal year ended June 30, 2009.

The \$1.8 billion decrease in total net assets for business-type activities follows a \$2.6 billion decrease during the prior fiscal year. The current year decrease is almost entirely attributable to a net assets decrease of \$1.8 billion in the Unemployment Compensation Fund, where the prior fiscal year net assets decrease was over \$1.9 billion. During the current fiscal year, unemployment compensation operating revenues increased by nearly \$2.6 billion and grant revenues increased by over \$3.0 billion, while expenses increased by \$5.5 billion. Among the other business-type activities, year over year increases/decreases in net assets nearly offset each other.

Changes in revenues and expenses for governmental activities

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



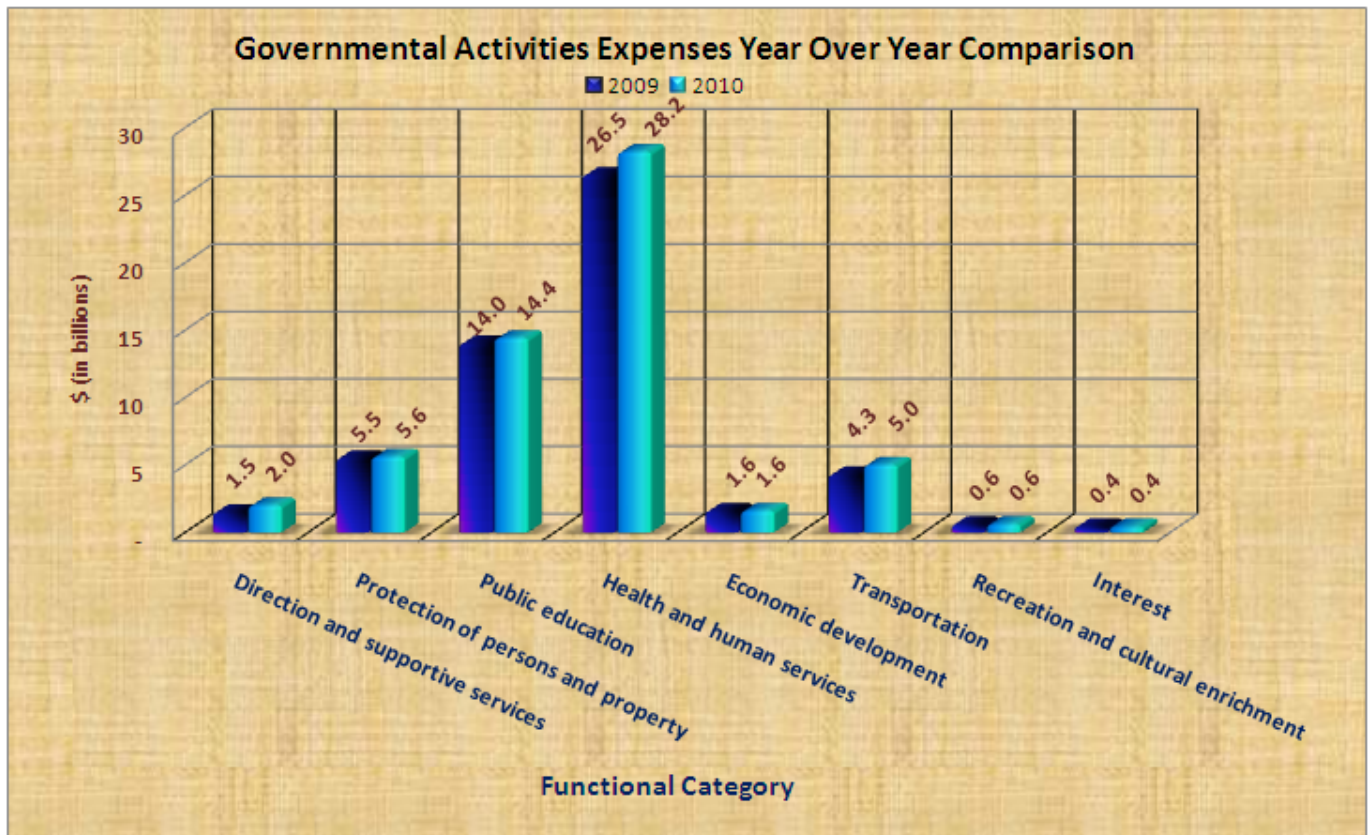
For governmental activities, general revenues – taxes – increased by over \$588 million, net, during the fiscal year, largely as a result of increases in reported General Fund tax revenues (over \$299 million), an increase in Motor License Fund tax revenues (\$70 million), and an increase in gaming tax revenues (\$233 million). General revenues – investment income – amounted to

\$15 million during the current fiscal year, representing a year over year increase in investment income of nearly \$153 million, as investment valuations stabilized and increased.

Tax revenue decreases were reported for General Fund personal income (\$139 million), sales and use (\$102 million) and corporation (\$63 million) taxes. All of these decreases resulted from declines in overall economic activity during the fiscal year ended June 30, 2010 in comparison to the prior fiscal year. 'Other' tax revenues increased by over \$543 million, as a result of a new Gross Receipts Tax (amounting to approximately \$533 million) imposed on Managed Care Organizations that are parties to Medicaid managed care contracts with the Department of Public Welfare. Cigarette tax revenues increased by \$87 million as a result of a 25 cents per pack tax increase and an expansion of the cigarette tax to include little cigars. Inheritance and realty transfer tax revenues decreased by \$34 million and \$2 million, respectively, during the fiscal year ended June 30, 2010.

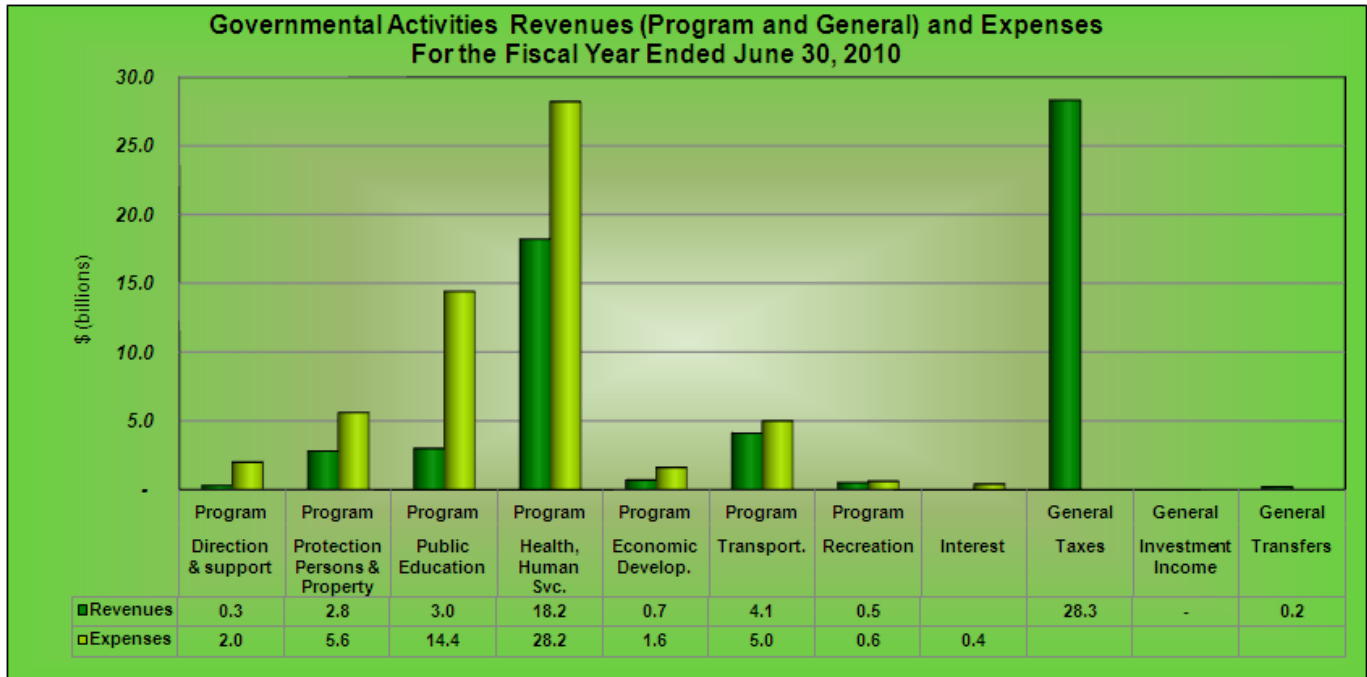
Operating grants and contributions, which largely represents Federal participation in specific General Fund and other programs, increased by over \$5.5 billion during the fiscal year primarily because of significantly higher year over year expenditures, especially Medical Assistance and other types of health and human services expenditures. Also, revenues from the Federal American Recovery and Reinvestment Act of 2009 (ARRA) amounted to over \$3.9 billion, representing a year over year increase in ARRA revenues of over \$3.0 billion for all governmental activities. Also, revenues from the Pennsylvania Turnpike Commission (PTC), a discretely presented component unit, totaled \$900 million, a \$50 million increase over the prior fiscal year. These revenues were received under the provisions of Act 44 of 2007 and the related Lease and Funding Agreement between the PTC and Commonwealth primary government (Department of Transportation).

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



For governmental activities, total expenses increased \$3.4 billion (6.25 percent) largely due to significant increases in expenses for health and human services (\$1.7 billion), transportation (\$0.7 billion), direction and supportive services (\$0.5 billion) and public education (\$0.4 billion).

The following chart presents governmental activities revenues compared to expenses for the fiscal year ended June 30, 2010:



Changes in revenues and expenses for business-type activities

During the current fiscal year, total business-type activities expenses exceeded total revenues by \$1.6 billion; in the prior fiscal year, total expenses were \$2.2 billion higher than revenues. Including the effects of current fiscal year net transfers to other funds of \$0.2 billion (\$0.4 billion in the prior fiscal year), business-type activities net assets decreased by \$1.8 billion during the current fiscal year versus decreasing by \$2.6 billion during the prior fiscal year. The primary reasons for the overall year-over-year difference of \$0.8 billion were: a \$259 million lower net assets decrease with lottery activities, a \$215 million year over year increase in net assets for the Treasury tuition guarantee program, a lower net assets decrease of \$121 million for the Unemployment Compensation Fund, a \$78 million lower net assets decrease for the workers compensation program and a combined lower net assets decrease of \$52 million for all other business-type activities during the fiscal year ended June 30, 2010.

Operating grants and contributions for business-type activities increased \$3.1 billion due almost entirely to a substantial increase in Federal revenues for the extended benefits in the Unemployment Compensation program (over \$3.0 billion), and a year over year increase in investment income of over \$458 million principally in SWIF and TAP during the current fiscal year.

Overall, expenses for business-type activities increased by \$5.3 billion, based on increased expenses of \$5.3 billion for the extended benefits in the unemployment compensation program, offset by miscellaneous increases/decreases among the other business-type activities expenses during the current fiscal year.

General Fund – economic factors during the fiscal year ended June 30, 2010

The continuing effects of the national economic recession again negatively impacted the Commonwealth’s economy during fiscal year 2010. While avoiding the contraction in the national economy from the prior fiscal year, the Commonwealth experienced only minimal economic growth in fiscal year 2010. High levels of unemployment and turbulent financial markets negatively impacted the Commonwealth’s revenues and receipts. General Fund revenues of the Commonwealth were below the certified estimate by \$1,176.5 million or 4.1 percent during fiscal year 2010.

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, 2010 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 2009-10 supplemental appropriations passed on July 6, 2010 by Act 1-A.

Final budgeted revenues for total state programs exceeded the original budget by \$636 million, primarily due to a \$550 million increase in departmental services revenues and an \$88 million increase in tax revenues, net of refunds. The \$550 million increase in departmental services revenues is primarily attributable to allocations of \$512 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) and an increase in the Department of Public Welfare's nursing home assessment revenues.

The General Fund Schedule also discloses that the final budget includes \$510 million more in total state program expenditures than the original budget. The \$510 million state program difference is a combination of a \$566 million increase in protection of persons and property offset by reductions in almost all other categories of expenditures. The \$566 million increase in protection of persons and property expenditures results primarily from a \$512 million increase in spending authority for State Police protection of Commonwealth highways.

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

Actual budgetary State Program revenues were \$1,138 million less than the final budgeted State Program revenues. The \$1,138 million net decrease results primarily from a \$1,089 million decrease in tax revenues related to the national and state economic conditions and a \$61 million decrease in investment income related to market conditions. Budgetary lapses for a variety of specific appropriations and executive authorizations in the amount of \$195 million were also posted to reduce State Program spending authority in recognition of declining revenues. Actual Federal revenues and corresponding expenditures were \$1,740 million lower than budgeted due to the expiration of \$1,494 million in American Recovery and Reinvestment Act (ARRA) funds in excess of awarded funds for all agencies along with additional reductions for the following agencies: Public Welfare, \$129 million; Executive Offices, \$77 million, Health, \$17 million; and all other affected agencies, \$23 million.

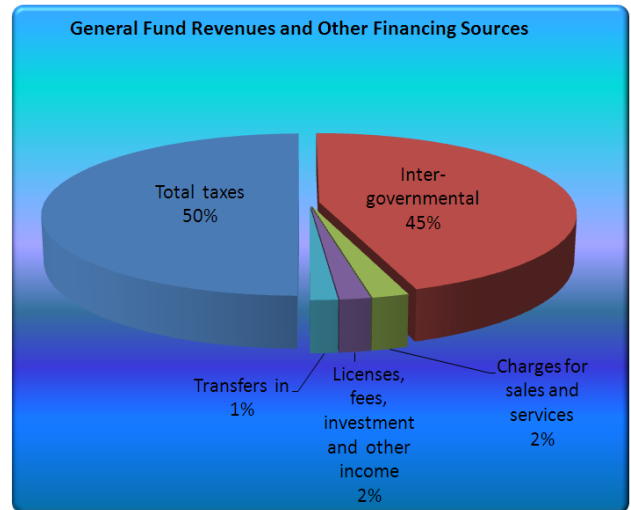
Measurement focus and basis of accounting – governmental funds

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

Discussion of individual funds, balances and transactions

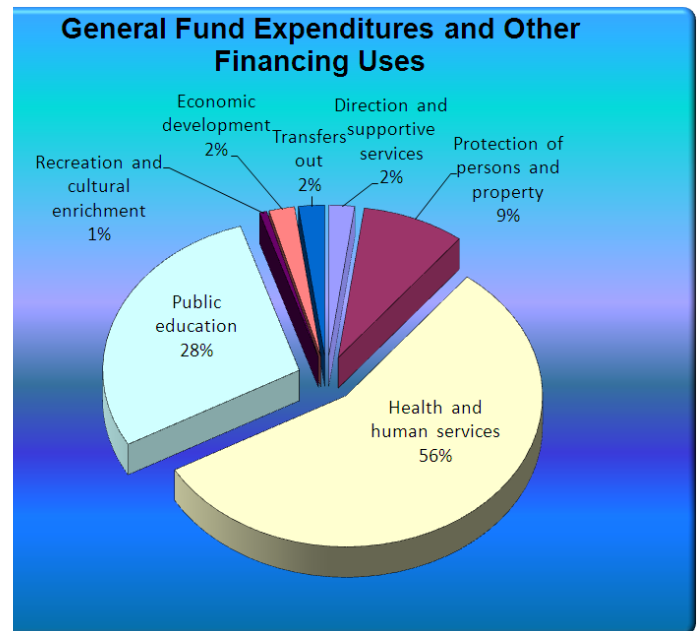
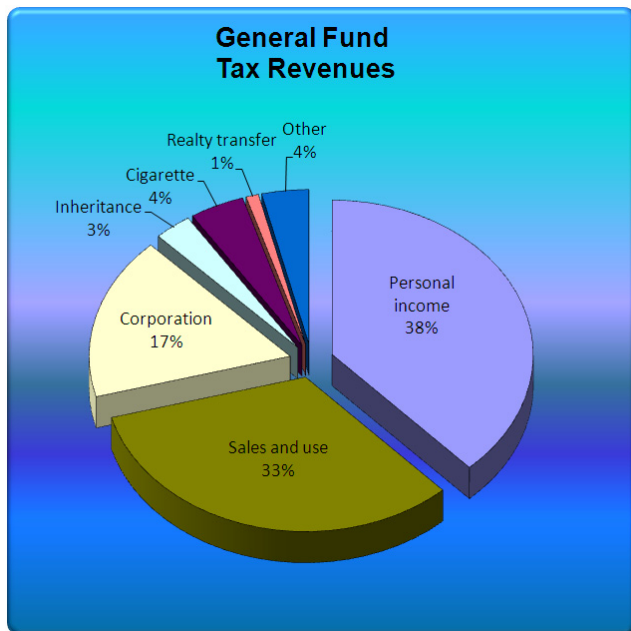
General Fund

The General Fund, the Commonwealth's largest fund, accounts for over 77 percent of the total governmental fund type revenues and other financial sources and 78 percent of the total governmental fund type expenditures and other financing uses. The General Fund collects over 86 percent of the total tax revenues and is the primary funding source for most Commonwealth agencies. The charts depicted on this page present a comparison of the major types of revenues and expenditures reported in the General Fund. Taxes and intergovernmental revenues represent the largest sources of revenue, while health and human services and education represent the largest outflows or expenditures.



General Fund Tax Revenues

The largest significant source of tax revenues -- net of refunds -- (\$24,285 in total) is Personal Income Tax (PIT). Reported PIT (\$9,241) accounts for 38 percent of all tax revenues reported. Sales tax, which represents a tax on various items purchased by consumers, is the second largest category. Reported sales tax (\$7,946) accounts for 33 percent of all tax revenues reported. Corporation taxes, which represent different taxes (including the Corporate Net Income Tax and the Capital Stock/Foreign Franchise Tax) on various corporations, are the third largest category. Reported corporation taxes (\$4,135) accounts for 17 percent of all tax revenues reported. These three tax categories represent the Commonwealth's largest own-source revenues. Although not available for the current fiscal year, prior fiscal year statistical information for these three tax categories is presented in the Revenue Capacity portion of the Statistical Section (amounts in millions).



Expenditures

The General Fund reported total expenditures of \$47,866 and total other financing uses of \$1,049 during the fiscal year ended June 30, 2010. Expenditures for health and human services (\$27,447) accounted for over 56 percent of all General Fund expenditures. The second largest category, public education, accounts for nearly 28 percent (\$13,814) of the reported expenditures. Of the public education expenditures, over 92 percent (\$12,816) are reported by the Department of Education. The chart shown on the right, above, reports the percentages expended in each category (amounts in millions).

Comparative Financial Statements for the General Fund

Condensed comparative General Fund balance sheets at June 30, 2010 and 2009 are as follows (amounts in millions):

	Increase (Decrease)			
	2010	2009	Change	Percent
Assets:				
Cash and investments.....	\$ 3,221	\$ 3,401	\$ (180)	-5%
Receivables, net.....	3,493	3,527	(34)	-1%
Due from other funds/governments/advances/other...	3,123	2,389	734	31%
Total assets.....	\$ 9,837	\$ 9,317	\$ 520	6%
Liabilities:				
Accounts payable and tax refunds payable.....	\$ 5,348	\$ 5,503	\$ (155)	-3%
Securities lending obligations.....	23	20	3	15%
Due to other funds/governments/advances/other.....	1,992	1,170	822	70%
Unearned revenue.....	2,189	2,109	80	4%
Total liabilities.....	9,552	8,802	750	9%
Fund Balance:				
Reserved.....	1,719	3,056	(1,337)	-44%
Unreserved:				
Deficit.....	(1,434)	(2,541)	1,107	-44%
Total fund balance.....	285	515	(230)	-45%
Total liabilities and fund balance.....	\$ 9,837	\$ 9,317	\$ 520	

During the fiscal year ended June 30, 2010, cash and investments decreased by \$180 million (5 percent) compared to the prior fiscal year; a significant portion of this decrease was caused by an excess of expenditures and other financing uses over revenues and other financing sources, amounting to \$230 million, during the fiscal year ended June 30, 2010. Due to other funds/governments/advances/other increased by \$822 million, net, primarily because of a captioning change in liability type for unclaimed property (escheats) liability from accounts payable amounting to \$553 million, and higher amounts due to political subdivisions (\$319 million) for a variety of agencies, including Department of Public Welfare (\$131 million), Department of Education (\$72 million), Executive Offices (\$43 million), and Department of Health (\$38 million). Accounts payable decreased by \$155 million primarily due to 1) a captioning change in liability type for the estimated unclaimed property (escheats) liability, where the prior year liability of \$507 million was reported as part of accounts payable and the current year classification is within 'other' liabilities, amounting to \$553 million, as of June 30, 2010; and 2) year over year net increases in accounts payable of nearly \$352 million, primarily attributable to a \$130 million increase in amounts owed to the PA Employees Benefit Trust Fund for its active employee healthcare program, a \$122 million increase in Department of Public Welfare programs, a \$58 million increase in Executive Offices accounts payable, and a \$35 million increase in Department of Environmental Protection accounts payable. Unearned revenue increased by \$80 million, primarily because of an increase in the unavailable portion (\$90 million) of taxes receivable due to a decrease in taxes collected within the first sixty days after year end.

Fund balance reservations decreased by \$1,337 million as prior year reported balances in amounts reserved for budget stabilization (\$746 million) and restricted revenues (\$607 million) were used to finance expenditures during the fiscal year ended June 30, 2010. Fund balance reservations for encumbrances increased by \$20 million and reservations for continuing programs decreased by \$4 million during the fiscal year. No fund balance designations were reported at either June 30, 2010 or June 30, 2009. Overall fund balance decreased by \$230 million during the fiscal year ended June 30, 2010.

Condensed, comparative, General Fund change statements for the fiscal years ended June 30, 2010 and 2009 follow (amounts in millions):

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>	<u>Change</u>	<u>Percent</u>
Revenues:					
Taxes, net of refunds					
Personal income.....	\$ 9,241	\$ 9,468	\$ (227)		-2%
Sales and use.....	7,946	7,968	(22)		0%
Corporation.....	4,135	4,354	(219)		-5%
Inheritance.....	733	734	(1)		0%
Cigarette.....	1,068	981	87		9%
Realty transfer.....	294	296	(2)		-1%
Other.....	868	317	551		174%
Total taxes, net of refunds.....	24,285	24,118	167		1%
Intergovernmental.....	21,847	17,897	3,950		22%
Charges for sales and services.....	985	1,192	(207)		-17%
Licenses/fees/investment and other income.....	829	407	422		104%
Total revenues.....	47,946	43,614	4,332		10%
Expenditures:					
Direction and supportive services.....	1,033	782	251		32%
Protection of persons and property.....	4,126	3,897	229		6%
Health and human services.....	27,447	25,689	1,758		7%
Public education.....	13,814	13,340	474		4%
Recreation and cultural enrichment.....	291	341	(50)		-15%
Economic development.....	1,025	1,115	(90)		-8%
Transportation.....	59	49	10		20%
Capital outlay.....	70	35	35		100%
Total expenditures.....	47,866	45,248	2,618		6%
Revenues over (under) expenditures.....	80	(1,634)	1,714		105%
Other financing sources (uses):					
Transfers in.....	739	189	550		291%
Transfers out.....	(1,049)	(1,018)	(31)		3%
Capital lease and installment purchase obligations.....	-	4	(4)		-100%
Net other financing uses.....	(310)	(825)	515		62%
Net change in fund balance.....	(230)	(2,459)	\$ 2,229		
Fund balance, beginning.....	515	2,974			
Fund balance, ending.....	\$ 285	\$ 515			

Total reported General Fund revenues increased by \$4,332 million (10.0 percent) during the fiscal year ended June 30, 2010.

General Fund tax revenues increased overall by over \$167 million (1 percent) during the fiscal year ended June 30, 2010. This net increase is attributable to two tax types: 'other' and cigarette. 'Other' taxes increased by \$551 million, based on a new Gross Receipts Tax (amounting to approximately \$533 million) imposed on Managed Care Organizations that are parties to Medicaid managed care contracts with the Department of Public Welfare. This revenue will allow the Commonwealth to draw down additional federal Medicaid matching funds for the Medical Assistance managed care program. Also, Cigarette taxes increased by \$87 million as the result of increases to the cigarette tax by 25 cents per pack and an expansion of the tax to include little cigars. However, these two increases were offset by decreases in both Personal income taxes (\$227 million) and Corporation taxes (\$219 million). Decreases in these tax types were directly attributable to declines in economic activity during the current fiscal year.

Intergovernmental revenues increased by \$3.9 billion, net, resulting primarily from Federal participation in significantly higher expenditures for Medical Assistance and other types of health and human services expenditures. Over \$2.6 billion of the increase is attributable to higher Federal revenues from the Federal American Recovery and Reinvestment Act of 2009 (ARRA). Combined licenses/fees/investment and other revenues increased by \$422 million primarily because of 1) first-year revenues for Table Game Authorization Fees, amounting to \$165 million, and 2) an increase in investment income of \$150 million, and 3) increases of 'other' revenues of nearly \$46 million. Charges for sales and services revenues decreased by \$207 million primarily because of a \$221 million decrease in certain Department of Public Welfare's revenues related to Medicaid managed care, which were replaced by new tax revenues (\$533 million, above).

Total General Fund expenditures increased by 6 percent during the fiscal year ended June 30, 2010, by over \$2.6 billion. Reported expenditures for health and human services expenditures increased by \$1,758 million, caused by a higher aggregate need for medical assistance, and income and/or cash grant assistance. Expenditures for Food Stamps, alone, increased by \$555 million. Public education expenditures increased by \$474 million, net, due primarily to Federally-funded (ARRA) subsidies/grants for basic education (\$515 million), offset by a decrease in state-funded basic education (\$358 million), net increases in Federally-funded (including ARRA) grants in assorted other programs of \$361 million, offset by net decreases in assorted state-funded programs of \$144 million, higher accrued liabilities (\$80 million), a special education increase (\$12 million), a pupil transportation increase (\$6 million), and a public school employee social security increase (employer share)(\$23 million); also, a decrease in public school employee retirement (employer share)(\$44 million). Higher education subsidies expenditures were nearly flat, year over year. Protection of persons and property expenditures increased by \$229 million primarily because of higher personnel costs for the Department of Corrections (\$157 million) and higher overall expenditures for the Department of Environmental Protection of over \$54 million. Direction and supportive services expenditures increased by \$251 million because of higher year over year active employee healthcare expenditure accruals (\$131 million), a lower amount of interfund revenue/expenditure eliminations (\$90 million), higher compensated absences expenditures (\$60 million), higher expenditures for the Treasury unclaimed property program (\$46 million), offset by lower expenditures for several agencies financed by the General Fund (\$76 million).

Reported Transfers to the General Fund increased by \$550 million primarily because of Act 50 of 2009 (over \$167 million from the Tobacco Settlement Fund, \$60 million from the Oil and Gas Lease Fund and over \$144 million from the Medical Care Availability and Reduction of Error Fund) and the General Fund Appropriation Act 10-A (General Fund budget) (\$143 million from the Oil and Gas Lease Fund and over \$19 million from the Keystone Recreation, Park and Conservation Fund).

Reported Transfers from the General Fund increased by \$31 million, net of decreases, primarily because of 1) a \$26 million increase in transfers to debt service funds, and 2) a new transfer to the Motor License Fund (\$5 million).

The overall decrease in fund balance, \$230 million during the fiscal year, represents a much smaller year-over-year decrease in the decrease in total fund balance of \$2,229 million. The prior fiscal year decrease in fund balance was \$2,459 million.

Motor License Fund

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

Description	2010		2009		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and investments.....	\$ 2,253	81%	\$ 1,992	\$ 261	13%	
Other assets.....	526	19%	410	116	28%	
Total assets.....	\$ 2,779	100%	\$ 2,402	\$ 377	16%	
Accounts payable.....	\$ 664	59%	\$ 524	\$ 140	27%	
Securities lending obligations.....	147	13%	258	(111)	-43%	
Other liabilities.....	307	27%	110	197	179%	
Total liabilities.....	1,118	100%	892	226	25%	
Total fund balance.....	1,661	100%	1,510	151	10%	
Total liabilities and fund balance.....	\$ 2,779	100%	\$ 2,402	\$ 377	16%	
Tax revenues.....	\$ 2,046	35%	\$ 1,976	\$ 70	4%	
Licenses and fees.....	851	15%	875	(24)	-3%	
Intergovernmental.....	2,650	46%	2,062	588	29%	
Other revenues.....	241	4%	75	166	221%	
Total revenues.....	5,788	100%	4,988	800	16%	
Direction and supportive services.....	62	1%	71	(9)	-13%	
Protection of persons and property.....	648	12%	639	9	1%	
Transportation.....	2,373	42%	2,105	268	13%	
Capital outlay.....	2,503	45%	2,218	285	13%	
Other expenditures.....	4	0%	2	2	100%	
Total expenditures.....	5,590	100%	5,035	555	11%	
Net transfers out.....	(47)	100%	(40)	(7)	18%	
Net change in fund balances.....	\$ 151		\$ (87)	\$ 238		

Overall, total revenues increased by \$800 million during the fiscal year ended June 30, 2010; this represents a 16 percent increase over the prior fiscal year. The most significant factor was a \$447 million increase in intergovernmental revenues from the Federal American Recovery and Reinvestment Act of 2009 (ARRA) and another factor was restricted receipts received for capital expenditures that were reclassified to intergovernmental revenues, amounting to \$184.4 million. Offsetting these two large increases, due to decreases in tax collections in past fiscal years, there was a reduction in highway maintenance and construction during the current fiscal year resulting in a decrease in non-ARRA Federal revenues of \$47.3 million. The increase in other revenues was caused by a \$165.4 million increase in investment income due to higher securities valuation, higher investment earnings. This increase was offset with an \$8.2 million decrease in charges for sales and services from a one-time collection received in the prior fiscal year for a settlement received from a third-party insurance carrier. Licenses and fees revenues decreased by \$24 million due primarily to the redistribution of vehicle code fines to a variety of other governmental funds for May and June of 2010.

Overall, total expenditures increased by \$555 million during the fiscal year ended June 30, 2010; this represents an 11 percent increase over the prior fiscal year. The combination of Capital Outlay (\$285 million increase) and Transportation (\$268 million increase) expenditures accounts for nearly all of the year over year increase in expenditures. The most significant change was due to ARRA, under which \$296.4 million was expended on qualifying projects, reimbursable by ARRA.

Net transfers to other Funds increased by \$7 million due primarily to the increase in Capital Bridge Debt Service payments of \$10.6 million for the additional bridge bond issuances during the current fiscal year under the Capital Budget Act of 2008-2009. This increase in transfers out was netted with a one-time transfer in of \$5.1 million for interest earned on a \$650 million loan that had been made to the General Fund and repaid during the current fiscal year.

The \$261 million increase in cash and investments (\$371 million increase), net of securities lending program assets (\$110 million decrease), is a result of several factors. Total revenues exceeded total expenditures (before transfers) during the current fiscal year by \$198 million; securities valuation significantly improved since June 30, 2009, by \$89 million; and funds received from the Pennsylvania Turnpike Commission under Act 44 of 2007 have been accumulated in excess of spending by \$146.8 million. Other assets increased by \$116 million because receivables for ARRA and other federally-reimbursable projects increased. Accounts payable increased by \$140 million, primarily as a result of increases in expenditures for ARRA

qualifying projects (\$88 million). The \$197 million increase in other liabilities is mainly a result of \$176 million being returned to the Federal government for Federal revenues received in prior fiscal years on projects that did not result in construction and subsequently converted to state-only projects. An additional \$18 million in other liabilities is a combination of the redistribution of vehicle code fines to a variety of other governmental funds netted with a reduction in the vehicle sales tax collections due to the General Fund (Department of Revenue), both resulting from procedural changes.

Tobacco Settlement Fund

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

Description	2010		2009		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and investments.....	\$ 1,026	78%	\$ 1,257	\$ (231)	-18%	
Other assets.....	288	22%	354	(66)	-19%	
Total assets.....	\$ 1,314	100%	\$ 1,611	\$ (297)	-18%	
Accounts payable.....	\$ 239	49%	\$ 179	\$ 60	34%	
Securities lending obligations.....	30	6%	106	(76)	-72%	
Other liabilities.....	218	45%	299	(81)	-27%	
Total liabilities.....	487	100%	584	(97)	-17%	
Total fund balance.....	827	100%	1,027	(200)	-19%	
Total liabilities and fund balance.....	\$ 1,314	100%	\$ 1,611	\$ (297)	-18%	
Intergovernmental.....	\$ 192	27%	\$ 159	\$ 33	21%	
Investment income.....	82	12%	(110)	192	175%	
Other revenues.....	434	61%	521	(87)	-17%	
Total revenues.....	708	100%	570	138	24%	
Protection of persons and property.....	157	22%	165	(8)	-5%	
Health and human services.....	549	77%	511	38	7%	
Economic development.....	3	0%	9	(6)	-67%	
Total expenditures.....	709	100%	685	24	4%	
Net transfers (out).....	(199)	100%	(16)	(183)	1144%	
Net change in fund balances.....	\$ (200)		\$ (131)	\$ (69)		

The year-over-year decrease in cash and investments of \$231 million is due primarily to a statutory transfer of \$150 million from the Health Endowment Account for Long Term Hope to the General Fund and a \$76 million year over year decrease in the size of the Treasury Department's securities lending program. Other assets decreased by \$66 million due to non-paying insurance companies resulting in a decrease of \$13 million for the Community Health Reinvestment receivable (and related unearned revenues), disputed payments from the tobacco product manufacturers participating in the Master Settlement Agreement (MSA) resulting in a decrease of \$34 million for the MSA receivable (and related unearned revenues), and a decrease in the current fiscal year accrual for Federal revenues for Medical Assistance for Workers with Disabilities. The accounts payable year-over-year increase of \$60 million is largely due to an increase in the accrual of program expenditures. Securities lending obligations decreased by \$76 million due to the decrease in the Treasury Department's securities lending program. Other liabilities decreased by \$81 million due primarily to a decrease in unearned revenues related to non paying insurance companies resulting in a decrease of \$13 million for the Community Health Reinvestment program (and related receivable), unearned revenues related to disputed payments from the tobacco product manufacturers participating in the MSA resulting in a decrease of \$34 million (and related receivable), and a decrease in the accrual for Medical Assistance for Workers with Disabilities expenditures.

During the fiscal year, investment income increased by \$192 million due largely to higher investment valuation and earnings of the Health Endowment Account for Long Term Hope as of and during the fiscal year ended June 30, 2010. Other revenues decreased by \$87 million due to a decrease of \$69 million from the MSA and a decrease of \$18 million for the Community Health Reinvestment Account. Net transfers out increased by \$183 million due primarily to current year statutory transfers (Act 50) requiring the Tobacco Settlement Fund to transfer over \$167 million to the General Fund.

Measurement focus and basis of accounting – proprietary funds

The enterprise funds and internal service funds (proprietary funds) are reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, all assets and liabilities associated with the operations of these fund types are included on the statement of net assets. Under the accrual basis of accounting, revenues are recognized in the fiscal year earned, and expenses are recognized in the fiscal year incurred. Enterprise funds that report loan, insurance and tuition payment programs report most revenues as operating revenues; non-operating revenues are reported for other programs and include grant revenues and all investment income. Four enterprise funds are reported as major funds and are discussed.

Unemployment Compensation Fund

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

Description	2010		2009		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and investments.....	\$ 849	49%	\$ 370	\$ 479	129%	
Unemployment assessments receivable..	548	32%	442	106	24%	
Other assets.....	323	19%	325	(2)	-1%	
Total assets.....	1,720	100%	1,137	583	51%	
Accounts payable.....	180	6%	252	(72)	-29%	
Other liabilities.....	3,023	94%	543	2,480	457%	
Total liabilities.....	3,203	100%	795	2,408	303%	
Total net assets.....	\$ (1,483)	100%	\$ 342	\$ (1,825)	-534%	
Sales and services.....	\$ 5,011	100%	\$ 2,421	\$ 2,590	107%	
Other revenues.....	1	0%	1	-	0%	
Total operating revenues.....	5,012	100%	2,422	2,590	107%	
Cost of sales and services.....	11,750	100%	6,250	5,500	88%	
Total operating expenses.....	11,750	100%	6,250	5,500	88%	
Operating income/(loss).....	(6,738)		(3,828)	(2,910)	76%	
Nonoperating revenues.....	4,917		1,885	3,032	161%	
Income (loss) before transfers.....	(1,821)		(1,943)	122	-6%	
Transfers.....	(4)		(3)	(1)	33%	
Increase(decrease) in net assets.....	\$ (1,825)		\$ (1,946)	\$ 121		

During the fiscal year ended June 30, 2010 operating expenses increased by \$5.5 billion (88 percent), as unemployment claims (UC) continued to significantly increase. During the fiscal year ended June 30, 2010, there was an increase of approximately 8.4 percent in claims filed under regular UC law. Also, during the fiscal year, extended unemployment compensation (EUC) expenses increased by approximately 150 percent. The increase in EUC claims is mostly due to the addition of Tier 3 and Tier 4 EUC implemented in the second quarter of the fiscal year. The increase to Tier 4 of EUC extended the number of weeks available to be claimed by a single claimant to 53 weeks of EUC and a total of 99 weeks overall. Additionally the extended benefit (EB) period enacted on February 15, 2009 continued through the 2010 fiscal year. An EB claims increase of 359.7 percent occurred between fiscal year ended 2009 and fiscal year ended 2010. This is partly due to the short period of five months that EB was in effect during the prior fiscal year. Overall, including regular UC, EUC and EB claims, there was an increase of 47.9 percent in claims between fiscal year 2009 and fiscal year 2010.

Year over year reported revenues more than doubled, as the employee withholding tax rate increased on January 1, 2010, to 0.08 percent, from 0.06 percent. Also, the additional contributions factor (part of the employer contribution tax rate) increased as well on January 1, 2010, to 0.65 percent, from .25 percent (as of January 2009). These two factors, along with increased revenues from the Federal government (\$3.0 billion increase, primarily ARRA increase of \$2.5 billion) resulted in \$5.6 billion more revenues being reported during the fiscal year ended June 30, 2010.

During the fiscal year ended June 30, 2010, total assets increased by \$583 million. This was primarily due to a \$486 million increase in funds available in the Pennsylvania Unemployment Compensation Trust Fund (UC Trust Fund). This increase was largely financed by borrowing from the Federal government and the increases in employee withholding rate and additional

contributions (employer) factor. Total liabilities increased by \$2.4 billion primarily due to the Federal advance of \$3 billion as of June 30, 2010. This increase is due to higher levels of weeks claimed because individuals are collecting benefits for longer periods.

State Workers' Insurance Fund (December 31, 2009)

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

Description	2009		2008		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and short-term investments.....	\$ 261	14%	\$ 581	\$ (320)	-55%	
Long-term investments.....	1,500	82%	1,624	(124)	-8%	
Other assets.....	75	4%	88	(13)	-15%	
Total assets.....	1,836	100%	2,293	(457)	-20%	
Securities lending obligations.....	174	9%	532	(358)	-67%	
Unearned revenue.....	80	4%	100	(20)	-20%	
Insurance loss liability.....	1,554	83%	1,635	(81)	-5%	
Other liabilities.....	61	3%	36	25	69%	
Total liabilities.....	1,869	100%	2,303	(434)	-19%	
Net assets.....	\$ (33)	100%	\$ (10)	\$ (23)	-230%	
Sales and services.....	\$ 223	109%	\$ 292	\$ (69)	-24%	
Provision for uncollectible accounts.....	(19)	-9%	(15)	(4)	27%	
Total operating revenues.....	205	100%	277	(72)	-26%	
Cost of sales and services.....	314	100%	370	(56)	-15%	
Total operating expenses.....	314	100%	370	(56)	-15%	
Operating loss.....	(109)		(93)	(16)	17%	
Investment income.....	91		(4)	95	2375%	
(Investment expense).....	(5)		(4)	(1)	25%	
Net nonoperating revenue.....	86		(8)	94	1175%	
Decrease in net assets.....	\$ (23)		\$ (101)	\$ 78		

During calendar year 2009, reported year over year premium revenues (sales and services) decreased from \$292 million to \$223 million, primarily due to market influences and decreases in policies written. Application statistics show that new applications decreased by 48 percent from 2008 (7,523 vs. 14,496) and renewal applications decreased 32 percent (25,947 vs. 38,291). Private insurance carriers continue to increase their share of the workers compensation market and applications for SWIF coverage are expected to continue to decrease. Cash and short-term investments (excluding a \$358 million decrease in securities lending balances) increased by \$38 million due to an increase in short-term bonds held at year end 2009 vs. 2008. Long-term investments, notably stocks, decreased by \$124 million as a result of investment sales in excess of investment purchases to finance operations. Other assets include decreases in receivables (resulting from decreased business), including a decrease in investment sales proceeds receivable. During 2009, SWIF continued to recognize significant reductions in insurance loss liability/reserves as a result of the Compromise and Release Initiative, which enabled SWIF to identify claims that meet requirements for settlement. The settled claims decreased from 1,590 in 2008 to 1,304 in 2009. Removing the loss reserves associated with these settled claims reduced the insurance loss liability by \$81 million in 2009 and \$78.7 million in 2008. Net nonoperating revenue increased by \$94 million primarily due to increases in both investment income received during 2009 and investment valuations as of December 31, 2009.

State Lottery Fund

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

Description	2010		2009		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and short-term investments.....	\$ 225	83%	\$ 274	\$ (49)	-18%	
Long-term investments.....	3	1%	5	(2)	-40%	
Other assets.....	42	16%	44	(2)	-5%	
Total assets.....	270	100%	323	(53)	-16%	
Accounts payable.....	405	93%	435	(30)	-7%	
Securities lending obligations.....	5	1%	7	(2)	-29%	
Other liabilities.....	26	6%	26	-	0%	
Total liabilities.....	436	100%	468	(32)	-7%	
Net assets.....	\$ (166)	100%	\$ (145)	\$ (21)	-14%	
Sales and services.....	\$ 3,053	100%	\$ 3,088	\$ (35)	-1%	
Total operating revenues.....	3,053	100%	3,088	(35)	-1%	
Cost of sales and services.....	2,960	96%	3,054	(94)	-3%	
Other expenses.....	119	4%	119	-	0%	
Total operating expenses.....	3,079	100%	3,173	(94)	-3%	
Operating loss.....	(26)		(85)	59	-69%	
Nonoperating revenues.....	115		93	22	24%	
Income before transfers.....	89		8	81	1013%	
Transfers in.....	177		49	128	261%	
Transfers out.....	(287)		(337)	50	-15%	
Transfers, net.....	(110)		(288)	178	-62%	
Decrease in net assets.....	\$ (21)		\$ (280)	\$ 259		

During the fiscal year ended June 30, 2010 reported transfers from other Funds increased by \$128 million. Act 1 of Special Session 1 of 2006 provided for \$176.7 million to be transferred from the Gaming Fund during the current fiscal year to finance the expansion of the Property Tax Rent Rebate (PTRR) program.

Lottery prize payments reported in the cost of sales represent 62 percent of sales. The remaining net proceeds are used for programs to support older Pennsylvanians.

The current fiscal year transfers to other Funds decreased by \$50 million. This was primarily due to a \$54.5 million decrease in State Lottery Fund resources needed to support the PACE Program (pharmaceutical benefits for the elderly) Fund due to decreases in both utilization and number of enrollees. Also, as a result of Act 44 of 2007, the Public Transportation Trust Fund (PTTF) was established to provide additional funding for public transportation in the Commonwealth. A portion of PTTF funding was provided by the State Lottery Fund to finance expenditures associated with the *Shared Ride* and *Free Transit* programs for older Pennsylvanians. During the current fiscal year \$86.6 million was transferred to PTTF, which was an increase of \$4.5 million. The funding was ultimately disbursed as grants to public transit agencies.

Tuition Payment Fund

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

Description	2010		2009		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and short-term investments.....	\$ 323	24%	\$ 347	\$ (24)	-7%	
Long-term investments.....	1,034	76%	905	129	14%	
Other assets.....	4	0%	8	(4)	-50%	
Total assets.....	1,361	100%	1,260	101	8%	
Securities lending obligations.....	184	12%	198	(14)	-7%	
Tuition benefits payable.....	1,330	88%	1,269	61	5%	
Other liabilities.....	6	0%	17	(11)	-65%	
Total liabilities.....	1,520	100%	1,484	36	2%	
Net assets.....	\$ (159)	100%	\$ (224)	\$ 65	29%	
Sales and services.....	157	100%	154	3	2%	
Total operating revenues.....	157	100%	154	3	2%	
Cost of sales and services.....	232	100%	96	136	142%	
Total operating expenses.....	232	100%	96	136	142%	
Operating income/(loss).....	(75)		58	(133)	-229%	
Nonoperating revenues.....	140		(208)	348	167%	
Increase(decrease) in net assets.....	\$ 65		\$ (150)	\$ 215		

Current fiscal year operating revenues increased by \$3.4 million over prior fiscal year operating revenues due primarily to increases in program fees totaling \$3.9 million. Current fiscal year operating expenses were \$135.2 million more than prior fiscal year operating expenses, almost entirely due to an actuarial increase in tuition benefit expense of \$132.4 million. Actual payments to educational institutions increased by \$18.2 million, to \$153.6 million, during the current fiscal year as 14,462 beneficiaries used 332,989 credits in the current fiscal year versus 12,913 beneficiaries using 303,945 credits during the prior fiscal year. Non operating income increased \$347.8 million from the (\$207.8) million loss recorded last fiscal year. This increase is due to the increase in investment income due to the improvement of the financial markets over the last fiscal year.

Capital asset activity during the fiscal year ended June 30, 2010

Throughout the fiscal year, Commonwealth agencies acquire or construct capital assets. In governmental fund financial statements, expenditures for capital assets are typically reported as capital outlay. Funding for a significant portion of capital asset acquisition is provided by proceeds of general obligation bonds issued; such proceeds are generally accounted for in the capital projects funds in the governmental fund financial statements as an other financing source. In the government-wide statements, bond proceeds are reported as additions to long-term bond liabilities and completed project expenditures and construction in progress at fiscal year end are reported as part of general capital assets. Construction in progress for Department of General Services (public works) and Department of Transportation (highway and bridge) projects at June 30, 2010 amounted to \$0.8 and \$2.6 billion, respectively. Authorized but unissued general obligation bonds at June 30, 2010 totaled \$74.9 billion.

General capital assets of the Commonwealth are those used in the performance of specific governmental functions during more than one fiscal year. Capital assets of the proprietary funds are reported in both proprietary fund financial statements and in government-wide financial statements. Fiduciary fund capital assets are reported in fiduciary fund financial statements; fiduciary funds are not included in government-wide statements. General capital assets as of June 30, 2010 amounted to \$28.6 billion at actual or estimated historical cost, net of accumulated depreciation of \$15.9 billion. In the government-wide statements, depreciation expense for all capital assets is reported to recognize the cost of "using up" capital assets over their estimated useful lives. This treatment differs from reporting capital outlay as 'current expenditures' by governmental fund types. Highway and bridge infrastructure assets are typically funded with Motor License Fund taxes, license and registration fees and Federal revenues. The Motor License Fund reports transportation and capital outlay expenditures in its financial statements; a portion of such expenditures is reported as additions to capital assets in government-wide financial statements. Depreciation of highway and bridge infrastructure assets is not related to the quality

or relative value of these assets; rather, it is a specific accounting treatment to recognize the cost of “using up” the assets over long periods of time (25 years for highways and 50 years for bridges.) Depreciation is an allocation of an asset’s cost over its estimated useful life and is reported in the government-wide financial statements. Note E to the financial statements provides more information on capital asset activities during the fiscal year ended June 30, 2010.

Long-term debt activity during the fiscal year ended June 30, 2010

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, 2010 was \$57.1 billion. Outstanding capital project debt at August 31, 2010 amounted to \$8.6 billion, for a remaining legal debt margin of \$48.5 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, 2010 was \$10.499 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, 2010 amounted to \$931.0 million and \$49.3 million, respectively. The table that follows shows total outstanding long-term indebtedness for general obligation bonds at the end of the eight most recent fiscal years (expressed in billions).

<u>At June 30</u>	<u>Outstanding Bond Indebtedness</u>
2003	\$7.031
2004	7.225
2005	7.151
2006	7.658
2007	8.246
2008	8.632
2009	9.150
2010	10.499

Note K to the financial statements provides more specific details on long-term debt balances and activity during the fiscal year ended June 30, 2010.

Debt administration – fiscal year ending June 30, 2011

During the fiscal year ending June 30, 2011, the Office of the Budget currently plans general obligation bond issuances, excluding refundings, amounting to \$1,757 million, a decrease of \$143 million as compared to actual bond issuances of \$1,900 million, excluding refunding issuances, during the fiscal year ended June 30, 2010. This plan reflects the need to make continued investments in the Commonwealth’s capital infrastructure, local capital projects and mass transportation. Additionally, a significant portion of the projected issuances for the 2011 fiscal year is attributable to the construction of three new prisons, each containing 2,000 plus beds, as well as the construction of the new Family Court Building in Philadelphia. Debt principal retirements of \$698.8 million are currently planned for the fiscal year ending June 30, 2011. As disclosed in Note R to the financial statements, the Commonwealth issued \$650 million of general obligation bonds during December 2010.

The Commonwealth continues to evaluate refunding opportunities for its outstanding bonds to reduce interest costs. During the fiscal year ended June 30, 2010, the Commonwealth closed one refunding issue that refunded \$712.1 million of outstanding bonds and will produce \$31.5 million of interest savings over the remaining life of those bonds. As market conditions provide additional opportunities, the Commonwealth may pursue additional refundings.

In addition to general obligation bonds, the Commonwealth may issue tax anticipation notes to meet operating cash needs during certain months of the fiscal year. Tax anticipation notes may be issued only for the General Fund and the Motor License Fund. They may not exceed 20 percent of the funds' estimated revenues for the fiscal year and must mature during the fiscal year in which they were issued. Cash shortages may occur during the fiscal year because tax receipts, unlike cash disbursements, are concentrated in the last four months of the fiscal year. The Commonwealth issued \$1.0 billion of such notes for the General Fund during October 2010. Repayment of the notes is due June 30, 2011.

In August 2009, in connection with the Commonwealth's issuance of its Second Refunding Series of 2009 General Obligation Bonds, Moody's Investors Service changed its outlook for the Commonwealth from 'stable' to 'negative.' In April 2010, Moody's Investors Service changed the Commonwealth's bond rating from Aa2 to Aa1 and Fitch Ratings changed the Commonwealth's bond rating from AA to AA+. Both ratings changes were the result of the rating agencies' 'recalibration' efforts, changing to a "global" rating scale. Also, in May 2010, in connection with the Commonwealth's issuance of its Second Series of 2010 General Obligation Bonds, Fitch Ratings changed its outlook for the Commonwealth from 'stable' to 'negative.' There were no debt limitations, restrictions or commitments during the fiscal year ended June 30, 2010 that may affect the Commonwealth's plans during the fiscal year ending June 30, 2011.

American Recovery and Reinvestment Act of 2009 (ARRA)

In February 2009, the Federal American Recovery and Reinvestment Act of 2009 (ARRA) was passed and signed into law. Among other things, the ARRA increased Federal participation in specific, targeted programs to increase economic growth and create new jobs. Through June 30, 2010, cumulatively, the ARRA, also known as the 'Recovery Act' or 'Federal Stimulus', financed over \$8.3 billion of qualifying Commonwealth program costs since the enactment date of February 17, 2009. Of the \$6.9 billion in ARRA funding during the fiscal year ended June 30, 2010, a variety of General Fund programs participated in ARRA funding (\$3.5 billion), the Unemployment Compensation Fund participated in \$2.8 billion of ARRA funding, the Motor License Fund participated in \$390 million and the Pennsylvania Infrastructure Investment Authority, included in the Commonwealth's financial reporting entity as a legally-separate, discretely presented component unit, participated in \$99 million of ARRA funding during the fiscal year ended June 30, 2010.

General Fund fiscal year 2010-2011 budget

The enacted 2010-2011 General Fund budget is \$25.3 billion, an increase of \$150 million or 0.6 percent. Importantly, the 2010-2011 budget does not raise taxes. In comparison to the General Fund 2009-2010 budget, the 2010-2011 budget includes a more limited, lower amount of statutory transfers from other, separate Commonwealth funds to the General Fund. The 2010-2011 budget provides for \$180 million to be transferred from the Oil and Gas Lease Fund and \$30 million to be transferred from eight other, separate Commonwealth funds to the General Fund. Also, \$121 million is to be transferred from the Tobacco Settlement Fund (Endowment for Long-Term Hope) to a restricted receipt account within the General Fund, to be used to finance part of the Commonwealth's share of payments to the Public School Employees' Retirement System. The enacted 2010-2011 budget provided for a total of \$5.8 billion in total funds for basic education, representing an increase of \$250 million, or 4.5 percent, over the 2009-2010 budget. The enacted 2010-2011 General Fund budget included ARRA funding of \$2.7 billion, based on the assumption that the enhanced Federal Medical Assistance Percentage would continue through June 2011. In August 2010 Federal legislation was passed that continued the enhanced FMAP but at a lower rate for the last two quarters of the state fiscal year thereby reducing projected 2010-2011 ARRA funding by approximately \$280 million. As a result, in August 2010 Governor Rendell used his constitutional authority to freeze \$189 million funding to agencies under his jurisdiction, thereby reducing total projected expenditures to \$25.1 billion. Part of this budgetary reduction included \$50 million for basic education subsidies; therefore, the net increase in basic education subsidies for the 2010-2011 fiscal year is a net \$200 million, or 3.6 percent more than the 2009-2010 fiscal year budget. In August 2010, in connection with the aforementioned \$189 million budget reductions, the Governor requested that the independently elected Attorney General, Auditor General, State Treasurer, Legislature and Judiciary reduce their General Fund expenditures within enacted appropriations by \$22.6 million.

Pension Legislation during fiscal year 2010-2011

On November 23, 2010, Governor Rendell signed House Bill 2497 into law as Act 120 of 2010. This legislation, also known as 'pension reform,' preserves all the pension benefits under prior law for all current members of the State Employees' Retirement System (SERS), but mandates a pension benefit reduction for future SERS members effective January 1, 2011.

Other changes to new employees include a higher contribution rate, an increase in the vesting period from five to ten years, elimination of lump-sum withdrawals, and an increase to the normal retirement age to obtain full, unreduced pension benefits (to avoid 'early retirement' penalties). The current full benefit provision for current members remains 35 years of credited service but changes for new employees to a 'Rule of 92,' combining member age with years of service to equal 92, including a minimum of 35 years of credited service.

Act 120 also includes the following key provisions affecting SERS funding, which are intended to reduce sharply higher employer contributions (spikes) beginning with the fiscal year ending June 30, 2013. Such spikes have been contemplated for several years and are replaced with lower employer contributions during future fiscal years, made possible by limitations (collars) on increases to employer contributions. Such collars are 3 percent for the fiscal year ending June 30, 2012, 3.5 percent for the fiscal year ending June 30, 2013 and 4.5 percent each year thereafter until no longer needed.

The SERS will continue to calculate 'annual required contributions' (ARCs) in accordance with applicable 'parameters' included in accounting and financial reporting standards but such ARCs will not be funded until the fiscal year ending June 30, 2015. Under prior law such ARCs would have been funded beginning with the current (2010-2011) fiscal year. As disclosed in the Notes to the Financial Statements, SERS employer contribution amounts have been less than the ARC since 2005. In other words, the reduction of spikes, the reduction of employer contributions in the near term, effectively delay when employer contributions will equal ARCs.

Over the long term, through the fiscal year ending June 30, 2044, overall SERS employer contributions are expected to decrease by over \$1.4 billion under Act 120, in comparison to prior law.

General Fund fiscal year 2010-2011 revenue collections

For the five months ended November 30, 2010 General Fund revenue collections amounted to \$9.2 billion, which were \$14 million, or 0.2 percent, above the Official Revenue Estimate. Fiscal year to date revenue collections were over \$1.2 billion less than prior fiscal year revenues collected during the same period (\$10.4 billion), a decrease of 12.1 percent. The Revenue Department's November 2010 Monthly Revenue Report is available at:

http://www.portal.state.pa.us/portal/server.pt/community/monthly_revenue_reports/14801.

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

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

Basic Financial Statements



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

Government-Wide Financial Statements

Commonwealth of Pennsylvania

Statement of Net Assets

June 30, 2010

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash—Note D.....	\$ 265,177	\$ 27,296	\$ 292,473	\$ 2,737,296
Cash with fiscal agents.....	-	831,903	831,903	-
Temporary investments—Note D.....	9,480,907	1,208,128	10,689,035	2,227,190
Receivables (net):				
Taxes—Note G.....	2,396,721	-	2,396,721	-
Unemployment assessments.....	-	548,447	548,447	-
Accounts.....	803,843	220,625	1,024,468	178,149
Investment income.....	8,159	14,779	22,938	6,039
Interest on notes and loans.....	1,202	40,954	42,156	141,775
Loans—Note G.....	4,558	55,702	60,260	1,407,420
Lease rentals—Note G.....	410	-	410	2,255
Investment sale proceeds.....	15,167	567	15,734	-
Other.....	42,736	-	42,736	61,411
Due from pension trust funds—Note H.....	3,849	3	3,852	-
Due from primary government—Note H.....	-	-	-	12,410
Due from component units—Note H.....	16,047	906	16,953	183
Due from Federal government.....	3,111,866	91,181	3,203,047	41,216
Due from political subdivisions.....	13,813	12,832	26,645	-
Due from other governments.....	98	36,591	36,689	43
Inventory.....	105,241	304,823	410,064	36,250
Prepaid and deferred expenses.....	-	4,430	4,430	15,340
Other assets.....	9,022	15,293	24,315	227,310
Total current assets.....	<u>16,278,816</u>	<u>3,414,460</u>	<u>19,693,276</u>	<u>7,094,287</u>
Noncurrent assets:				
Long-term investments—Note D.....	960,414	2,537,995	3,498,409	1,831,510
Receivables (net):				
Taxes—Note G.....	1,182,251	-	1,182,251	-
Interest on notes and loans.....	-	-	-	19,729
Loans—Note G.....	84,746	276,351	361,097	15,501,203
Due from component units—Note H.....	79,208	-	79,208	-
Non-depreciable capital assets—Note E:				
Land.....	2,397,399	323	2,397,722	350,191
Construction in progress.....	3,469,899	2,886	3,472,785	1,526,457
Depreciable or amortizable capital assets—Note E:				
Land improvements.....	603,341	-	603,341	306,076
Buildings and building improvements.....	6,325,336	47,501	6,372,837	3,341,839
Machinery and equipment.....	976,138	123,441	1,099,579	981,533
Turnpike infrastructure.....	-	-	-	5,653,976
Highway infrastructure.....	21,646,760	-	21,646,760	-
Bridge infrastructure.....	8,984,353	-	8,984,353	-
Waterway infrastructure.....	22,065	-	22,065	-
Infrastructure-other.....	164,949	-	164,949	-
Library books.....	-	-	-	84,365
Other capital assets.....	-	-	-	21,088
Intangible assets.....	13,319	7,599	20,918	17,273
Less: accumulated depreciation and amortization.....	(15,965,072)	(107,358)	(16,072,430)	(5,268,991)
Net depreciable or amortizable capital assets.....	<u>22,771,189</u>	<u>71,183</u>	<u>22,842,372</u>	<u>5,137,159</u>
Other assets.....	-	-	-	387,909
Total non-current assets.....	<u>30,945,106</u>	<u>2,888,738</u>	<u>33,833,844</u>	<u>24,754,158</u>
TOTAL ASSETS.....	<u>\$ 47,223,922</u>	<u>\$ 6,303,198</u>	<u>\$ 53,527,120</u>	<u>\$ 31,848,445</u>

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

Commonwealth of Pennsylvania

Statement of Net Assets

June 30, 2010

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities.....	\$ 5,923,595	\$ 845,659	\$ 6,769,254	\$ 534,469
Investment purchases payable.....	27,886	3,410	31,296	-
Tax refunds payable.....	757,834	-	757,834	-
Tuition benefits payable—Note F.....	-	175,801	175,801	-
Securities lending obligations.....	401,606	406,881	808,487	68,354
Internal balances—Note H.....	(107,890)	107,964	74	-
Due to pension trust funds—Note H.....	19,185	407	19,592	-
Due to primary government—Note H.....	-	-	-	15,915
Due to component units—Note H.....	14,070	3	14,073	183
Due to political subdivisions.....	1,429,811	6,863	1,436,674	6
Due to other governments.....	204,219	3,024,395	3,228,614	850
Interest payable.....	168,582	-	168,582	210,797
Unearned revenue.....	52,054	90,529	142,583	98,308
Notes payable—Note J.....	-	-	-	144,182
General obligation bonds payable—Note K.....	698,841	-	698,841	-
Bonds payable—Note K.....	-	-	-	39,975
Revenue bonds payable—Note K.....	-	-	-	746,774
Capital lease/installment purchase obligations—Note K.....	-	-	-	4,450
Self insurance liabilities—Note M.....	148,555	5,559	154,114	6,892
Compensated absence liability—Notes F, K.....	128,019	5,925	133,944	21,256
Insurance loss liability—Note F.....	-	269,248	269,248	-
Other financing obligations—Note J.....	-	-	-	89,055
Pollution remediation obligations—Note K.....	12,193	-	12,193	-
Other liabilities—Note K.....	173,128	36,861	209,989	359,780
Total current liabilities.....	<u>10,051,688</u>	<u>4,979,505</u>	<u>15,031,193</u>	<u>2,341,246</u>
Noncurrent liabilities:				
Tuition benefits payable—Note F.....	-	1,154,090	1,154,090	-
Due to primary government—Note H.....	-	-	-	79,208
Unearned revenue.....	-	-	-	2,946
Demand revenue/auction rate security bonds payable—Note J.....	-	-	-	6,693,560
Insurance loss liability—Note F.....	-	1,285,222	1,285,222	-
Notes payable—Note J.....	-	-	-	3,175,401
General obligation bonds payable—Note K.....	9,799,953	-	9,799,953	-
Bonds payable—Note K.....	-	-	-	785,375
Revenue bonds payable—Note K.....	-	-	-	12,887,624
Capital lease/installment purchase obligations—Note K.....	31,958	-	31,958	66,342
Other financing obligations—Note J.....	67,500	-	67,500	135,043
Compensated absence liability—Note F, K.....	641,046	31,050	672,096	118,435
Self insurance liabilities—Note M.....	734,589	29,353	763,942	39,937
Other postemployment benefit obligations—Note I.....	944,501	32,563	977,064	724,208
Pollution remediation obligations—Note K.....	253,489	-	253,489	-
Other liabilities—Note K.....	1,151,621	-	1,151,621	631,557
Total non-current liabilities.....	<u>13,624,657</u>	<u>2,532,278</u>	<u>16,156,935</u>	<u>25,339,636</u>
TOTAL LIABILITIES.....	<u>23,676,345</u>	<u>7,511,783</u>	<u>31,188,128</u>	<u>27,680,882</u>
NET ASSETS—Note C				
Invested in capital assets, net of related debt.....	24,102,905	74,392	24,177,297	1,909,450
Restricted for:				
Health-related programs.....	1,048,684	2,837	1,051,521	5,480
Transportation.....	1,318,358	110,987	1,429,345	-
Capital projects.....	11	-	11	2,845,499
Debt service.....	46,853	-	46,853	445,422
Unemployment/worker's compensation.....	301,372	-	301,372	-
Elderly programs.....	50,213	-	50,213	-
Environmental and conservation programs.....	592,672	-	592,672	-
Economic development.....	25,312	295,502	320,814	70,737
Gaming licensing/regulation.....	771,616	-	771,616	-
Correctional industries and procurement.....	49,467	-	49,467	-
Emergency support.....	58,209	138,884	197,093	-
Higher education.....	7,715	-	7,715	548,171
Other purposes.....	55,616	85,177	140,793	597,844
Deficit.....	(4,881,426)	(1,916,364)	(6,797,790)	(2,255,040)
TOTAL NET ASSETS.....	<u>\$ 23,547,577</u>	<u>\$ (1,208,585)</u>	<u>\$ 22,338,992</u>	<u>\$ 4,167,563</u>

Commonwealth of Pennsylvania

Statement of Activities

For the Fiscal Year Ended June 30, 2010

(Amounts in thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Sales and Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary government:								
Governmental activities:								
Direction and supportive services.....	\$ 1,950,908	\$ 216,188	\$ 62,128	\$ -	\$ (1,672,592)	\$ -	\$ (1,672,592)	\$ -
Protection of persons and property.....	5,682,950	1,331,281	1,531,912	25,115	(2,794,642)	-	(2,794,642)	-
Public education.....	14,520,733	18,201	2,952,179	-	(11,550,353)	-	(11,550,353)	-
Health and human services.....	28,321,389	1,134,144	17,078,621	-	(10,108,624)	-	(10,108,624)	-
Economic development.....	1,580,654	12,317	721,693	-	(846,644)	-	(846,644)	-
Transportation.....	4,951,010	910,721	3,204,213	32,513	(803,563)	-	(803,563)	-
Recreation and cultural enrichment.....	559,311	416,053	69,851	-	(73,407)	-	(73,407)	-
Interest.....	395,305	-	-	-	(395,305)	-	(395,305)	-
Total governmental activities.....	57,962,260	4,038,905	25,620,597	57,628	(28,245,130)	-	(28,245,130)	-
Business-type activities:								
State lottery.....	3,079,381	3,052,097	115,480	-	-	88,196	88,196	-
State workers' insurance.....	338,229	223,458	90,781	-	-	(23,990)	(23,990)	-
Tuition payment.....	235,876	157,336	144,196	-	-	65,656	65,656	-
Unemployment compensation.....	11,750,605	5,336,714	4,592,402	-	-	(1,821,489)	(1,821,489)	-
Liquor control.....	1,478,971	1,527,998	369	-	-	49,396	49,396	-
Economic development and other.....	13,706	22,254	27,301	-	-	35,849	35,849	-
Total business-type activities.....	16,896,768	10,319,857	4,970,529	-	-	(1,606,382)	(1,606,382)	-
Total primary government.....	<u>\$ 74,859,028</u>	<u>\$ 14,358,762</u>	<u>\$ 30,591,126</u>	<u>\$ 57,628</u>	<u>(28,245,130)</u>	<u>(1,606,382)</u>	<u>(29,851,512)</u>	<u>-</u>
Component units:								
Total component units.....	<u>\$ 6,332,120</u>	<u>\$ 2,775,207</u>	<u>\$ 2,438,169</u>	<u>\$ 432,556</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(686,188)</u>
General revenues:								
Taxes:								
Personal income.....					9,414,864	-	9,414,864	-
Sales and use.....					8,309,905	-	8,309,905	-
Corporation.....					4,146,477	-	4,146,477	-
Liquid fuels and motor carriers.....					2,045,505	-	2,045,505	-
Gaming.....					1,232,829	-	1,232,829	-
Inheritance.....					698,980	-	698,980	-
Cigarette.....					1,088,405	-	1,088,405	-
Realty transfer.....					346,094	-	346,094	-
Other.....					1,035,935	-	1,035,935	-
Total taxes.....					28,318,994	-	28,318,994	-
Investment income.....					15,099	-	15,099	-
Total general revenues.....					28,334,093	-	28,334,093	-
Transfers—Note H.....					218,721	(218,721)	-	-
Net general revenues and transfers.....					28,552,814	(218,721)	28,334,093	-
Change in net assets.....					307,684	(1,825,103)	(1,517,419)	(686,188)
Net assets, July 1, 2009 (restated)—Note B.....					23,239,893	616,518	23,856,411	4,853,751
Net assets, June 30, 2010—Note C.....					\$ 23,547,577	\$ (1,208,585)	\$ 22,338,992	\$ 4,167,563

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



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

Fund

Financial Statements



Commonwealth of Pennsylvania

Balance Sheet

Governmental Funds

June 30, 2010

(Amounts in thousands)

	General Fund	Motor License Fund	Tobacco Settlement Fund	Nonmajor Funds	Total
ASSETS					
Assets:					
Cash—Note D.....	\$ 211,857	\$ 9,150	\$ -	\$ 41,025	\$ 262,032
Temporary investments—Note D.....	3,009,071	2,243,685	528,532	3,629,603	9,410,891
Long-term investments—Note D.....	-	-	497,267	463,147	960,414
Receivables, net:					
Taxes—Note G.....	3,378,961	178,511	-	21,500	3,578,972
Accounts.....	102,734	23,660	207,256	29,748	363,398
Investment income.....	662	276	3,011	4,200	8,149
Interest on notes and loans.....	1,202	-	-	-	1,202
Loans—Note G.....	9,989	-	-	79,315	89,304
Lease rentals—Note G.....	-	-	-	410	410
Investment sale proceeds.....	-	-	12,580	2,587	15,167
Other.....	-	17,538	-	25,198	42,736
Due from other funds—Note H.....	56,181	21,639	-	84,812	162,632
Due from pension trust funds—Note H.....	1,032	61	-	-	1,093
Due from component units—Note H.....	1,709	-	-	9,542	11,251
Due from Federal government.....	2,913,048	282,196	65,548	27,692	3,288,484
Due from political subdivisions.....	8,808	2,850	-	2,154	13,812
Due from other governments.....	12	-	-	-	12
Advances to other funds—Note H.....	139,108	-	-	3,000	142,108
Other assets.....	3,000	-	-	-	3,000
TOTAL ASSETS.....	\$ 9,837,374	\$ 2,779,566	\$ 1,314,194	\$ 4,423,933	\$ 18,355,067
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities.....	\$ 4,592,690	\$ 661,322	\$ 213,115	\$ 417,353	\$ 5,884,480
Investment purchases payable.....	-	-	25,655	2,231	27,886
Tax refunds payable.....	755,692	2,142	-	-	757,834
Securities lending obligations.....	23,198	147,348	30,398	197,232	398,176
Due to other funds—Note H.....	101,891	38,159	3,762	48,922	192,734
Due to component units—Note H.....	330	8,305	-	5,435	14,070
Due to pension trust funds.....	8,601	10,178	1	364	19,144
Due to political subdivisions.....	1,243,237	54,722	6,821	125,031	1,429,811
Due to other governments.....	14,029	189,452	2	677	204,160
Unearned revenue.....	2,189,445	2,942	207,256	38,889	2,438,532
Advances from other funds—Note H.....	67,500	3,575	-	10,333	81,408
Other liabilities.....	555,958	-	-	-	555,958
TOTAL LIABILITIES.....	9,552,571	1,118,145	487,010	846,467	12,004,193
Fund balances:					
Reserved for:					
Encumbrances.....	806,181	768,916	450	1,559,933	3,135,480
Advances—Note C.....	139,108	-	-	3,000	142,108
Loans receivable.....	9,989	-	-	79,315	89,304
Other—Note C.....	764,206	116,545	514,275	276,185	1,671,211
Unreserved:					
Designated for, reported in:					
Highways.....	-	768,710	-	-	768,710
Special Revenue funds.....	-	-	-	2,218	2,218
Debt Service funds.....	-	-	-	46,853	46,853
Capital Projects funds.....	-	-	-	32,879	32,879
Undesignated (deficit)-reported in:					
General Fund.....	(1,434,681)	-	-	-	(1,434,681)
Special Revenue Funds.....	-	7,250	312,459	2,101,548	2,421,257
Capital Projects Funds.....	-	-	-	(524,465)	(524,465)
TOTAL FUND BALANCES.....	284,803	1,661,421	827,184	3,577,466	6,350,874
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 9,837,374	\$ 2,779,566	\$ 1,314,194	\$ 4,423,933	\$ 18,355,067

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

Commonwealth of Pennsylvania
Reconciliation of the Balance Sheet
Governmental Funds to the Statement of Net Assets
June 30, 2010

(Amounts in thousands)

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

Total Fund Balances--Governmental Funds..... \$ 6,350,874

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

These assets consist of:

Land.....	\$ 2,397,399	
Land improvements.....	602,674	
Buildings and building improvements.....	6,318,099	
Machinery and equipment.....	879,673	
Infrastructure.....	30,818,127	
Intangible.....	13,319	
Construction in progress.....	3,469,899	
Accumulated depreciation.....	<u>(15,893,877)</u>	
Net general capital assets.....		28,605,313

Certain revenues are earned but not available at fiscal year-end and therefore are reported as unearned revenues in the governmental funds balance sheet 2,386,478

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..... 352,035

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 82,244

The Statement of Net Assets includes inventories that are not reported in the governmental funds balance sheet because they are not current financial resources..... 93,709

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

Bonds payable.....	\$ (10,498,794)	
Accrued bond interest payable.....	(168,582)	
Capital lease and installment purchase obligations.....	(31,561)	
Compensated absence liability.....	(766,808)	
Self-insurance liabilities.....	(880,865)	
Other post employment benefits.....	(941,995)	
Other liabilities.....	<u>(1,034,471)</u>	
		<u>(14,323,076)</u>

Total Net Assets--Governmental Activities..... \$ 23,547,577

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

Commonwealth of Pennsylvania
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	General Fund	Motor License Fund	Tobacco Settlement Fund	Nonmajor Funds	Total
REVENUES:					
Taxes, net of refunds.....	\$ 24,284,811	\$ 2,045,505	\$ -	\$ 1,898,919	\$ 28,229,235
Licenses and fees.....	607,334	851,164	-	493,185	1,951,683
Intergovernmental.....	21,847,421	2,649,613	191,893	567,237	25,256,164
Charges for sales and services.....	984,762	107,414	-	408,933	1,501,109
Investment income.....	14,212	130,798	82,137	117,789	344,936
Lease rental principal and interest.....	-	-	-	99	99
Interest on notes and loans.....	5,400	-	-	1,618	7,018
Other.....	201,652	2,555	433,912	40,833	678,952
TOTAL REVENUES	47,945,592	5,787,049	707,942	3,528,613	57,969,196
EXPENDITURES:					
Current:					
Direction and supportive services.....	1,032,744	61,906	-	685,098	1,779,748
Protection of persons and property.....	4,126,432	647,735	157,218	428,407	5,359,792
Health and human services.....	27,446,383	-	548,383	345,985	28,340,751
Public education.....	13,813,506	811	-	678,528	14,492,845
Recreation and cultural enrichment.....	291,412	3,263	-	212,062	506,737
Economic development.....	1,025,104	-	3,429	553,564	1,582,097
Transportation.....	59,121	2,372,220	-	1,402,404	3,833,745
Capital outlay.....	70,341	2,502,788	-	571,220	3,144,349
Debt service:					
Principal retirement.....	-	-	-	626,090	626,090
Interest and fiscal charges.....	526	-	-	405,888	406,414
TOTAL EXPENDITURES	47,865,569	5,588,723	709,030	5,909,246	60,072,568
EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER) EXPENDITURES	80,023	198,326	(1,088)	(2,380,633)	(2,103,372)
OTHER FINANCING SOURCES (USES):					
Bonds issued.....	-	-	-	1,900,401	1,900,401
Refunding bonds issued.....	-	-	-	695,945	695,945
Premium on bonds/refunding bonds/TANS.....	-	-	-	203,601	203,601
Discount on bonds issued.....	-	-	-	(2,924)	(2,924)
Transfers in—Note H.....	738,871	5,164	-	1,507,951	2,251,986
Transfers out—Note H.....	(1,049,269)	(51,801)	(199,093)	(588,205)	(1,888,368)
Payment to refunded bond escrow agent.....	-	-	-	(795,844)	(795,844)
NET OTHER FINANCING SOURCES (USES)	(310,398)	(46,637)	(199,093)	2,920,925	2,364,797
NET CHANGE IN FUND BALANCES	(230,375)	151,689	(200,181)	540,292	261,425
FUND BALANCES, JULY 1, 2009	515,178	1,509,732	1,027,365	3,037,174	6,089,449
FUND BALANCES, JUNE 30, 2010	\$ 284,803	\$ 1,661,421	\$ 827,184	\$ 3,577,466	\$ 6,350,874

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

Commonwealth of Pennsylvania

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

For the Fiscal Year Ended June 30, 2010

(Amounts in thousands)

The governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances reports events and activities that affect, on a current financial resources basis, fund balance changes during the fiscal year. The governmental activities column on the government-wide Statement of Activities conveys information on an economic resources basis. In effect, the government-wide statement demonstrates all expenses and revenues related to the operation of the government for the fiscal year ended June 30, 2010. 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..... \$ 261,425

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

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

Capital asset acquisitions	\$ 3,104,276	
Depreciation expense and losses on retirement or sale of assets.....	(1,202,922)	
Capital lease, installment purchase and related payments.....	<u>4,930</u>	
Net excess of capital asset additions/installment purchase payments over depreciation expense.....		1,906,284

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 \$100,779.....	\$ (2,001,180)	
Refunding bonds, including a premium of \$99,899.....	<u>(795,844)</u>	
Total bond proceeds		(2,797,024)

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.....	\$ 626,090	
Payments to refunded bond escrow agent.....	<u>795,844</u>	
Total long-term debt repayment.....		1,421,934

Internal service funds charge the costs of certain goods and services to individual funds. The net income of the internal service funds is reported as part of governmental activities expenses..... 7,077

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..... (66,739)

Certain expense adjustments are reported in the statement of activities because they are not due and payable and are funded with future economic resources rather than current available financial resources..... (425,273)

Net change in governmental net assets in the statement of activities..... \$ 307,684

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

Commonwealth of Pennsylvania

Statement of Net Assets

Proprietary Funds

June 30, 2010

(Amounts in thousands)

	Enterprise Funds						
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2009)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	Internal Service Funds
ASSETS							
Current assets:							
Cash-Note D.....	\$ 10,056	\$ 3,729	\$ 1,583	\$ 77	\$ 11,851	\$ 27,296	\$ 3,145
Cash with fiscal agents.....	831,903	-	-	-	-	831,903	-
Temporary investments—Note D.....	6,626	257,747	223,062	322,457	398,236	1,208,128	70,016
Receivables (net):							
Unemployment assessments.....	548,447	-	-	-	-	548,447	-
Accounts.....	141,370	62,908	13,310	-	3,037	220,625	1,510
Investment income.....	1	11,144	43	3,584	7	14,779	10
Interest on loans.....	40,240	-	-	-	714	40,954	-
Loans—Note G.....	-	-	-	-	55,702	55,702	-
Investment sale proceeds.....	-	-	-	567	-	567	-
Due from other funds—Note H.....	4,979	-	1	-	4,342	9,322	25,524
Due from pension trust funds-Note H.....	3	-	-	-	-	3	2,756
Due from component units—Note H.....	906	-	-	-	-	906	296
Due from Federal government.....	86,009	-	5,049	-	123	91,181	-
Due from political subdivisions.....	12,832	-	-	-	-	12,832	1
Due from other governments.....	36,591	-	-	-	-	36,591	86
Advances to other funds-Note H.....	-	-	-	-	1,400	1,400	-
Inventory.....	-	-	-	-	304,823	304,823	11,532
Prepaid expenses.....	-	-	-	-	4,430	4,430	-
Other assets.....	-	636	14,657	-	-	15,293	12
Total current assets.....	1,719,963	336,164	257,705	326,685	784,665	3,425,182	114,888
Noncurrent assets:							
Long-term investments-Note D.....	-	1,500,452	3,444	1,034,099	-	2,537,995	-
Receivables (net):							
Loans—Note G.....	-	-	-	-	276,351	276,351	-
Non-depreciable capital assets—Note E:							
Land.....	-	-	-	-	323	323	-
Construction in progress.....	-	-	-	-	2,886	2,886	-
Depreciable or amortizable capital assets—Note E:							
Land improvements.....	-	-	-	-	-	-	667
Buildings and building improvements.....	-	-	-	-	47,501	47,501	7,237
Machinery and equipment.....	-	1,512	51,328	-	70,601	123,441	96,465
Intangible assets.....	-	-	-	-	7,599	7,599	-
Less: accumulated depreciation and amortization.....	-	(1,387)	(42,752)	-	(63,219)	(107,358)	(71,195)
Net depreciable or amortizable capital assets.....	-	125	8,576	-	62,482	71,183	33,174
Total noncurrent assets.....	-	1,500,577	12,020	1,034,099	342,042	2,888,738	33,174
TOTAL ASSETS.....	\$ 1,719,963	\$ 1,836,741	\$ 269,725	\$ 1,360,784	\$ 1,126,707	\$ 6,313,920	\$ 148,062

Commonwealth of Pennsylvania

Statement of Net Assets

Proprietary Funds

June 30, 2010

(Amounts in thousands)

	Enterprise Funds						Internal Service Funds
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2009)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	
LIABILITIES							
Current liabilities:							
Accounts payable and accrued liabilities.....	\$ 180,233	\$ 15,618	\$ 405,014	\$ 2,333	\$ 242,461	\$ 845,659	\$ 39,117
Investment purchases payable.....	-	-	-	3,410	-	3,410	-
Tuition benefits payable—Note F.....	-	-	-	175,801	-	175,801	-
Securities lending obligations.....	176	173,726	5,432	183,723	43,824	406,881	3,430
Due to other funds—Note H.....	125	-	111	6	3,383	3,625	1,432
Due to pension trust funds—Note H.....	-	-	37	-	370	407	41
Due to component units.....	3	-	-	-	-	3	-
Due to political subdivisions.....	-	-	6,856	-	7	6,863	-
Due to other governments.....	3,022,317	-	1,431	-	647	3,024,395	59
Unearned revenue.....	-	80,069	7,903	-	2,557	90,529	-
Self insurance liabilities—Note M.....	-	380	451	-	4,728	5,559	363
Compensated absences—Note F.....	-	435	498	-	4,992	5,925	361
Insurance loss liability—Note F.....	-	269,248	-	-	-	269,248	-
Advances from other funds—Note H.....	-	2,061	-	-	113,000	115,061	14,300
Other liabilities.....	-	36,861	-	-	-	36,861	-
Total current liabilities.....	3,202,854	578,398	427,733	365,273	415,969	4,990,227	59,103
Noncurrent liabilities:							
Tuition benefits payable—Note F.....	-	-	-	1,154,090	-	1,154,090	-
Insurance loss liability—Note F.....	-	1,284,888	-	-	334	1,285,222	-
Installment purchase obligation—Note K.....	-	-	-	-	-	-	397
Compensated absences—Note F.....	-	2,125	2,616	129	26,180	31,050	1,896
Self insurance liabilities—Note M.....	-	2,007	2,382	-	24,964	29,353	1,916
Other postemployment benefit obligations—Note I.....	-	2,681	3,232	-	26,650	32,563	2,506
Total noncurrent liabilities.....	-	1,291,701	8,230	1,154,219	78,128	2,532,278	6,715
TOTAL LIABILITIES.....	3,202,854	1,870,099	435,963	1,519,492	494,097	7,522,505	65,818
NET ASSETS							
Invested in capital assets, net of related debt.....	-	125	8,576	-	65,691	74,392	32,777
Restricted for:							
Health-related programs.....	-	-	-	-	2,837	2,837	-
Transportation.....	-	-	-	-	110,987	110,987	-
Economic development.....	-	-	-	-	295,502	295,502	-
Correctional industries and procurement.....	-	-	-	-	-	-	49,467
Emergency support.....	-	-	-	-	138,884	138,884	-
Other purposes—Note C.....	-	-	-	-	85,177	85,177	-
Deficit.....	(1,482,891)	(33,483)	(174,814)	(158,708)	(66,468)	(1,916,364)	-
TOTAL NET ASSETS.....	\$ (1,482,891)	\$ (33,358)	\$ (166,238)	\$ (158,708)	\$ 632,610	\$ (1,208,585)	\$ 82,244

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

Commonwealth of Pennsylvania
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30 2010

(Amounts in thousands)

	Enterprise Funds						Internal Service Funds
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2009)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	
OPERATING REVENUES:							
Sales and services.....	\$ 5,011,491	\$ 222,607	\$ 3,051,640	\$ 157,336	\$ 1,538,114	\$ 9,981,188	\$ 98,935
Interest on loans.....	-	-	-	-	10,077	10,077	-
Other.....	556	851	457	-	676	2,540	45
OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTIBLE ACCOUNTS.....	5,012,047	223,458	3,052,097	157,336	1,548,867	9,993,805	98,980
Provision for uncollectible accounts.....	-	(18,951)	-	-	(4,552)	(23,503)	-
NET OPERATING REVENUES.....	5,012,047	204,507	3,052,097	157,336	1,544,315	9,970,302	98,980
OPERATING EXPENSES:							
Cost of sales and services.....	11,750,605	314,089	2,960,549	231,733	1,475,977	16,732,953	84,047
Depreciation and amortization.....	-	301	6,881	-	12,011	19,193	9,092
Other.....	-	-	111,948	-	-	111,948	-
TOTAL OPERATING EXPENSES.....	11,750,605	314,390	3,079,378	231,733	1,487,988	16,864,094	93,139
OPERATING INCOME (LOSS).....	(6,738,558)	(109,883)	(27,281)	(74,397)	56,327	(6,893,792)	5,841
NONOPERATING REVENUES (EXPENSES):							
Investment income.....	189	90,781	2,894	144,196	27,670	265,730	2,003
Investment expense.....	-	(4,888)	-	(4,143)	-	(9,031)	-
Grants and other revenues.....	4,916,880	-	112,586	-	1,385	5,030,851	-
Other expenses.....	-	-	(3)	-	(137)	(140)	(767)
NONOPERATING REVENUES (EXPENSES), NET.....	4,917,069	85,893	115,477	140,053	28,918	5,287,410	1,236
INCOME (LOSS) BEFORE TRANSFERS.....	(1,821,489)	(23,990)	88,196	65,656	85,245	(1,606,382)	7,077
TRANSFERS:							
Transfers in—Note H.....	-	-	176,700	-	12,053	188,753	-
Transfers out—Note H.....	(3,500)	-	(286,597)	-	(117,377)	(407,474)	-
TRANSFERS, NET.....	(3,500)	-	(109,897)	-	(105,324)	(218,721)	-
INCREASE/(DECREASE) IN NET ASSETS.....	(1,824,989)	(23,990)	(21,701)	65,656	(20,079)	(1,825,103)	7,077
TOTAL NET ASSETS, JULY 1, 2009.....	342,098	(9,368)	(144,537)	(224,364)	652,689	616,518	75,167
TOTAL NET ASSETS, JUNE 30, 2010.....	\$ (1,482,891)	\$ (33,358)	\$ (166,238)	\$ (158,708)	\$ 632,610	\$ (1,208,585)	\$ 82,244

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

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Commonwealth of Pennsylvania
Statement of Cash Flows
 Proprietary Funds
 For the Fiscal Year Ended June 30, 2010
 (Amounts in thousands)

	Enterprise Funds						
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2009)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from employers.....	\$ 4,906,544	\$ 196,663	\$ -	\$ -	\$ -	\$ 5,103,207	\$ -
Receipts from customers.....	-	-	3,047,711	-	1,531,292	4,579,003	103,538
Receipts from borrowers.....	-	-	-	-	66,940	66,940	-
Receipts from participants.....	-	-	-	157,336	-	157,336	-
Receipt of premiums.....	-	-	-	-	5,474	5,474	-
Payments to programs for the elderly.....	-	-	(796,541)	-	-	(796,541)	-
Payments to prize winners.....	-	-	(1,900,569)	-	-	(1,900,569)	-
Payments to participants.....	-	-	-	(164,487)	-	(164,487)	-
Payments to claimants.....	(9,347,339)	(297,806)	-	-	(1,025)	(9,646,170)	-
Payments to borrowers.....	-	-	-	-	(76,989)	(76,989)	-
Payments for vendors, employees and other costs.....	-	(70,104)	(289,871)	(6,313)	(1,493,594)	(1,859,882)	(79,844)
Other receipts (payments).....	-	851	(111,491)	-	660	(109,980)	61
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	(4,440,795)	(170,396)	(50,761)	(13,464)	32,758	(4,642,658)	23,755
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES							
Net borrowings under advances from other funds.....	-	274	-	-	-	274	-
Transfers in.....	-	-	176,700	-	12,000	188,700	-
Transfers out.....	(3,500)	-	(286,597)	-	(117,377)	(407,474)	-
Grants and other revenues.....	4,923,537	-	111,917	-	1,372	5,036,826	-
Other.....	-	-	-	-	(137)	(137)	-
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES.....	4,920,037	274	2,020	-	(104,142)	4,818,189	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Acquisition and construction of capital assets.....	-	-	(3,197)	-	(11,832)	(15,029)	(5,168)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....	-	-	(3,197)	-	(11,832)	(15,029)	(5,168)
CASH FLOWS FROM INVESTING ACTIVITIES:							
Purchase of investments.....	(5,612)	(850,164)	(1,289,280)	(1,583,382)	(975,942)	(4,704,380)	(373,919)
Sales and maturities of investments.....	3,390	1,325,240	1,321,969	1,581,929	1,058,517	5,291,045	347,213
Investment income.....	50	57,569	652	31,335	3,298	92,904	155
Investment expense.....	-	(4,888)	-	(4,143)	-	(9,031)	-
Change in securities lending obligations.....	(392)	(358,618)	(1,526)	(14,481)	(8,928)	(383,945)	(1,005)
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	(2,564)	169,139	31,815	11,258	76,945	286,593	(27,556)
NET INCREASE (DECREASE) IN CASH.....	476,678	(983)	(20,123)	(2,206)	(6,271)	447,095	(8,969)
CASH AT JULY 1, 2009.....	365,281	4,712	21,706	2,283	18,122	412,104	12,114
CASH AT JUNE 30, 2010.....	\$ 841,959	\$ 3,729	\$ 1,583	\$ 77	\$ 11,851	\$ 859,199	\$ 3,145

Commonwealth of Pennsylvania
Statement of Cash Flows
 Proprietary Funds
 For the Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	Enterprise Funds						Internal Service Funds
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2009)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES							
Operating income (loss).....	\$ (6,738,558)	\$ (109,883)	\$ (27,281)	\$ (74,397)	\$ 56,327	\$ (6,893,792)	\$ 5,841
Depreciation and amortization.....	-	301	6,881	-	12,011	19,193	9,092
Provision for uncollectible accounts.....	-	18,951	-	-	4,552	23,503	-
Changes in assets and liabilities:							
Accounts receivable.....	(35,866)	(7,696)	(422)	-	(876)	(44,860)	(1,129)
Interest receivable.....	(3,729)	-	-	-	(557)	(4,286)	-
Loans receivable.....	-	-	-	-	(20,405)	(20,405)	-
Other receivables.....	-	-	13	-	-	13	-
Unemployment compensation assessments receivable.....	(105,997)	-	-	-	-	(105,997)	-
Inventory.....	-	-	-	-	(96,013)	(96,013)	489
Due from other funds.....	706	-	(1)	-	(1,429)	(724)	(14)
Due from component units.....	(61)	-	-	-	-	(61)	(44)
Due from other governments.....	33,508	-	-	-	-	33,508	(27)
Due from political subdivisions.....	1,102	-	-	-	-	1,102	(1)
Other current assets.....	-	1,801	(45)	-	(2,564)	(808)	16
Accounts payable and accrued liabilities.....	(71,418)	9,363	(29,889)	(109)	64,699	(27,354)	6,938
Tuition benefits payable.....	-	-	-	61,042	-	61,042	-
Due to other funds.....	64	-	(107)	(1)	(3,005)	(3,049)	832
Due to component units.....	3	-	-	-	-	3	-
Due to political subdivisions.....	-	-	1,691	-	(10)	1,681	-
Due to other governments.....	2,479,451	-	(602)	-	93	2,478,942	3
Unearned revenue.....	-	(20,049)	(3,520)	-	(49)	(23,618)	-
Insurance loss liability.....	-	(81,101)	-	-	(296)	(81,397)	-
Other liabilities.....	-	17,917	2,521	1	20,280	40,719	1,759
Total Adjustments.....	2,297,763	(60,513)	(23,480)	60,933	(23,569)	2,251,134	17,914
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	\$ (4,440,795)	\$ (170,396)	\$ (50,761)	\$ (13,464)	\$ 32,758	\$ (4,642,658)	\$ 23,755
Increase in fair value of investments during the fiscal year.....	\$ 137	\$ 121,923	\$ 2,256	\$ 62,936	\$ 24,207	\$ 211,459	\$ 1,833

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

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

Commonwealth of Pennsylvania
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010

(Amounts in thousands)

		Investment Trust Fund	Private Purpose Trust Fund	
	Pension (and Other Employee Benefit) Trust Funds	INVEST Program for Local Governments (December 31, 2009)	Tuition Account Investment Program	Agency Funds
ASSETS				
Cash—Note D.....	\$ 5,077	\$ 27,615	\$ 1,368	\$ 38,299
Cash with fiscal agents.....	-	-	-	38,128
Temporary investments—Note D.....	71,968	670,022	-	876,632
Long-term investments—Note D.....	138,415	-	721,311	2,879,477
Short-term funds—Note D.....	4,689,828	-	-	-
Corporate obligations—Note D.....	3,357,883	-	-	-
Collective trust funds—Note D.....	12,680,656	-	-	-
Real estate—Note D.....	5,977,784	-	-	-
Alternative—Note D.....	22,471,283	-	-	-
Securities lending collateral—Note D.....	1,956,244	-	-	-
Asset-backed securities—Note D.....	30,538	-	-	-
Domestic equities—Note D.....	6,685,782	-	-	-
International equities—Note D.....	7,642,823	-	-	-
International private debt securities—Note D.....	542,459	-	-	-
International public debt securities—Note D.....	1,028,966	-	-	-
Mortgage-backed securities—Note D.....	3,869,036	-	-	-
Private placements—Note D.....	265,215	-	-	-
State and municipal obligations—Note D.....	7,801	-	-	-
U.S. Treasury obligations—Note D.....	2,818,585	-	-	-
U.S. government agency debt securities—Note D.....	494,763	-	-	-
Receivables, net:				
Taxes—Note G.....	-	-	-	37,958
Accounts.....	27	-	203	53,352
Investment income.....	298,288	-	-	790
Interest on notes and loans.....	-	116	-	1
Loans—Note G.....	-	-	-	45
Pension contributions—Note I.....	449,599	-	-	-
Investment sale proceeds.....	817,780	120,716	-	139
Other.....	14,784	-	-	179,919
Due from other funds—Note H.....	3,220	-	-	-
Due from pension trust funds—Note H.....	14,537	-	-	-
Due from component units—Note H.....	4,549	-	-	-
Due from political subdivisions.....	5,359	-	-	-
Due from other governments.....	6,231	-	-	-
Advances to other funds—Note H.....	-	-	-	67,500
Depreciable or amortizable capital assets:				
Machinery and equipment.....	12,007	-	-	-
Intangible assets.....	23,849	-	-	-
Less: accumulated depreciation and amortization.....	(16,641)	-	-	-
Net depreciable or amortizable capital assets.....	19,215	-	-	-
Other assets.....	-	-	-	3,538,447
TOTAL ASSETS.....	76,368,695	818,469	722,882	7,710,687
LIABILITIES				
Liabilities:				
Accounts payable and accrued liabilities.....	125,588	55	628	31,766
Investment purchases payable.....	1,211,897	146,276	452	35
Securities lending obligations.....	2,036,605	-	-	38,048
Due to other funds—Note H.....	762	-	-	-
Due to pension trust funds—Note H.....	4,981	-	-	-
Due to political subdivisions.....	-	-	-	396,575
Due to other governments.....	-	-	-	14
Interest payable.....	-	169	-	-
Compensated absence liability.....	-	-	-	406
Self insurance liabilities—Note M.....	-	-	-	556
Other postemployment benefit obligations—Note I.....	-	-	-	617
Other liabilities.....	567,683	-	-	7,242,670
TOTAL LIABILITIES.....	3,947,516	146,500	1,080	7,710,687
NET ASSETS:				
Held in trust for:				
Pension benefits.....	70,260,424	-	-	-
Postemployment healthcare benefits.....	343,081	-	-	-
Employee salary deferrals.....	1,817,674	-	-	-
INVEST Program participants.....	-	671,969	-	-
Tuition Account Investment Program participants.....	-	-	721,802	-
TOTAL NET ASSETS.....	\$ 72,421,179	\$ 671,969	\$ 721,802	\$ -

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

Commonwealth of Pennsylvania
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund INVEST Program for Local Governments (December 31, 2009)	Private Purpose Trust Fund Tuition Account Investment Program
ADDITIONS:			
Pension contributions:			
Employer.....	\$ 925,185	\$ -	\$ -
Employee.....	1,614,382	-	-
Transfer in from other plans.....	23,407	-	-
Total contributions.....	<u>2,562,974</u>	<u>-</u>	<u>-</u>
Investment income:			
Net appreciation in fair value of investments.....	8,872,891	-	51,996
Interest income.....	644,069	6,357	16,439
Dividend income.....	857,103	-	-
Rental and other income.....	318,608	-	-
Total investment activity income.....	<u>10,692,671</u>	<u>6,357</u>	<u>68,435</u>
Less: investment expenses			
Investment activity expense.....	<u>(785,040)</u>	<u>(877)</u>	<u>-</u>
Net investment earnings.....	<u>9,907,631</u>	<u>5,480</u>	<u>68,435</u>
Securities lending activities:			
Income.....	16,991	-	-
Expenses.....	<u>(1,620)</u>	<u>-</u>	<u>-</u>
Total securities lending income.....	<u>15,371</u>	<u>-</u>	<u>-</u>
Total net investment income.....	<u>9,923,002</u>	<u>5,480</u>	<u>68,435</u>
Share transactions (at net asset value of \$1.00 per share):			
Shares purchased.....	-	1,993,629	154,928
Shares issued in lieu of cash distributions.....	-	3,734	-
Shares redeemed.....	-	<u>(2,151,244)</u>	<u>(46,022)</u>
Net increase (decrease) in net assets from share transactions.....	<u>-</u>	<u>(153,881)</u>	<u>108,906</u>
TOTAL ADDITIONS.....	<u>12,485,976</u>	<u>(148,401)</u>	<u>177,341</u>
DEDUCTIONS:			
Benefit payments.....	7,551,197	-	-
Refunds of contributions.....	24,688	-	-
Transfers to other plans.....	47,341	-	-
Administrative expenses.....	54,779	-	4,163
Other expenses.....	2,095	-	-
Distributions to participants.....	-	5,480	-
TOTAL DEDUCTIONS.....	<u>7,680,100</u>	<u>5,480</u>	<u>4,163</u>
CHANGE IN PLAN NET ASSETS HELD IN TRUST FOR:			
Pension benefits.....	4,469,131	-	-
Postemployment healthcare benefits.....	43,157	-	-
Employee salary deferrals.....	293,588	-	-
INVEST program participants.....	-	(153,881)	-
Tuition Account Investment Program participants.....	-	-	173,178
TOTAL CHANGE IN PLAN NET ASSETS HELD IN TRUST...	<u>4,805,876</u>	<u>(153,881)</u>	<u>173,178</u>
Net assets, July 1, 2009.....	<u>67,615,303</u>	<u>825,850</u>	<u>548,624</u>
Net assets, June 30, 2010.....	<u>\$ 72,421,179</u>	<u>\$ 671,969</u>	<u>\$ 721,802</u>

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

Commonwealth of Pennsylvania
Statement of Net Assets
Discretely Presented Component Units
June 30, 2010

(Amounts in thousands)

	Pennsylvania Turnpike Commission (May 31, 2010)	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Nonmajor Discretely Presented Component Units	Total
ASSETS							
Current assets:							
Cash—Note D.....	\$ 615,430	\$ 1,231,019	\$ 14,345	\$ 257	\$ 113,889	\$ 762,356	\$ 2,737,296
Temporary investments—Note D.....	154,351	16,549	702,503	637,520	468,922	247,345	2,227,190
Receivables:							
Accounts	31,591	-	36,695	-	109,078	785	178,149
Investment income.....	4,376	1,524	-	-	-	139	6,039
Interest on notes and loans.....	-	-	137,272	2,995	-	1,508	141,775
Loans—Note G.....	-	109,462	1,063,333	162,955	5,483	66,187	1,407,420
Lease rentals—Note G.....	-	-	-	-	-	2,255	2,255
Other	-	-	-	-	60,937	474	61,411
Due from primary government—Note H.....	6,497	3	-	-	5,910	-	12,410
Due from component units—Note H.....	-	38	-	62	83	-	183
Due from Federal government.....	-	-	40,576	640	-	-	41,216
Due from other governments	-	-	-	-	-	43	43
Inventory.....	22,302	-	-	-	13,469	479	36,250
Prepaid and deferred expenses.....	-	-	6,263	-	8,452	625	15,340
Other assets.....	-	111,009	101,623	-	2,767	11,911	227,310
Total current assets	834,547	1,469,604	2,102,610	804,429	788,990	1,094,107	7,094,287
Noncurrent assets:							
Long-term investments—Note D.....	627,767	225,373	-	-	948,659	29,711	1,831,510
Receivables (net):							
Interest on notes and loans.....	-	-	19,729	-	-	-	19,729
Loans—Note G.....	-	4,381,365	8,500,721	1,853,124	32,921	733,072	15,501,203
Non-depreciable capital assets—Note E:							
Land.....	234,543	2,454	2,946	-	43,432	66,816	350,191
Construction in progress.....	1,200,456	-	-	-	200,146	125,855	1,526,457
Depreciable or amortizable capital assets—Note E:							
Land improvements.....	87,312	-	-	-	218,764	-	306,076
Buildings and building improvements.....	765,723	29,927	66,230	-	2,314,581	165,378	3,341,839
Machinery and equipment.....	472,246	10,653	33,412	-	420,177	45,045	981,533
Turnpike infrastructure.....	5,653,976	-	-	-	-	-	5,653,976
Library books.....	-	-	-	-	83,848	517	84,365
Other capital assets.....	-	-	20,751	-	-	337	21,088
Intangible assets.....	-	-	17,240	-	-	33	17,273
Less: accumulated depreciation and amortization.....	(4,023,581)	(9,681)	(84,086)	-	(1,037,586)	(114,057)	(5,268,991)
Net depreciable or amortizable capital assets.....	2,955,676	30,899	53,547	-	1,999,784	97,253	5,137,159
Other assets.....	66,874	155,701	63,772	128	85,903	15,531	387,909
Total noncurrent assets	5,085,316	4,795,792	8,640,715	1,853,252	3,310,845	1,068,238	24,754,158
TOTAL ASSETS.....	5,919,863	6,265,396	10,743,325	2,657,681	4,099,835	2,162,345	31,848,445

Commonwealth of Pennsylvania
Statement of Net Assets
Discretely Presented Component Units
June 30, 2010

(Amounts in thousands)

	Pennsylvania Turnpike Commission (May 31, 2010)	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Nonmajor Discretely Presented Component Units	Total
LIABILITIES							
Current liabilities:							
Accounts payable and accrued liabilities.....	162,022	5,928	138,002	408	213,121	14,988	534,469
Securities lending obligations.....	-	-	-	62,735	-	5,619	68,354
Due to primary government—Note H.....	-	14	410	5,255	9,572	664	15,915
Due to component units—Note H.....	-	62	-	38	-	83	183
Due to political subdivisions.....	-	-	-	-	-	6	6
Due to other governments.....	-	-	-	-	-	850	850
Interest payable.....	126,247	46,232	21,251	379	-	16,688	210,797
Unearned revenue.....	31,885	-	233	-	51,441	14,749	98,308
Notes payable—Note J.....	-	-	144,000	-	-	182	144,182
Bonds payable—Note K.....	-	-	-	-	39,975	-	39,975
Revenue bonds payable—Note K.....	155,555	521,789	-	9,080	-	60,350	746,774
Capital lease/installment purchase obligations—Note K.....	-	-	1,312	-	3,138	-	4,450
Self insurance liabilities.....	2,149	-	-	-	4,743	-	6,892
Compensated absences.....	10,145	-	381	50	10,201	479	21,256
Other financing obligations—Note J.....	-	-	89,055	-	-	-	89,055
Other liabilities.....	-	208,211	101,622	-	49,864	83	359,780
Total current liabilities.....	488,003	782,236	496,266	77,945	382,055	114,741	2,341,246
Non-current liabilities:							
Due to primary government—Note H.....	-	-	-	79,208	-	-	79,208
Unearned revenue.....	-	-	-	-	2,946	-	2,946
Demand revenue/auction rate security bonds payable—Note J.....	-	-	6,693,560	-	-	-	6,693,560
Notes payable—Note J.....	-	-	2,901,640	-	254,476	19,285	3,175,401
Bonds payable—Note K.....	-	-	-	-	785,375	-	785,375
Revenue bond payable—Note K.....	6,244,919	4,278,351	-	14,209	676,627	1,673,518	12,887,624
Capital lease/installment purchase obligations—Note K.....	-	-	3,192	-	63,150	-	66,342
Other financing obligations—Note J.....	-	-	135,043	-	-	-	135,043
Compensated absences.....	6,826	-	15,178	264	93,841	2,326	118,435
Self insurance liabilities.....	28,196	-	-	-	11,741	-	39,937
Other postemployment benefit obligations—Note I.....	-	-	-	257	722,574	1,377	724,208
Other liabilities.....	17,361	433,723	-	-	179,579	894	631,557
Total non-current liabilities.....	6,297,302	4,712,074	9,748,613	93,938	2,790,309	1,697,400	25,339,636
TOTAL LIABILITIES.....	6,785,305	5,494,310	10,244,879	171,883	3,172,364	1,812,141	27,680,882
NET ASSETS—Note C:							
Invested in capital assets, net of related debt.....	1,028,238	13,423	(9,103)	-	615,939	260,953	1,909,450
Restricted for:							
Health-related programs.....	-	-	-	-	-	5,480	5,480
Capital projects.....	332,110	-	-	2,485,798	26,642	949	2,845,499
Debt service.....	-	193,816	247,407	-	-	4,199	445,422
Economic development.....	-	-	-	-	-	70,737	70,737
Higher Education.....	-	-	260,142	-	284,890	3,139	548,171
Other purposes.....	-	563,847	-	-	-	33,997	597,844
Unrestricted/(Deficit).....	(2,225,790)	-	-	-	-	(29,250)	(2,255,040)
TOTAL NET ASSETS.....	\$ (865,442)	\$ 771,086	\$ 498,446	\$ 2,485,798	\$ 927,471	\$ 350,204	\$ 4,167,563

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

Commonwealth of Pennsylvania
Statement of Activities
Discretely Presented Component Units
For the Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	<u>Pennsylvania Turnpike Commission (May 31, 2010)</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>Nonmajor Discretely Presented Component Units</u>	<u>Total</u>
Expenses.....	\$ 1,866,549	\$ 885,158	\$ 923,542	\$ 128,917	\$ 2,093,788	\$ 434,166	\$ 6,332,120
Program revenues:							
Charges for goods and services.....	710,101	251,768	553,537	29,862	1,172,506	57,433	2,775,207
Operating grants and contributions.....	30,095	658,003	470,888	178,161	955,092	145,930	2,438,169
Capital grants and contributions.....	130,172	-	-	162,016	15,090	125,278	432,556
Total program revenues.....	<u>870,368</u>	<u>909,771</u>	<u>1,024,425</u>	<u>370,039</u>	<u>2,142,688</u>	<u>328,641</u>	<u>5,645,932</u>
Change in net assets.....	<u>(996,181)</u>	<u>24,613</u>	<u>100,883</u>	<u>241,122</u>	<u>48,900</u>	<u>(105,525)</u>	<u>(686,188)</u>
Net assets, July 1, 2009 (restated)—Note B....	130,739	746,473	397,563	2,244,676	878,571	455,729	4,853,751
Net assets, June 30, 2010.....	<u>\$ (865,442)</u>	<u>\$ 771,086</u>	<u>\$ 498,446</u>	<u>\$ 2,485,798</u>	<u>\$ 927,471</u>	<u>\$ 350,204</u>	<u>\$ 4,167,563</u>

- 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, 2010. The government-wide financial statements do not include any fiduciary fund assets, liabilities or activities for the primary government or component units (defined below) that are fiduciary in nature. Governmental activities within government-wide financial statements include specific balances and transactions related to Internal Service Funds that are reported as proprietary funds in fund financial statements. Business-type activities include information for all Enterprise Funds.

Financial Reporting Entity

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

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

Component Units: In addition to the PG, the financial reporting entity includes discretely presented component units. Component units include all legally separate organizations for which the PG is financially accountable, and other organizations for which the nature and significance of their relationship with the PG are such that exclusion would cause the financial statements to be misleading or incomplete. The criteria used to define financial accountability 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 State Employees' Retirement System, the Deferred Compensation Program and the Public School Employees' Retirement System are reported as Fiduciary Funds, Pension Trust Funds and the Pennsylvania Life and Health Insurance Guaranty Association and the Pennsylvania Property and Casualty Insurance Guaranty Association are reported as Fiduciary Funds, Agency Funds.

State Employees' Retirement System (SERS) (Fiduciary Fund) - The SERS is a public employee retirement system that covers Commonwealth employees. The PG appoints all voting board members and, on a very limited basis, imposes its will on the SERS. The PG uses the SERS to provide pension benefits to PG employees. The PG makes essentially all employer contributions to the SERS; PG employees make almost all of the employee contributions to the SERS (virtually all PG employees are required to join the SERS). The PG is responsible for substantially all of the SERS pension obligations. The SERS provides services and benefits almost exclusively to the PG. The SERS administers both a defined benefit plan and a defined contribution plan. The defined benefit plan is funded through a combination of employee contributions, employer contributions and investment earnings. The defined contribution plan is funded by voluntary employee contributions and investment earnings. The SERS is reported for its fiscal year ended December 31, 2009.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Philadelphia Shipyard Development Corporation (PSDC) - The PSDC was created as a nonprofit corporation to assist the PG and other governmental entities in financing a shipbuilding facility at the former Philadelphia Naval Shipyard. The PSDC obtains funding from the PG and a variety of other governmental sources to fund development, construction and job recruitment and training costs. The PG appoints three of five voting board members and provides a significant portion of funding for the PSDC. The PSDC is reported for its fiscal year ended December 31, 2009.

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

Pennsylvania Higher Education Assistance Agency (PHEAA) - The PHEAA makes grants and loans to students to help fund the cost of higher education. Through June 30, 2010 lending institutions and post-secondary schools were involved in the loan program. The PG funds the PHEAA grant program; the PHEAA issues revenue bonds to fund the student loan program. Revenue bonds are repaid from student loan repayments. The PHEAA also services student loan portfolios for lending institutions and the federal government. The PG appoints all 20 voting board members but does not significantly impose its will on the PHEAA. A significant PG financial burden exists through subsidizing the grant program; also, although the PG is not obligated for the PHEAA revenue bonds, the PG could take certain actions to satisfy bondholders. The PHEAA is fiscally dependent, as the Governor must approve the issuance of its debt.

Pennsylvania Housing Finance Agency (PHFA) - The PHFA makes loans to eligible individuals and organizations to purchase or construct housing. The loans benefit older adults, persons with disabilities, and low and moderate-income individuals and families. The PG appoints all voting board members; four of the fourteen members may be removed at will. The Secretary of Banking, the Secretary of Community and Economic Development, the Secretary of Public Welfare, and the State Treasurer serve as ex-officio members. The Governor is required to request an appropriation from the General Assembly for the PHFA whenever a deficiency exists in the capital reserve account or if additional funds are needed to avoid a default on the PHFA

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

debt. This represents a PG moral obligation for the PHFA debt. The PHFA is fiscally dependent on the PG, as the Governor must approve the issuance of its debt.

Patient Safety Trust Authority (PSTA) - The PSTA is charged with taking steps to reduce and eliminate medical errors by identifying problems and recommending solutions that promote patient safety in hospitals, ambulatory surgical facilities and birthing centers. The Board of Directors has 11 members: the Pennsylvania Physician General, who serves as the Board chair, six members appointed by the Governor representing specific professional occupations, and four members appointed by the General Assembly. The Pennsylvania Department of Health determines whether or not PSTA recommendations will be adopted, establishing PG imposition of will; further, the enabling legislation limits the amount of assessments PSTA charges medical facilities to fund PSTA activities.

Pennsylvania Industrial Development Authority (PIDA) - The PIDA 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 works closely with the DCED. The PG appoints all voting board members and is able to impose its will on the PIDA. The PG has provided capital contributions; "excess" PIDA funds are transferred to the **General Fund**. The PG is not obligated for the PIDA debt, but the PG could take certain actions to satisfy bondholders.

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

Pennsylvania Turnpike Commission (PTC) - The PTC was created to construct, maintain and operate a turnpike system in the Commonwealth. Activities are financed through user tolls and the issuance of revenue bonds. Debt service payments are funded through user tolls. The PTC works closely with the Department of Transportation. The PG appoints all voting members. When all the PTC bondholders have been satisfied, the PTC assets revert to the Department of Transportation. The Governor must approve the issuance of all PTC debt. The PG is not obligated for PTC debt, but the PG could take certain actions to satisfy bondholders. The PTC is reported for its fiscal year ended May 31, 2010.

State System of Higher Education (SSHE) - The SSHE was created to provide instruction for postsecondary students. The SSHE is composed of fourteen universities and an administrative headquarters. Resources are provided by student tuition, grants and PG subsidies. The PG appoints all 20 voting board members, which in turn appoint the university presidents and chancellor. Five of the appointments must be trustees of universities; three must be students. The PG provides significant operating and capital subsidies to the SSHE. The PG is not obligated for the SSHE debt, but the PG could take certain actions to satisfy bondholders.

Commonwealth Financing Authority (CFA) - The CFA administers and funds economic stimulus programs; the programs offer financial assistance through loans, grants, guarantees, sales, leases, investments, lines and letters of credit, and other authorized financial arrangements. The PG appoints the four voting members of the Board of Directors and may remove these members at will. The Secretary of Community and Economic Development, Secretary of the Budget, and Secretary of Banking serve as ex-officio members of the Board. The CFA is authorized to issue limited obligation revenue bonds and other types of limited obligation revenue financing. The bonds are payable solely from CFA revenues or funds appropriated to the CFA by the Commonwealth. While the enabling legislation provides that CFA bonds are not a debt or obligation of the Commonwealth, it is anticipated that **General Fund** appropriations will be required to support the annual debt service cost on CFA debt. The CFA is fiscally dependent on the PG, as the Secretary of the Budget must certify that the **General Fund** will support any appropriations needed to pay the debt service payments or costs incurred in any bond issuance.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Pennsylvania Life and Health Insurance Guaranty Association (PLHIGA) (Fiduciary Fund) - The PLHIGA was created to protect insurance policy owners, insured persons, beneficiaries, annuitants, payees and assignees of direct non-group life, health, annuity and supplemental policies or contracts from potential insurer failure due to the impairment or insolvency of the insurer. The PLHIGA guarantees the payment of insurance benefits and continuation of coverage by assessing member insurers. The PLHIGA is also authorized to assist the Pennsylvania Insurance Commissioner in the prevention and detection of insurer impairments or insolvencies. The PG has appointment approval authority for all governing board members and the Insurance Commissioner has broad authority to impose will on the PLHIGA. There is a minor financial burden on the PG. The PLHIGA is reported for its fiscal year ended December 31, 2009.

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, 2009.

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

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

Pennsylvania Energy Development Authority (PEDA) - The PEDA was created to promote the development of energy sources within the Commonwealth. The PEDA issued revenue bonds and lent the proceeds to fund four specific projects. Loan repayments are derived solely from project revenues. The debt is considered non-recourse, as the PEDA is not obligated to bondholders beyond amounts received from the funded projects. The PEDA has not issued any debt since 1990. Financial statement information for the PEDA is not reported because its only significant economic activity involves conduit debt. The PG appoints all 19 board members; six members are ex-officio. The Governor must approve the issuance of PEDA debt. The PG is not obligated for the PEDA debt, but the PG could take certain actions to satisfy bondholders. The PEDA board reviewed and approved funding for certain alternative energy grant applications during the fiscal year ended June 30, 2010.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Statements for Component Units and Investment Trust Fund

Audited financial statements for component units are available by writing to the Commonwealth Chief Accounting Officer, 555 Walnut Street, Ninth Floor, Harrisburg, PA 17101-1921. The Commonwealth sponsors the INVEST Program for Local Governments, an external investment pool, which is reported as an Investment Trust Fund. Audited financial statements for that Program are also available through the Chief Accounting Officer.

Related Organizations

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

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

The **Philadelphia Parking Authority (Authority)** is financially reported as a discretely presented component unit in the City of Philadelphia's (City) financial reporting entity. Act 22 of 2001 provided, in part, for the Commonwealth to appoint a voting majority of the Authority's governing board. The Act provided for an increase from five to eleven board members; the Commonwealth appointed six new members by June 30, 2001. Effective June 30, 2006, the terms of board members appointed prior to June 2001 expired. No replacement appointments for those positions were made, pursuant to the provisions of the Act. Beginning June 1, 2006, the board consists of the six members appointed in 2001, whose terms expire in 2010, 2011 and 2012.

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

Joint Venture

The Commonwealth, through its Office of Administration, created the **Pennsylvania Employees' Benefit Trust Fund (PEBTF)** using a contractual agreement with various Commonwealth employee labor unions. The PEBTF establishes and provides active Commonwealth employee healthcare benefits and is the Commonwealth's third-party administrator for the Commonwealth's retiree healthcare programs. A governing board administers the PEBTF; one-half of the board is appointed by the Commonwealth and one-half is appointed by the various unions. Neither the Commonwealth nor the unions control 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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Primary Government – Fund Structure

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

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

Governmental Funds

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

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

Special Revenue Funds—Account for 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 highway revenues. The Fund makes expenditures for highway and bridge improvement, design, maintenance, and purchases of rights-of-way, as well as aviation activities and transportation licensing and safety activities. It also finances State Police highway patrol operations and pays subsidies to local subdivisions for construction and maintenance of roads.

The **Tobacco Settlement Fund** was originally established to deposit all payments received by the Commonwealth pursuant to the Master Settlement Agreement with tobacco product manufacturers. Deposits into this fund include: jurisdictional payments received by the Commonwealth from the Master Settlement Agreement, strategic contribution payments from the Master Settlement Agreement, quarterly payments from certain Pennsylvania health insurance companies and earnings from investments. Expenditures from this fund are determined by the annual budget appropriated to each program. For the fiscal year ended June 30, 2010, payments from the Master Settlement Agreement were 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. Amounts received from the Pennsylvania health insurance companies are held in a restricted account and used exclusively for Department of Insurance initiatives.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Debt Service Funds—Account for the accumulation of resources, principally transferred 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 SWIF is reported for its fiscal year ended December 31, 2009.

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

The **Tuition Payment Fund** offers a college savings program allowing participants to purchase college credits at the current year rates. The program is administered by the Tuition Account Program Bureau within the Treasury Department with oversight by the Tuition Account Program Advisory Board. Revenue is derived primarily from application fees, participant contributions and investment income. Fund expenses consist mainly of payments to educational institutions and administrative costs.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

labor, and general and administrative costs.

Fiduciary Funds

Trust and Agency Funds—Account for assets held by the Commonwealth in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include Pension (and other employee benefit) Trust Funds, an Investment Trust Fund, a Private Purpose Trust Fund and Agency Funds.

The State Employees' Retirement System, a pension trust fund, is a component unit and accounts for the payment of retirement, disability and death benefits to members of the State Employees' Retirement System and their beneficiaries. The Deferred Compensation Fund is a pension trust fund that collects and administers amounts contributed by Commonwealth employees who defer a portion of their income until future years, in accordance with Internal Revenue Code Section 457. The Public School Employees' Retirement System (PSERS), a pension trust fund is a component unit and was created to administer and provide pension benefits to public school employees in Pennsylvania. The PSERS covers almost all such employees. Covered elementary and secondary school employers make employer contributions with the PG reimbursing each employer at least half their required annual contribution. Employer contributions for covered employees of higher education institutions and state-owned schools are shared equally by covered employers and the PG; all covered public school employees also contribute. The SERS, the Deferred Compensation Fund and PSERS are reported for their fiscal years ended December 31, 2009.

The INVEST Program for Local Governments is an Investment Trust Fund that invests amounts owned by local governments, school districts and not for profit entities. The Tuition Account Investment Program is a Private Purpose Trust Fund that invests amounts on behalf of participants who are saving for college tuition costs. The INVEST Program for Local Governments is reported for its fiscal year ended December 31, 2009.

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

The Underground Storage Tank Indemnification Fund holds assets on behalf of owners and operators of underground storage tanks who incur a liability for taking corrective actions associated with underground storage tank releases.

The Municipal Pension Aid Fund holds a portion of casualty insurance company tax assessments, which are remitted to municipalities to help defray municipal police and fire fighter pension costs.

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

costs of most employee benefits earned during the fiscal year (such as vacation time earned) and increases in self-insurance liabilities are also reported as expenses in the Statement of Activities, regardless of when the benefits are used or the liabilities are paid.

Measurement Focus and Basis of Accounting – Fund Financial Statements**Governmental Funds**

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

Expenditures are generally recognized in the fiscal year the goods or services are received and the related fund liability is incurred. Debt service expenditures for principal and interest on general long-term obligations and other long-term liabilities are recognized when due. Prepaid items and inventory purchases are reported as current fiscal year expenditures, rather than allocating a portion of related cost to the fiscal year when the items are actually used. Expenditures are reported for amounts accrued at fiscal year-end that normally would be liquidated with expendable available financial resources.

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

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

Proprietary Funds classify revenues and expenses as either 'operating' or 'nonoperating', depending on the nature of the activities reported in the individual fund. The majority of transactions are reported as 'operating'; however, investment income and grants are reported as 'nonoperating' revenues by all Proprietary Funds. Under the Governmental Accounting Standards Board's (GASB) Statement 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Commonwealth has elected not to adopt the Financial Accounting Standards Board pronouncements issued after November 30, 1989.

Agency Funds

Assets and liabilities of agency funds are reported using the accrual basis of accounting. Agency funds have no measurement focus and do not report operating statements.

Significant Accounting Policies

Pooled Cash: In accordance with the Fiscal Code, cash balances of most Commonwealth funds are pooled by the Treasury Department. Cash balances are segregated by fund, but accounted for centrally for receipt and disbursement purposes. The

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

law requires that collateral be pledged by banks and other financial institutions to guarantee the Commonwealth's cash on deposit.

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

Investment Pools: The Fiscal Code provides the Treasury Department with investment control over most Commonwealth funds. The Treasury Department uses a variety of internal investment pools that seek to provide preservation of principal, liquidity, diversification and income for Commonwealth funds. All participating funds report amounts invested in such pools as temporary 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 after fiscal year end 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. Such investments are generally not managed by the Treasury Department. Long-term investments are reported at fair value, except for certain nonparticipating interest-bearing contracts, which are reported at cost. Fair values are based on published market prices, quotations from national securities exchanges and securities pricing services, or by the respective fund managers for securities that are not actively traded. Certain pension trust fund investments, including real estate, venture capital, private equity, private placements and alternative investments are valued based on the net asset value as reported by the investee.

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

Grant Revenues: Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental revenues when entitlement occurs. Federal reimbursement-type grant revenues are recorded when the related expenditures or expenses are incurred and the revenue is available to pay expenditures.

Inventories and Prepaid Expenses: Inventories of operating materials and supplies are reported by certain governmental activities and operating and merchandise inventories are reported by Proprietary Funds and the State System of Higher Education, a discretely presented component unit. Operating materials and supplies inventories are valued at cost (first-in, first-out) and merchandise inventories are reported at the lower of cost or market. In the governmental fund financial statements, inventories are accounted for using the purchases method whereby expenditures are reported for current-year

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

purchases of operating materials and supplies. Also, in governmental fund financial statements, prepaid expenses are not reported.

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

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

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

Buildings and building improvements.....	40 years
Improvements other than buildings.....	30 years
Machinery and equipment.....	10 years
Highway heavy equipment.....	15 years
Highway infrastructure.....	25 years
Bridge infrastructure	50 years
Dams, dikes and pier infrastructure	50 years
Other infrastructure	20 years
Computer software	3 – 30 years
Trademarks, patents and copyrights.....	3 – 40 years

Primary government business-type activities report depreciation/amortization expense using useful lives that are very similar to the above and do not report any infrastructure. Certain land, buildings and improvements owned by the Commonwealth and used by the State System of Higher Education (SSHE), a discretely presented component unit, which were acquired or constructed before July 1, 1983 (the inception date for the SSHE), are financially reported as governmental activities general capital assets. All general capital assets acquired or constructed for the SSHE subsequent to June 30, 1983 without the use of university funds or incurrence of SSHE debt are also reported as governmental activities general capital assets. This reporting treatment is based on the title for the SSHE-used real property remaining with the primary government. Based on agreements between the primary government, through its Department of General Services (DGS), and SSHE universities in 2002, DGS effectively transferred occupancy, custody and control to the SSHE universities and the SSHE universities assumed

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

financial responsibility and legal liability for the SSHE-used real property. Capital assets reported by the SSHE are stated at cost. Depreciation of SSHE capital assets is recognized over the estimated useful life of the assets.

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

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

Self-Insurance: The Commonwealth is 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. Most retiring employees that meet service, age or disability requirements are paid in accordance with the following schedule:

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

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

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

Pension Costs: The Commonwealth’s policy is to fund employer contributions to the State Employees’ Retirement System (SERS) as required by the SERS board, through its statutory authority, or as required based on other applicable statutory requirements. Since 2005, established employer contributions have been completely funded but such contributions have been less than the ‘annual required contributions of the employer’ (ARC) calculated using ‘parameters’ defined by applicable

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

accounting and financial reporting standards for 'sole' and 'agent' employer governments. Since the SERS is a cost-sharing, multiple-employer pension plan, the Commonwealth does not financially report a net pension obligation for the amount by which the calculated ARC exceeds actual contributions to the SERS.

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

Interest Expense: In the Statement of Activities, no interest expense is reported by direct program costs. No interest expense was capitalized during the fiscal year ended June 30, 2010.

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

Restricted Net Assets: These amounts were determined based on enabling legislation, externally restricted by creditors, grantors, contributions or laws that provide for restrictions on how the resources of special (non-**General Fund**) funds may be used. At June 30, 2010, a portion of governmental activities net assets was restricted based on a Federal government purpose restriction. Practically all reported restricted net assets could become unrestricted based on possible future legislative changes.

Budget Stabilization Reserve Fund: Act 91 of 2002 provided for this Fund effective July 1, 2002 to gradually provide a budgetary reserve amounting to 6 percent of the revenues of the **General Fund**. For the fiscal year beginning July 1, 2002 and in any fiscal year thereafter in which the Secretary of the Budget certifies that there is a surplus in the **General Fund**, 25 percent of the surplus is to be deposited by the end of the next succeeding quarter into this Fund. The last such transfer was \$177 million (based on the June 30, 2007 surplus) during the fiscal year ended June 30, 2008. Due to July 2008 legislation, there was no transfer from the **General Fund** during the fiscal year ended June 30, 2009. Further, the enacted **General Fund** budget for the fiscal year ended June 30, 2010 provided that nearly the entire balance in this Fund be transferred to the **General Fund**; a \$755 million transfer occurred on October 15, 2009. Since this Fund is financially reported as part of the **General Fund** (as a fund balance reservation), all transfers between this Fund and the **General Fund** are eliminated in the basic financial statements.

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. The Agreement contains procedures for resolving disputes over payment or other issues that may arise. A dispute regarding the amount to be paid for cigarette sales that took place in 2003 is currently being litigated.

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Interfund Services Provided and Used—Charges or collections for services provided by one fund to another that are recorded as revenues of the recipient fund and expenditures or expenses of the disbursing fund are reclassified and treated as reimbursements (above) in fund financial statements and the Statement of Activities.

Interfund balances: Amounts due from/to other funds are reported for unremitted charges or collections at fiscal year end that arise in connection with routine, ordinary governmental fund and proprietary fund operations. The composition of the Commonwealth’s interfund receivables/payables at June 30, 2010 and transfers in/out during the fiscal year ended June 30, 2010 are presented in Note H. Interfund balances between two governmental funds or two proprietary funds are not reported in the Statement of Net Assets.

New Accounting Pronouncements – Adopted:

In June 2007, the GASB issued Statement No. 51, “Accounting and Financial Reporting for Intangible Assets.” GASB Statement No. 51 clarifies pertinent provisions of GASB Statement No. 34 which address capital asset reporting requirements. Among other things, the Commonwealth must report such intangible assets as computer software, which were not previously capitalized and amortized. The Commonwealth adopted the Standard effective July 1, 2009. No restatement of beginning net assets was reported, as the Commonwealth and its component unit organizations either did not own intangible assets or owned only internally generated intangible assets which didn’t require retroactive reporting as of June 30, 2009. Therefore, beginning July 1, 2009 the Commonwealth (primary government) is newly reporting intangible assets of over \$32 million as of June 30, 2010. Among component unit organizations, the Public School Employees’ Retirement System, a Pension Trust Fund, reported \$23.8 million for computer software as of June 30, 2010.

In June 2008, the GASB issued Statement No. 53, “Accounting and Financial Reporting for Derivative Instruments.” GASB Statement No. 53 requires that derivative instruments be reported at fair value; further, periodic changes in those fair values for investment derivatives or other derivatives which are ineffective are reported as a component of investment income. For derivatives which are effective hedging instruments, periodic changes in fair value are deferred on statements of net assets. The Commonwealth adopted the Standard effective July 1, 2009 with no effect on its financial statements; the Pension (and other employee benefit) Trust Funds provided necessary note disclosure information for their investment derivative instruments in their separately-issued financial statements. The Pennsylvania Housing Finance Agency, a discretely presented component unit, adopted GASB Statement No. 53; as a result, the investment revenue decreased \$2.2 million for the current year. Swap agreements were previously disclosed in the notes to the financial statements. The Pennsylvania Turnpike Commission has not adopted the statement due to its May 31 year end.

In December 2009, the GASB issued Statement No. 58, “Accounting and Financial Reporting for Chapter 9 Bankruptcies.” GASB Statement No. 58 establishes requirements for recognizing and measuring the effects of governments requesting bankruptcy protection under Chapter 9 of the United States Bankruptcy Code (Code) on assets and liabilities and for classifying changes in those items and related costs. Since the Commonwealth is not a municipality as defined in the Code, GASB Statement No. 58 has no effect on the primary government or any discretely presented component units as of and for the fiscal year ended June 30, 2010.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**New Accounting Pronouncements – To Be Adopted:**

In February 2009, the GASB issued Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." GASB Statement No. 54 changes the existing components within governmental funds fund balances from 1) Reserved, Unreserved and, within Unreserved, Designated and Undesignated fund balances, to 2) Nonspendable and Spendable and within Spendable, Restricted, Committed, Assigned and Unassigned. Also, governmental funds fund type classifications are clarified.

In December 2009, the GASB issued Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans." GASB Statement No. 57 amends certain current standards related to: employer accounting and reporting for OPEB; and OPEB plan reporting. The newer requirements are intended to increase the number of employer governments which may use the 'alternative method' and clarifies that the same frequency and timing of determining OPEB measures are required for both agent multiple-employer plans and those plans' participating employer governments.

In June 2010, the GASB issued Statement No. 59, "Financial Instruments Omnibus." GASB Statement No. 59 provides changes to how unallocated insurance contracts are reported, amending GASB Statement Nos. 25 and 43; clarifies that interest rate risk should be disclosed only for debt investment pools that do not meet the requirements to be reported as 2a7-like pools, amending GASB Statement No. 40; and amends very specific, limited portions of GASB Statement No. 53.

The new standards must be adopted as follows:

- GASB Statement No. 54 Effective July 1, 2010, for financial statements for the fiscal year ending June 30, 2011.
- GASB Statement No. 57 Effective immediately for employer alternative measurement purposes and effective July 1, 2011 for OPEB plan financial statements for fiscal years ending June 30, 2012.
- GASB Statement No. 59 Effective July 1, 2010 for financial statements for the fiscal year ending June 30, 2011.

NOTE B – RESTATEMENTS**Discretely Presented Component Units****Restatement Due to Correction of Errors**

Effective June 1, 2009 the previously reported net assets of the Pennsylvania Turnpike Commission (PTC) have been corrected and reduced from \$155,970 at May 31, 2009 to \$130,739 as a result of increased depreciation expense/accumulated depreciation related to certain completed capital assets, in use, which were previously classified as assets under construction and were not being depreciated. The total decrease in PTC net assets as of June 1, 2009 amounts to \$25,231 (in thousands).

As a result of this restatement, total discretely presented component unit net assets were reduced from \$4,878,982 as previously reported at June 30, 2009 to \$4,853,751 as of July 1, 2009 (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 (excluding unspent proceeds) for debt specifically related to the acquisition of the capital assets. At June 30, 2010, governmental and business-type activities, respectively, reported \$24,102,905 and \$74,392 in net assets invested in capital assets, net of related debt (amounts in thousands).

Restricted net assets represents net assets amounts which are externally restricted by creditors, grantors, contributions or laws or are statutorily restricted based on enabling legislation; such amounts may only be used for specific legislated purposes. All reported restricted net assets are restricted based on enabling legislation. 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, 2010, governmental and business-type activities, respectively, reported \$4,326,098 and \$633,387 in restricted net assets. Net assets restricted for other purposes of \$55,616 and \$85,177 for governmental activities and business-type activities, respectively, at June 30, 2010 include amounts for a range of dissimilar statutory purposes (amounts in thousands).

Unrestricted net assets represents total net assets minus the totals of invested in capital assets, net of related debt and restricted net assets. At June 30, 2010, governmental and business-type activities, respectively, reported unrestricted net assets deficits of \$4,881,426 and \$1,916,364 (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**, \$139.1 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 \$110.0 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 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 \$1,671,211 at June 30, 2010. This amount consists of \$764,206 reserved in the **General Fund**, \$538,927 for restricted revenue and \$225,279 for continuing programs; \$514,275 reserved in the **Tobacco Settlement Fund** for various health-related programs; \$116,545 in the **Motor License Fund** for transportation-related programs; and \$276,185 reserved in nonmajor Funds for the following programs (amounts in thousands):

Land reclamation and other mining operations.....	\$ 28,521
Pharmaceutical assistance.....	10,375
Recreation.....	6,178
Conservation, recycling, and economic development.....	4,327
Workers compensation.....	30,559
Gaming activities.....	<u>187,347</u>
Total nonmajor Special Revenue programs.....	<u>267,307</u>
General State Authority maintenance in the	
Capital Facilities Fund.....	7,241
Land and water reclamation.....	<u>1,637</u>
Total nonmajor Capital Projects programs.....	<u>8,878</u>
Total nonmajor Funds other reservations.....	<u><u>\$ 276,185</u></u>

NOTE C – NET ASSETS/FUND EQUITY (continued)

Governmental Funds 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 \$910 at June 30, 2010. This reported fund balance includes a reservation for encumbrances of \$470 and a reported deficit unreserved/undesignated fund balance of \$1,380 (amounts in thousands).

In addition to the deficit unreserved/undesignated fund balance reported in the State Racing Fund, four Special Revenue Funds reported the following deficit unreserved/undesignated fund balances at June 30, 2010: Nutrient Management Fund, \$43; Growing Greener Bond Fund, \$45,426; Water Supply and Wastewater Treatment Fund, \$21,445; and Uninsured Employers Guaranty Fund, \$1,210 (amounts in thousands).

The Capital Facilities Fund, a Capital Projects Fund, reported a deficit unreserved/undesignated fund balance of \$523,518 at June 30, 2010. In total, the Capital Facilities Fund reported a fund balance of \$646,557 at June 30, 2010. The Land and Water Development Fund, a Capital Projects Fund, reported a deficit unreserved/undesignated fund balance of \$1,551 at June 30, 2010. Total Capital Projects Funds reported reservations for encumbrances of \$1,229,823; other reservations of \$8,878; designations for Capital Projects of \$32,879; and a deficit unreserved/undesignated fund balance of \$524,465; for total combined fund balances of \$747,115 at June 30, 2010 (amounts in thousands).

Proprietary Funds Net Assets: Nonmajor Enterprise funds reported total restricted net assets for “other purposes” of \$85,177 at June 30, 2010 for the following programs: mine subsidence insurance, \$73,569; vocational rehabilitation, \$2,988; and \$8,620 for other programs (amounts in thousands).

Proprietary Funds Net Assets Deficits: In addition to deficits reported in three major funds (**Unemployment Compensation Fund, State Workers’ Insurance Fund, and Tuition Payment Fund**), one nonmajor Enterprise fund has reported a net asset deficit in the proprietary statement of net assets. The State Stores Fund reported a net assets deficit of \$14,101 at June 30, 2010 (amount in thousands).

Component Unit Net Assets: Net assets of most component units are restricted, consistent with enabling legislation for component units. Net assets are restricted for purposes specifically identified by the legislation that created the component unit entity. At June 30, 2010 the Commonwealth Financing Authority reported deficit unrestricted net assets of \$287,047 (amounts in thousands).

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

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

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

As of June 30, 2010, the Treasury Department manages the Commonwealth Investment Program (CIP). Practically all Commonwealth Funds of the primary government are invested on a temporary basis in the CIP. Treasury is required to exercise careful judgment in determining those investments that are appropriate for each Commonwealth fund based upon distinct investment criteria such as income needs, cash flow requirements, investment time horizons, and risk tolerance. All investments are made in accordance with the statutory authority described in the preceding paragraph. The CIP investment pool structure invests in both equity securities and fixed income securities to achieve the investment objectives of the funds of the Commonwealth Investment Program. Asset allocation targets among cash, equity securities, fixed income securities and alternative are established in order to meet these overall objectives.

Treasury has created two separate Pools within the Commonwealth Investment Program, each with its own distinct investment strategies, goals, and holdings that reflect the differing needs of Commonwealth funds for income, cash flows, and investment risk tolerance. A highly liquid vehicle, Pool 99, consists of short-term fixed income and cash and provides a high degree of liquidity and security but only modest returns. A less liquid vehicle, Pool 98, allows for investment in assets that offer potentially higher returns with commensurate risk.

Other Investing Organizations

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

Pension Trust Funds

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

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

Deposit Risks

At June 30, 2010, Treasury Department bank balances of \$6,205 were subject to custodial risk because they were uninsured and uncollateralized. In addition, \$35,015 of Statutory Liquidator Fund deposits were subject to custodial credit risk because they were uninsured and uncollateralized. The PSERS had deposits at M&T Bank (which has a credit rating of A-/A3) totaling \$57,295 at June 30, 2010 that were not required to be collateralized by statute or policy. 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, 2010 (December 31, 2009 for the **State Workers' Insurance**, SERS, INVEST and DCP) (amounts in thousands).

Investment Risks

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

Investments by Type

At June 30, 2010 the Treasury and other investing organizations reported a total of \$19,379,175 in investments. Certificates of deposit, amounting to \$1,400,046, which are held in Commonwealth Investment Pool and other portfolios, are reported as investments but are not included as part of fixed income investment disclosures. Excluding certificates of deposits, total investments disclosed amount to \$17,979,129; of this amount, excluding equity and private equity holdings (\$1,802,946 and \$611,434, respectively), fixed income investments disclosed amount to \$15,564,749. The investment types and related amounts are as follows (amounts in thousands):

Investment Type	Amount
Alternative.....	\$ 75,129
Annuities.....	1,367
Asset backed securities.....	264,809
Commercial paper.....	3,278,706
Convertible securities.....	269
Corporate obligations.....	1,728,808
Equities.....	1,802,946
Money market mutual funds.....	1,521,213
Mortgaged backed securities.....	906,396
Mutual funds.....	140,423
Preferred securities.....	2,325
Private equity.....	611,434
Private placements.....	256,517
Repurchase agreements.....	181,955
Sovereign debt obligations.....	49,263
State and municipal obligations.....	181,547
U.S. government agencies.....	27,652
U.S. government sponsored enterprises.....	5,044,759
U.S. Treasury obligations.....	1,903,611
Total investments.....	\$ 17,979,129
Certificates of deposit.....	1,400,046
Total investments and certificates of deposit.....	\$ 19,379,175

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

In addition, at June 30, 2010 all reported investments of the Tuition Account Investment Program, amounting to \$721,311, consist entirely of mutual funds (\$675,737) and money market mutual funds (\$45,574).

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event a counterparty fails to uphold its agreement to a transaction, with either the Treasury Department, the other investing organizations or the Pension Trust Funds, they would not be able to recover the value of investment or collateral securities in the possession of an outside party. In accordance with a contractual relationship between the Treasury Department and its custodial agents, substantially all investments, where securities are used as evidence of the investment, are held by the custodians in book entry form in the name of the Commonwealth or the custodian. The CIP, **Tuition Payment** and INVEST investments are insured or registered; and the securities are held by the Treasury Department or its agent. Similarly, investments of the other investing organizations and the Pension Trust Funds are almost always registered in the name of the Commonwealth, as the Treasury Department is the statutory custodian for such investments. At June 30, 2010, only the Statutory Liquidator Fund, an Agency Fund, owned investment securities subject to custodial credit risk, in the amount of \$1,890,921. Such securities are neither insured nor registered and are either held by the counterparty or the counterparty’s trust department or agent but not in the name of the Commonwealth. The investment types and related amounts are as follows (amounts in thousands):

<u>Investment Type</u>	<u>Amount</u>
Asset backed securities.....	\$ 149,868
Commercial paper.....	16,069
Equities.....	33
Corporate obligations.....	497,466
Mortgage backed securities.....	405,250
Repurchase agreements.....	60,679
U.S. government agencies.....	1,128
U.S. Treasury obligations.....	509,579
U.S. government sponsored enterprises	250,849
Total.....	\$ 1,890,921

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the government’s investment in a single issuer. The Treasury Department places a 10 percent limit on the concentration of investments in any one fixed income issuer within the CIP, **Tuition Payment** and INVEST. This limitation excludes government-sponsored enterprises (GSEs), direct obligations of the U.S. Treasury or U.S. agencies, and repurchase agreements. The Treasury Department also places a five percent limit on the concentration of investments in one equity issuer within the Common Investment Pool. Similarly, to a degree, the five other investing organizations limit exposure to concentration of credit risk. Several other investing organizations have adopted policies, which allow greater than five percent of portfolios to consist of securities issued by the U.S. Treasury. Among Treasury and other investing organizations, based on total portfolio value of \$17,979,129, the following concentrations existed as of June 30, 2010 (December 31, 2009 for the **State Workers’ Insurance Fund** and INVEST) (amounts in thousands):

<u>Issuer Name</u>	<u>Amount</u>	<u>% of Treasury Dept. Portfolio</u>
Federal National Mortgage Association.....	\$ 2,396,785	13.33
Federal Home Loan Mortgage Corporation.....	2,117,783	11.78
United States Treasury.....	1,903,611	10.59
Federal Home Loan Bank.....	1,154,663	6.42

As of and during the year ended December 31, 2009 the **State Workers’ Insurance Fund** owned more equity securities (at cost) than allowed by applicable statutory authority. Act 41 of 2005 permitted the **State Workers’ Insurance Fund** to invest

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

in equities (at cost) not exceeding the lesser of 1) 20 percent of the Fund’s assets or 2) the statutory surplus after discount. This provision of Act 41 expired June 30, 2009. Act 50 of 2009, which expired June 30, 2010, permitted the **State Workers’ Insurance Fund** to invest in equities (at cost) not exceeding the lesser of 1) 20 percent of the Fund’s assets or 2) the statutory surplus after discount, except that in the event that the statutory surplus is less than 7.5 percent of the book value of the assets of the **State Workers’ Insurance Fund**, the investment in equities may not exceed 75 percent of the aggregate surplus as required by section 504 of the Banking Code of 1965, as amended. The reported statutory surplus after discount for all of calendar year 2009 was negative; therefore, all equity holdings of \$91,996 (at cost, amounts in thousands) exceeded the allowable limits of Act 41 and Act 50. The State Workers’ Insurance Board shall establish a policy for investments and shall meet at least annually to develop a schedule for rebalancing its investments in securities to ensure compliance with Act 50.

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

At June 30, 2010 approximately \$15,564,749 of total Treasury and other investing organization investments of \$19,379,175 are fixed income investments, susceptible to credit quality rating; the remainder is primarily certificates of deposit (\$1,400,046), common stock (\$1,802,946) and private equity (\$611,434). Of the amount susceptible to credit quality rating, \$6,376,050 is rated; ratings are not available for \$9,188,699 of fixed income investments. The following tables discloses aggregate fair value, by the lowest rating obtained by credit quality rating category, at June 30, 2010 for the Treasury Department and the other investing organizations fixed income investments (amounts in thousands):

<u>Moody's Investors Service</u>	<u>Amount</u>
Aaa.....	\$ 578,344
Aa1.....	6,692
Aa2.....	67,719
Aa3.....	33,133
A1.....	212,659
A2.....	240,287
A3.....	100,097
Baa1.....	90,915
Baa2.....	107,901
Baa3.....	65,393
Ba1.....	29,602
Ba2.....	67,719
Ba3.....	60,579
B1.....	85,850
B2.....	46,580
B3.....	63,811
Caa1.....	17,755
Caa2.....	11,071
Caa3.....	2,496
CA.....	3,256
C.....	118
P-1.....	450,527
Moody's Investors Service subtotal...	\$ 2,342,504

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

<u>Standard and Poor's</u>	<u>Amount</u>
AAA.....	\$ 570,978
AA+.....	47,231
AA.....	149,081
AA-.....	159,915
A-1+.....	630,016
A-1.....	1,539,098
A+.....	78,894
A.....	172,089
A-.....	49,722
BBB+.....	46,534
BBB.....	68,503
BBB-.....	68,388
BB+.....	3,402
BB.....	20,174
BB-.....	18,800
B+.....	36,570
B.....	16,985
B-.....	7,220
CCC+.....	9,651
CCC.....	11,738
CC.....	3,521
C.....	34
D.....	2,008
Standard and Poor's subtotal.....	<u>\$ 3,710,552</u>

<u>Fitch Ratings</u>	<u>Amount</u>
AAA.....	\$ 134,649
AA+.....	10,420
AA.....	648
AA-.....	108,350
A+.....	8,895
A.....	9,307
A-.....	5,565
BBB+.....	2,077
BBB.....	10,634
BBB-.....	2,441
BB+.....	208
BB.....	1,692
BB-.....	1,114
B+.....	2,129
B.....	3,081
B-.....	1,140
CCC.....	9,900
CC.....	8,014
C.....	2,730
Fitch Ratings subtotal.....	<u>\$ 322,994</u>

Ratings subtotal.....	\$ 6,376,050
Unrated subtotal.....	<u>9,188,699</u>
Total fixed income investments.....	<u><u>\$ 15,564,749</u></u>

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

At June 30, 2010 four percent (\$619,777) of rated fixed income investments of \$15,564,749 are rated below investment grade. Approximately 59 percent (\$9,188,699) of the fixed income portfolio in Treasury and other investing organizations are not rated by any of the Nationally Recognized Securities Rating Agencies (NRSRA). Unrated Fixed Income Investments include securities that did not have a credit rating available from a NRSRA at June 30, 2010 (December 31, 2009 for the **State Workers' Insurance Fund** and INVEST). These unrated items include U.S. Treasury Obligations (\$1,903,611), which were not rated by an NRSRA. They are negotiable debt obligations of the U.S. Treasury secured by the full faith and credit of the U.S. government. Also included in the Unrated subtotal are U.S. Government Sponsored Enterprises (GSEs) (\$5,044,759) securities. GSE securities are not explicitly backed by the full faith and credit of the U.S. Government and are subject to credit risk. Among the Tuition Account Investment Program's mutual funds within its portfolios, certain mutual funds hold fixed income investments susceptible to credit quality ratings and all such investments are rated Baa or higher by Moody's Investors Service or BBB or higher by Standard & Poor's.

The Pension Trust Funds may expose themselves to greater credit risk than Treasury Department or other investing organizations to meet specific investment objectives. SERS and DCP fixed income securities (at December 31, 2009), which are exposed to credit risk, are rated as follows (amounts in thousands):

Moody's Investors Service^a	SERS	DCP
Aaa.....	\$ 22,282	\$ 154,477
Aa.....	20,466	18,652
A.....	88,852	118,567
Baa.....	291,827	33,189
Ba.....	283,154	1,062
B.....	270,368	220
Caa.....	93,013	16
Ca.....	19,189	-
C.....	7,341	-
D.....	5,120	-
Unrated ^b	339,286	441,313
Commonwealth Investment Program.....	457,622	60,345
Total.....	<u>\$ 1,898,520</u>	<u>\$ 827,841</u>

^a The Moody's rating represents all of the securities that fall within subcategories of the ratings shown in this table. For example, a security with a rating of Ba1 is shown as a rating of Ba in this table.

^b 'Unrated' represents securities that were either not rated or had a withdrawn rating (\$282,087 for SERS and \$97,695 for DCP). Also, 'Unrated' represents securities for U.S. Government Sponsored Enterprises (GSEs) which were not rated by an NRSRA (\$57,199 for SERS and \$343,618 for DCP). Such GSEs are not explicitly backed by the full faith and credit of the U.S. Government and are subject to credit risk (amounts in thousands).

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

PSERS fixed income securities, which are subject to credit risk rating, are listed below using the rating (expressed as S&P equivalent), available from Fitch, Moody’s, and/or S&P that indicates the greatest degree of risk at June 30, 2010 (amounts in thousands):

<u>Standard and Poor’s Equivalent</u> ^a	<u>Amount</u>
AAA.....	\$ 66,082
AA.....	3,891,933
A.....	844,840
BBB.....	860,078
BB and below.....	1,153,604
Unrated ^b	3,981,288
U.S. government guaranteed ^c	1,957,653
Short-Term Investment Fund.....	<u>3,281,239</u>
Total.....	<u>\$16,036,717</u>

^a The Standard and Poor's rating represents all of the securities that fall within subcategories of the ratings shown in this table. For example, a security with a rating of A+ is shown as a rating of A in this table.

^b Unrated represents securities that were not rated by S&P; \$3,227,846 in collective trust funds and \$753,442 in other investments.

^c Represents securities issued by the U.S. Government and agency obligations explicitly guaranteed by the U.S. Government and not considered to have credit risk.

Interest Rate Risk: Interest rate risk is the risk that an investment’s value will change, advantageously or adversely, due to a change in the absolute value of interest rates. The Treasury Department measures interest rate risk using duration. To limit Treasury’s exposure to fair value losses arising from rising interest rates, Treasury’s long-term asset allocation diversifies its fixed income core segment between intermediate duration and longer duration strategies. Duration is a measure of an investment’s sensitivity to changes in interest rates. The higher the duration, the greater the changes in fair value when interest rates change. Treasury measures interest rate risk using option-adjusted duration, which takes into account embedded options affecting cash flows. Other investing organizations use less sophisticated measurements to manage interest rate risk; several limit the maximum term-to-maturity of investment purchases. Further, to avoid interest rate risk, many other organizations deliberately hold a given percentage of total investments in very short-term securities to avoid the potential need to sell such securities at a loss. At June 30, 2010, CIP and other investing organizations, excluding Statutory Liquidator Fund and Tuition Account Investment Program, fixed income portfolio had the following option-adjusted durations (in years) by investment type (amounts in thousands):

<u>Investment Type</u>	<u>Amount of Securities with Duration</u>	<u>Option-Adjusted Duration</u>	<u>Amount of Securities with no Duration</u>	<u>Total</u>
Alternative.....	\$ -		\$ 34,484	\$ 34,484
Asset backed securities.....	60,464	1.414	54,476	114,940
Commercial paper.....	3,261,347	0.058	1,290	3,262,637
Convertible securities.....	269	1.271	-	269
Corporate obligations.....	1,111,647	4.697	119,342	1,230,989
Money market mutual funds.....	909,014	0.083	-	909,014
Mortgaged backed securities.....	472,278	3.213	28,868	501,146
Preferred securities.....	2	0.052	2,323	2,325
Private placements.....	151,251	4.288	4,980	156,231
Repurchase agreements.....	121,276	0.011	-	121,276
Sovereign debt obligations.....	9,072	11.084	16,700	25,772
State and municipal obligations.....	33,165	6.896	148,382	181,547
U.S. government agencies.....	26,525	4.802	-	26,525
U.S. government sponsored enterprises...	4,793,910	0.546	-	4,793,910
U.S. Treasury obligations.....	<u>1,391,742</u>	4.746	<u>2,290</u>	<u>1,394,032</u>
Total.....	<u>\$ 12,341,962</u>		<u>\$ 413,135</u>	<u>\$ 12,755,097</u>

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

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

Investment Type	Matures in less than 1 Year	Matures in 1 to 5 Years	Matures in 6 to 10 Years	Matures in 11 to 20 Years	Matures in 21 to 30 Years	Matures in 31 to 40 Years	Matures after 40 Years	No Maturity Date	Total
Alternative	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 40,644	\$ 40,644
Annuities.....	-	-	-	-	-	-	-	1,367	1,367
Asset backed securities.....	1,853	112,998	6,568	534	6,903	1,114	-	19,899	149,869
Commercial paper.....	16,069	-	-	-	-	-	-	-	16,069
Corporate obligations.....	42,885	290,118	87,287	2,567	3,519	12,423	7,630	51,391	497,820
Money market mutual funds.....	-	-	-	-	44,686	-	-	567,514	612,200
Mortgage backed securities.....	10	4,605	17,508	62,500	193,624	71,078	5,579	50,347	405,251
Mutual funds.....	-	-	-	-	-	-	-	140,423	140,423
Private placements.....	5,722	55,717	15,676	773	16,023	5,008	1,367	-	100,286
Repurchase agreements.....	60,679	-	-	-	-	-	-	-	60,679
Sovereign debt obligations.....	-	23,491	-	-	-	-	-	-	23,491
U.S. government agency.....	-	-	-	-	1,128	-	-	-	1,128
U.S. government sponsored enterprises.....	26,583	203,084	12,293	-	-	1,796	-	7,093	250,849
U.S. Treasury obligations.....	14,951	331,218	139,200	6,126	7,723	-	-	10,360	509,578
Total.....	\$ 168,752	\$ 1,021,231	\$ 278,532	\$ 72,500	\$ 273,606	\$ 91,419	\$ 14,576	\$ 889,038	\$ 2,809,654

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

	Amount	Average Duration	Average Effective Maturity
Vanguard Total Bond Market II Index Fund Institutional Shares.....	\$ 223,964	4.6 years	6.7 years
Vanguard Inflation-Protected Securities Fund Institutional Shares	22,831	4.6 years	9.2 years
Vanguard Prime Money Market Fund Institutional Shares	45,574	N/A	54 days

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

Investment Type	SERS Amount	DCP Amount	SERS Option-Adjusted Duration	DCP Option-Adjusted Duration
Asset backed securities.....	\$ 8,810	\$ 21,727	2.70	1.40
Corporate obligations.....	649,842	290,833	3.60	4.40
Mortgage backed securities.....	101,889	334,862	2.40	3.10
Other investments ^a	20,478	-	N/A	N/A
Sovereign debt.....	384,975	10,557	4.90	4.30
Commonwealth Investment Program.....	457,622	60,345	0.10	0.10
U.S. Treasury.....	1,432,032	154,693	2.30	4.00
U.S. government sponsored enterprises.....	17,023	97,432	1.50	3.30
U.S. private placements.....	260,932	4,283	2.50	4.20
Total.....	\$ 3,333,603	\$ 974,732		

^aOther Investments represents certain SERS securities with maturities ranging through 2019 and the value of swap agreements as of December 31, 2009.

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

PSERS:

Investment Type	Amount	Option-Adjusted Duration
Domestic mortgage-backed securities.....	\$ 3,432,285	1.2
U.S. government and agency obligations.....	1,619,970	5.1
Domestic corporate and taxable municipal bonds.....	2,073,324	3.3
Miscellaneous domestic fixed income.....	343,884	0.4
Fixed income collective trust funds.....	3,227,846	4.6
International fixed income.....	1,175,893	4.0
PSERS Short-Term Investment Fund.....	3,281,239	0.1
Total.....	\$ 15,154,441	

Fixed income investment managers enter into futures contracts to adjust the durations of their portfolios as a whole. In total, futures contracts have adjusted PSERS’ total fixed income and Short-Term Investment Fund portfolio duration upward by 0.1 at June 30, 2010.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Treasury Department’s policy requires all investments to be denominated in U.S. dollars, issued under U.S. laws and regulations, designed for U.S. investors, and traded in U.S. markets. Among the other investing organizations, the **Tobacco Settlement Fund** and the **Tuition Payment Fund** are authorized to purchase securities denominated in a foreign currency. At June 30, 2010, the **Tobacco Settlement Fund** reported \$2.7 million and the **Tuition Payment Fund** reported \$34.8 million of foreign currency-denominated holdings. The foreign currency holdings make up nearly 2.5 percent of the **Tuition Payment Fund**’s total investment portfolio and nearly 3.4 percent of the **Tobacco Settlement Fund**’s total investment portfolio. The amounts invested, by currency, are as follows (amounts in thousands):

Foreign Currency	Short Term Holdings	Equities	Private Equity	Preferred Securities	Total
Euro.....	\$ 101	\$ 6,209	\$ 2,684	\$ 773	\$ 9,767
Japanese yen.....	-	3,902	-	-	3,902
British pound sterling.....	11	7,770	-	-	7,781
Swiss franc.....	-	3,336	-	-	3,336
Canadian dollar.....	-	2,570	-	-	2,570
Hong Kong dollar.....	-	4,760	-	-	4,760
Australian dollar.....	-	847	-	-	847
Danish krone.....	-	1,724	-	-	1,724
Swedish krona.....	-	877	-	-	877
Brazil real.....	-	1,213	-	-	1,213
Mexican new peso.....	-	779	-	-	779
Total.....	\$ 112	\$ 33,987	\$ 2,684	\$ 773	\$ 37,556

Within the Tuition Account Investment Program, the Vanguard Total International Stock Index Fund (\$43,846) is exposed to foreign currency risk (amount in thousands)

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

Each Pension Trust Fund is exposed to foreign currency risk as part of meeting specific investing objectives or allocations among different classes of investments. The SERS is exposed to foreign currency risk primarily for equity securities at December 31, 2009 as follows (amounts in thousands):

Foreign Currency	Short Term Investments ^a	Fixed Income	Equity	Real Estate	Alternative Investments	Total
Euro.....	\$ 158	\$ 5,456	\$ 462,147	\$ 22,184	\$ 358,591	\$ 848,536
British pound sterling.....	1,079	646	321,891	19,199	-	342,815
Japanese yen.....	765	4,700	243,453	31,671	-	280,589
Hong Kong dollar.....	(55)	-	138,365	36,693	-	175,003
Swiss franc.....	3,168	-	141,109	1,996	-	146,273
Australian dollar.....	57	-	39,507	25,729	-	65,293
Brazil real.....	268	29,167	26,537	3,231	-	59,203
South Korean won.....	112	-	47,448	-	-	47,560
Singapore dollar.....	1,171	-	36,575	7,207	-	44,953
New Taiwan dollar.....	52	-	35,653	-	-	35,705
Mexican new peso.....	655	21,893	5,304	-	-	27,852
South African comm rand..	542	14,303	12,642	-	-	27,487
Swedish krona.....	-	-	23,099	1,068	2,955	27,122
Indian rupee.....	24	-	24,007	-	-	24,031
Indonesian rupiah.....	600	14,426	7,960	-	-	22,986
Danish krone.....	67	-	20,646	-	-	20,713
Norwegian krone.....	1	-	15,295	2,636	-	17,932
Thailand baht.....	458	8,610	7,201	-	-	16,269
Polish zloty.....	370	13,554	1,666	-	-	15,590
Canadian dollar.....	71	4,272	7,960	2,812	-	15,115
Other Currencies (16).....	1,951	32,349	31,914	-	1	66,215
Total.....	\$ 11,514	\$ 149,376	\$ 1,650,379	\$ 154,426	\$ 361,547	\$ 2,327,242

^a Includes receivables and payables as of December 31, 2009 for securities sold and purchased.

One of several investing choices that may be selected by DCP participants is the European, Australian and Far East (EAFE) Equity Index Fund, which owns international equities and is managed by an external manager. The EAFE Equity Index Fund within the DCP seeks to track the more than 1,000 foreign stocks representing established companies in 21 countries located in Western Europe and the Pacific Rim that are a part of the Morgan Stanley Capital International EAFE Index. At December 31, 2009, the DCP had the following currency exposures related to equity securities (amounts in thousands):

Foreign Currency	Fair Value
Euro.....	\$ 32,691
British pound sterling.....	21,034
Japanese yen.....	20,225
Australian dollar.....	8,277
Swiss franc.....	7,535
Swedish krona.....	2,513
Hong Kong dollar	2,293
Singapore dollar.....	1,440
Danish krone.....	862
Norwegian krone.....	791
New Zealand dollar.....	111
Total.....	\$ 97,772

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):

Foreign Currency	Equity	Fixed Income	Alternative Investments and Real Estate	Short-term*	Total
Euro.....	\$ 718,560	\$ 225,174	\$ 1,569,466	\$ (1,062,424)	\$ 1,450,776
Japanese yen.....	1,002,241	44,154	-	265,647	1,312,042
British pound sterling	925,069	27,859	6,361	(255,052)	704,237
Canadian dollar.....	449,599	28,858	1,635	(15,744)	464,348
Brazil real.....	106,741	48,410	-	203,926	359,077
Hong Kong dollar.....	331,705	-	-	2,235	333,940
Australian dollar.....	319,224	3,230	-	(28,455)	293,999
South African rand.....	124,363	20,119	-	143,848	288,330
Indonesian rupiah.....	51,497	26,481	-	171,451	249,429
Turkish lira.....	40,351	21,626	-	143,646	205,623
Indian rupee.....	113,637	-	-	76,055	189,692
Mexican new peso.....	34,856	45,167	-	79,731	159,754
Other currencies.....	964,616	121,486	-	(649,128)	436,974
Total.....	\$ 5,182,459	\$ 612,564	\$ 1,577,462	\$ (924,264)	\$ 6,448,221

*Includes investment receivables and payables.

Securities Lending Program

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

Lending agreements between the custodian and the borrowers require that the custodian receive collateral from the borrowers in exchange for the securities lent. Securities lent consist of both domestic and foreign equity securities and U.S. Treasury and foreign debt obligations. For securities lent which are not denominated in U.S. dollars or whose primary trading market is located outside the U.S., the fair value of collateral received must be at least 105 percent of the fair value of the securities lent. For all other securities lent, the fair value of the collateral received must be at least 102 percent. Practically all collateral received consists of cash. A small portion of collateral received consists of letters of credit, U.S. Treasury, corporate and/or foreign debt obligations. Collateral is marked to market daily. Additional collateral from borrowers is 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. At June 30, 2010, approximately 97 percent of the collateral was invested in repurchase agreements. Either the participant or the borrower may terminate lending agreements on demand. Lending agreements are typically of very short duration – usually overnight. Therefore, the duration of lending agreements do not generally match the maturities of the investments made with the cash collateral. The resulting rate risk is mitigated by the lending agent’s ability to reallocate lending agreements among program participants.

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, 2010 (December 31, 2009 for the **State Workers Insurance Fund (SWIF)** and the State Employees’ Retirement System (SERS)), 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.

During the fiscal year ended June 30, 2009, the Securities Lending Program experienced investment losses due to the financial failure of a security held in the securities lending collateral pool. The **SWIF** and the SERS have each reported a liability (\$8,462 and \$18,733, respectively, in thousands) as a result of these losses as of their fiscal years ended December 31, 2009.

At June 30, 2010 (December 31, 2009 for the **SWIF**, the SERS and the Deferred Compensation Program), the total fair value of the securities lent, along with the type of investments lent, were as follows (amounts in thousands):

Fund/Organization	Total Securities Lent	U.S. Treasury Obligations	U.S.				Sovereign Debt	Exchange Traded
			Government Sponsored Enterprises	Corporate Obligations	Equities			
Deferred Compensation Program.....	\$ 39,972	\$ -	\$ 37,930	\$ 2,043	\$ -	\$ -	\$ -	
State Lottery Fund	769	769	-	-	-	-	-	
State Employees’ Retirement System.....	564,017	185,769	2,502	54,798	317,431	3,517	-	
Public School Employees’ Retirement System...	2,102,233	124,533	5,838	211,633	1,719,290	23,602	17,338	
Underground Storage Tank Indemnification.....	12,847	2,874	4,161	4,030	636	-	1,146	
Workers’ Compensation Security Trust.....	70,257	39,147	9,347	17,269	3,629	-	865	
State Workers Insurance Fund	161,123	98,231	39,749	21,717	1,426	-	-	
Other Postemployment Benefits Investment Pool	58,059	-	-	-	-	-	58,059	
Commonwealth Investment Program.....	440,876	29,833	23,850	62,448	54,842	-	269,904	
Tobacco Settlement Fund	29,208	13,216	14,157	1,835	-	-	-	
Tuition Payment Fund	177,879	16,023	10,515	3,732	57,848	-	89,760	

Derivative and Other Similar Investments

State Employees’ Retirement System (SERS)

The SERS enters into certain derivative and structured financial instruments primarily to enhance the performance and reduce the volatility of its investment portfolio. It enters into foreign exchange contracts to make payment for international investments, futures contracts to gain exposure to certain equity markets and to manage interest rate risk and swaps to gain equity exposure.

Foreign exchange contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. The SERS uses these contracts primarily for its international investments to settle pending trades that occur more than two business days after trade date. To reduce the risk of counterparty nonperformance, the SERS generally enters into these contracts with institutions regarded as meeting high standards of credit worthiness. The unrealized gain/loss on contracts is included in the SERS’ net assets and represents the fair value of the contracts on December 31. At December 31, 2009, the SERS had contracts to purchase and sell, by major foreign currency, as follows (amounts in thousands):

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

Foreign Currency	Purchase Contracts	Unrealized Gain/(Loss)	Sell Contracts	Unrealized Gain/(Loss)
Euro.....	\$ 45,836	\$ (847)	\$ 25,328	\$ 572
Malaysian ringgit.....	10,847	292	229	1
Chinese yuan renminbi...	9,944	(50)	3,577	24
New Turkish lira.....	5,670	(97)	-	-
Indonesian rupiah.....	4,253	139	3,412	(67)
Brazil real.....	3,991	113	7,867	(493)
Mexican new peso.....	3,980	-	1,815	36
Hungarian forint.....	3,650	38	2,963	51
South Korean won.....	3,616	21	241	(1)
Philippines peso.....	3,366	13	1,316	(16)
Polish zloty.....	2,741	37	2,469	55
Thailand baht.....	1,734	4	-	-
Chilean peso.....	1,379	107	850	15
Singapore dollar.....	1,197	(15)	1,133	14
Japanese yen.....	785	(11)	12,803	324
British pound sterling....	578	(2)	29,357	201
Other currencies.....	1,579	(5)	14,874	(199)
Total.....	\$105,146	\$ (263)	\$108,234	\$517

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

The SERS has entered into certain futures contracts maturing through December 13, 2010. The notional value of these contracts at December 31, 2009 is as follows (amounts in thousands):

Futures Contract Type	Purchase Contracts	Sell Contracts
Eurodollar.....	\$ 50,466	\$ -

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

Swap agreements provide for periodic payments between parties based on the change in value of underlying assets, indexes, rates, or credit worthiness. During 2009 the SERS significantly reduced their swap exposure to only include credit default and interest rate swaps. Credit default swaps are agreements with counterparties to either purchase or sell credit protection. The SERS use credit default swaps to either increase or decrease credit exposure to certain credit markets. Interest rate swaps are over-the-counter contracts that allow counterparties to exchange a fixed rate liability for a floating rate liability. The SERS used interest rate swaps as a cost-effective way of gaining exposure to certain sectors of the fixed income market.

The table below presents the SERS' swap exposure at December 31, 2009 (amounts in thousands):

Swap Type	Notional Value	Receivable/(Payable)
Interest rate.....	\$172,750	\$(106)
Credit default.....	22,500	(95)

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

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

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

Deferred Compensation Program (DCP)

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

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

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

BTC seeks to mitigate its legal risk related to derivative financial instruments by using them only in the accounts for which they are authorized. BTC manages its exposure to market risk within risk limits set for the accounts by buying or selling instruments or entering into offsetting positions. The following table discloses the futures contracts held and the derivatives held indirectly in the security lending collateral pool, as of December 31, 2009 (amounts in thousands):

	<u>Notional Value</u>
Equity Index Fund	
Futures directly held.....	\$ 3,213
Derivatives held indirectly in security lending cash collateral funds.....	132
Extended Market Fund	
Futures directly held.....	3,412
Derivatives held indirectly in security lending cash collateral funds.....	96
EAFE Equity Index Fund	
Futures directly held.....	3,656
Derivatives held indirectly in security lending cash collateral funds.....	22

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

Public School Employees’ Retirement System (PSERS)

The PSERS enters into a variety of financial contracts, which include options and futures. The PSERS also enters into foreign exchange positions, such as forward and spot contracts to obtain or hedge foreign currency exposure; swap agreements to gain exposure to certain sectors of the equity and fixed income markets; collateralized mortgage obligations (CMOs); other forward contracts, and U.S. Treasury STRIPS. The PSERS is not a dealer, but an end-user of these instruments. The contracts are used primarily to enhance investment performance and reduce the volatility of the investment portfolio. The PSERS is exposed to credit risk in the event of non-performance by counterparties to financial instruments. The PSERS generally enters into transactions only with high quality institutions. Legal risk is mitigated through selection of executing brokers and review of all documentation. The PSERS is exposed to market risk, the risk that future changes in market 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, 2010 (amounts in thousands):

<u>Type of Derivative</u>	<u>Notional Value</u>
Futures contracts – long.....	\$ 2,148,331
Futures contracts – short.....	619,164
Foreign exchange forward and spot contracts, gross.....	11,147,219
Options – calls purchased.....	2,555,244
Options – puts purchased.....	2,241,375
Options – calls sold.....	2,784,401
Options – puts sold.....	2,376,839
Swaps – total return type.....	3,950,185

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specific financial instrument at a predetermined date and price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay and generally requires margin payments to minimize such risk. In addition, the PSERS enters into short sales, sales of securities it does not presently own, to neutralize the market risk of certain equity positions. Initial margin requirements on futures contracts and collateral for short sales are provided by investment securities pledged as collateral and by cash held by various brokers. Although the PSERS has the right to access individual pledged securities, it must maintain the amount pledged by substituting other securities for those accessed. The value of securities pledged and the amount of cash held at June 30, 2010 represent a restriction on the amount of assets available as of fiscal year-end to use for other purposes.

Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or at a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option. The PSERS generally uses exchange listed currency, index, stock, and futures options. The PSERS has authorized an investment manager to write covered call stock index option spreads up to a notional amount of \$1.5 billion.

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 \$11,147 million of foreign currency contracts outstanding at June 30, 2010 consist of “buy” contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of \$5,219 million and “sell” contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of \$5,928 million. The unrealized loss on contracts of \$4 million at June 30, 2010 is included in the PSERS’ Statement of Plan Net Assets and represents the fair value of the contracts.

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

Swap agreements provide for periodic payments at predetermined future dates between parties based on the change in value of underlying securities, indexes or interest rates. During the fiscal year ended June 30, 2010, the PSERS entered into total return type swaps. Under the total return type swap arrangements, the PSERS receives the net return of certain equity securities or indices in exchange for a short-term rate minus a spread or a predetermined fixed charge. The payable on the total return type swap contracts of \$195 million at June 30, 2010 is included in the Statement of Plan Net Assets and represents the fair value of the contracts. The contracts have varying maturity dates which range from August 31, 2010 to August 9, 2011.

The PSERS also invests in mortgage-backed securities (MBS) such as CMOs and MBS forward contracts to maximize yields. These securities are sensitive to prepayments of mortgages, which may result from a decrease in interest rates. The MBS forward contracts are subject to credit risk in the event of nonperformance by counterparties. The fair value of CMOs at June 30, 2010 is \$2.1 billion.

The PSERS invests in U.S. Treasury STRIPS, which essentially act as zero coupon bonds and are subject to market volatility from an increase or decrease in interest rates.

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

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

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

Deposit Risks

At June 30, 2010, the Pennsylvania Higher Education Assistance Agency (PHEAA) held \$45,400 of deposits with financial institutions in excess of federal depository insurance limits that were uninsured and collateralized following an agreement to pledge assets on a pooled basis to secure public deposits in Pennsylvania. All collateral on deposits is held by the participating financial institution's trust department and is not held in the PHEAA's name. The Pennsylvania Housing Finance Agency (PHFA) held \$9,108 of cash deposits that were uninsured and collateralized with securities held by the pledging financial institution, its trust department or agent, but not in the PHFA's name. Commonwealth Financing Authority held \$721,721 of deposits that were uninsured and collateralized with securities held by the pledging bank's trust department not in the Authority's name. The State System of Higher Education held \$648 of uninsured and uncollateralized deposits; and \$10,538 of uninsured and uncollateralized deposits, but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971, as amended. The Philadelphia Regional Port Authority held \$1,845 of deposits uninsured but collateralized by the financial institution and \$1 in deposits that were uncollateralized. The Pennsylvania Infrastructure Investment Authority (PIIA) held \$3 in deposits that were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the PIIA's name. The Insurance Fraud Prevention Authority held deposits of \$89 that were uncollateralized (amounts in thousands).

Investment Risks

Risk Management Policies: At June 30, 2010 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. Concentration of credit risk is also avoided by most of the organizations by limiting the concentration of investments in any one issuer. Some organizations have policies in place that prohibit a certain percent of the overall portfolio, whereas others determine concentration limits based on security type. Custodial credit risk is typically avoided through registration. The Pennsylvania Higher Education Assistance Agency investment policy does not include requirements that limit its exposure to custodial credit risk.

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

Investments by Type

At June 30, 2010 the discretely presently component units reported total temporary investments of \$2,227,190 and long-term investments of \$1,831,510, including securities lending collateral of \$64,698, amounting to \$4,058,700. Total investments disclosed amount to \$3,755,392, in addition SSHE component units reported \$303,308, for total investments reported of \$4,058,700. Nearly 100 percent of this amount represents fixed income investments. The investment types and related amounts are as follows (in thousands):

<u>Investment Type</u>	<u>Amount</u>
U.S. Government agency obligations.....	\$ 881,646
Commonwealth Investment Program....	831,558
Money market mutual funds.....	442,866
Mortgage backed securities.....	331,824
Corporate obligations.....	290,006
Commercial paper.....	289,415
Municipal bonds.....	207,448
Guaranteed investment contracts.....	186,456
Asset backed securities.....	85,121
Securities lending collateral.....	64,698
U.S. Treasury obligations.....	55,669
Repurchase agreements.....	44,506
Equity/balanced mutual funds.....	21,906
Certificates of deposit.....	15,023
Fixed income mutual funds.....	3,837
GNMA mortgages.....	1,939
Common stock.....	1,434
Domestic preferred equities.....	40
Total investments by type.....	<u>\$ 3,755,392</u>

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the organizations’ investment in a single issuer. Several of the organizations limit concentration to five percent or more of their total investments, with the exception of U.S. Treasury and U.S. Government Agencies. The State System of Higher Education has policies that do not limit the concentration in any single issuer for corporate bonds, collateralized mortgage obligations, and asset-backed securities. The following concentrations existed as of June 30, 2010 (May 31, 2010 for the Pennsylvania Turnpike Commission) (amounts in thousands):

<u>Issuer Name</u>	<u>PA Turnpike Commission</u>	<u>PA Higher Education Assistance Agency</u>	<u>PA Housing Finance Agency</u>	<u>PA Industrial Development Authority</u>
Federal Home Loan Bank.....	\$ 133,296	\$ -	\$ -	\$ -
Federal National Mortgage Association.....	170,941	-	-	-
Federated Fund Cash Manager.....	-	141,322	-	-
Government National Mortgage Association....	-	-	165,504	-
PFM Prime Money Market.....	-	75,413	-	-
Trinity Plus Funding Co.....	-	125,026	-	-
MBIA, Inc.....	-	61,430	-	-
First American Government.....	-	-	-	187,870

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

Credit Risk: At June 30, 2010, \$3,733,168 of total discretely presented component unit investments of \$3,755,392 are fixed income investments, susceptible to credit risk. Of the amount of fixed income securities susceptible to credit risk, \$2,113,446 are rated and \$1,619,722 of fixed income investments do not have ratings available. The following table discloses aggregate fair value, by Moody's or Standard and Poor's credit quality rating category, at June 30, 2010 (May 31, 2010 for Pennsylvania Turnpike Commission) (amounts in thousands):

<u>Moody's Investors Service</u>	<u>Amount</u>	<u>Unrated</u>	<u>Amount</u>
Aaa.....	\$ 1,188,274	Corporate obligations.....	\$ 6,905
Aa1.....	15,837	Commonwealth Investment Program	896,256
Aa2.....	45,417	Money market mutual funds.....	367,066
Aa3.....	10,171	U.S. Treasury obligations.....	55,669
Aa.....	260,269	U.S. Government agency obligations.	227,365
A1.....	22,605	Repurchase agreements.....	44,506
A2.....	132,020	Certificates of deposit.....	15,023
A3.....	2,447	GNMA obligations.....	1,939
B.....	61,430	Fixed income mutual funds.....	4,993
Ba.....	4,709	Unrated subtotal.....	<u>\$ 1,619,722</u>
Baa1.....	5,052		
P1.....	252,832	Total fixed income investments	<u>\$ 3,733,168</u>
Moody's Investors Service subtotal.....	<u>\$ 2,001,063</u>		
 <u>Standard and Poor's</u>		Equity/balanced mutual funds.....	20,750
A-1.....	\$ 36,583	Common stock.....	1,434
AAAm.....	75,800	Domestic preferred equities.....	40
Standard and Poors subtotal	<u>\$ 112,383</u>		
 Rated subtotal.....	 <u>\$ 2,113,446</u>	Total investments.....	<u>\$ 3,755,392</u>

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

Interest Rate Risk: Interest rate risk is managed using different techniques: weighted average maturity, maximum maturity dates, effective duration, modified duration or operational cash needs. The following table discloses option-adjusted duration (in years) by investment type for the fixed income portfolio of the discretely presented component units, excluding the Pennsylvania Higher Education Assistance Agency, the Pennsylvania Housing Finance Agency, the Pennsylvania Infrastructure Investment Authority and the Pennsylvania Industrial Development Authority, at June 30, 2010 (May 31, 2010 for the Pennsylvania Turnpike Commission) (amounts in thousands):

<u>Investment Type</u>	<u>Amount</u>	<u>Option-Adjusted Duration</u>	<u>Securities with no Duration</u>
Asset backed securities.....	\$ 85,121	0.470	\$ -
Certificates of deposit.....	15,023	0.002	23
Commercial paper.....	252,832	0.070	-
Corporate obligations.....	279,849	1.651	-
Mortgage backed securities.....	158,615	3.309	-
Mutual funds.....	24,587	3.820	-
State and municipal obligations.	207,448	1.270	-
U.S. government obligations.....	843,207	2.866	-
U.S. Treasury obligations.....	23,991	2.170	-
Total.....	<u>\$ 1,890,673</u>		<u>\$ 23</u>

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

The Pennsylvania Higher Education Assistance Agency, the Pennsylvania Housing Finance Agency, the Pennsylvania Infrastructure Investment Authority and the Pennsylvania Industrial Development Authority do not use option-adjusted duration as a means of managing interest rate risk; the following provides segmented time distribution for those organizations at June 30, 2010 (amounts in thousands):

<u>Investment Type</u>	<u>Matures in less than 1 year</u>	<u>Matures in 1 to 10 years</u>	<u>Matures in more than 10 years</u>	<u>Total</u>
Commercial paper.....	\$ 36,583	\$ -	\$ -	\$ 36,583
Corporate obligations.....	7,375	2,782	-	10,157
Guaranteed investment contracts.....	186,456	-	-	186,456
Money market mutual funds.....	442,866	-	-	442,866
Mortgage backed securities.....	1,021	8,070	166,057	175,148
Repurchase agreements.....	25,207	-	-	25,207
U.S. Government obligations.....	293	942	50,704	51,939
U.S. Treasury obligations.....	2,009	16,169	-	18,178
Total.....	\$ 701,810	\$ 27,963	\$ 216,761	\$ 946,534

At June 30, 2010, discretely presented component units reported investments including Commonwealth Investment Program holdings amounting to \$831,558 and, for the PA Treasury securities lending program, collateral held of \$64,698 (amounts in thousands).

Foreign Currency Risk: Foreign currency risk is the risk of an investment’s value changing, advantageously or adversely, due to changes in currency exchange rates. The State System of Higher Education disclosed that \$17 of its local investments were exposed to foreign currency risk. The amounts invested, by currency, at June 30, 2010 are as follows (amounts in thousands):

<u>Foreign Currency</u>	<u>Amount</u>
British pound sterling.....	\$ 13
Euro.....	4
Total.....	\$ 17

Derivatives

As of June 30, 2010, the Pennsylvania Housing Finance Agency (PHFA), in its separately-issued financial statements, reported a noncurrent derivative instrument liability of \$146,420 based on fair values of its hedging (\$-144,187) and investment (\$-2,233) derivatives. Such amounts were reported as deferred outflows of resources (\$144,187) and investments (\$-2,233). Changes in the fair value of the hedging derivatives (\$33,637) were deferred; changes in the fair value of investment derivatives (\$2,233) were reported as expenses during the fiscal year ended June 30, 2010. To obtain further information regarding the nature and notional value of the financial instruments refer to their separately audited and issued financial statements.

NOTE E – CAPITAL ASSETS

A summary of capital assets by category at June 30, 2010 is as follows (amounts in thousands):

	Primary Government			Business-Type Activities	Discretely Presented Component Units
	Governmental Activities		Total Governmental Activities		
	General Capital Assets	Internal Service Funds			
			Enterprise Funds		
Land.....	\$ 510,509	\$ -	\$ 510,509	\$ 323	\$ 350,191
Highway right-of-way.....	1,886,890	-	1,886,890	-	-
Buildings and building improvements. Improvements other than buildings.....	6,318,099	7,237	6,325,336	47,501	3,341,839
Machinery and equipment.....	602,674	667	603,341	-	306,076
Library books and other.....	879,673	96,465	976,138	123,441	981,533
Turnpike infrastructure.....	-	-	-	-	105,453
Bridge infrastructure.....	-	-	-	-	5,653,976
Highway infrastructure.....	8,984,353	-	8,984,353	-	-
Waterway infrastructure.....	21,646,760	-	21,646,760	-	-
Other infrastructure.....	22,065	-	22,065	-	-
General construction in progress.....	164,949	-	164,949	-	-
Highway and bridge construction in progress.....	838,126	-	838,126	2,886	326,001
Commercial software.....	2,631,773	-	2,631,773	-	1,200,456
Internal software.....	1,660	-	1,660	-	-
Other intangibles.....	11,459	-	11,459	7,599	17,240
Total.....	200	-	200	-	33
	<u>\$ 44,499,190</u>	<u>\$ 104,369</u>	<u>\$ 44,603,559</u>	<u>\$ 181,750</u>	<u>\$ 12,282,798</u>

Changes in general capital assets for the fiscal year ended June 30, 2010 are as follows (amounts in thousands):

	Balance June 30, 2009	Increases	Decreases	Balance June 30, 2010
Non-Depreciable General Capital Assets:				
Land.....	\$ 498,088	\$ 18,903	\$ 6,482	\$ 510,509
Highway right-of-way.....	1,771,777	115,113	-	1,886,890
General construction in progress.....	766,434	677,684	605,992	838,126
Transportation construction in progress.....	2,068,560	1,536,618	973,405	2,631,773
Subtotal.....	<u>5,104,859</u>	<u>2,348,318</u>	<u>1,585,879</u>	<u>5,867,298</u>
Depreciable and Amortizable General Capital Assets:				
Buildings and building improvements.....	5,926,593	407,522	16,016	6,318,099
Improvements other than buildings.....	541,210	61,511	47	602,674
Machinery and equipment.....	859,169	63,783	43,279	879,673
Bridge infrastructure.....	8,315,048	669,305	-	8,984,353
Highway infrastructure.....	20,582,027	1,064,733	-	21,646,760
Waterway infrastructure.....	22,058	7	-	22,065
Other infrastructure.....	112,374	52,575	-	164,949
Commercial software.....	-	1,660	-	1,660
Internal software.....	-	11,459	-	11,459
Other intangibles.....	-	200	-	200
Subtotal.....	<u>36,358,479</u>	<u>2,332,755</u>	<u>59,342</u>	<u>38,631,892</u>
Total general capital assets.....	<u>\$ 41,463,338</u>	<u>\$ 4,681,073</u>	<u>\$ 1,645,221</u>	<u>\$ 44,499,190</u>

NOTE E – CAPITAL ASSETS (continued)

Changes in general capital assets accumulated depreciation and amortization for the fiscal year ended June 30, 2010 are as follows (amounts in thousands):

	<u>Balance</u> <u>June 30, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2010</u>
Buildings and building improvements.....	\$ 2,310,139	\$ 137,592	\$ 10,728	\$ 2,437,003
Improvements other than buildings.....	248,008	17,054	37	265,025
Machinery and equipment.....	440,137	59,256	39,651	459,742
Bridge infrastructure.....	2,007,159	174,069	-	2,181,228
Highway infrastructure.....	9,747,155	793,383	-	10,540,538
Waterway infrastructure.....	917	473	-	1,390
Other infrastructure.....	4,813	3,626	-	8,439
Commercial software.....	-	83	-	83
Internal software.....	-	359	-	359
Other intangibles.....	-	70	-	70
Total accumulated depreciation and amortization..	<u>\$ 14,758,328</u>	<u>\$ 1,185,965</u>	<u>\$ 50,416</u>	<u>\$ 15,893,877</u>

Depreciation and amortization expense, by function, related to governmental activities capital assets for the fiscal year ended June 30, 2010 is as follows (amounts in thousands):

	<u>General Capital</u> <u>Assets</u>	<u>Internal</u> <u>Service</u>
Direction and supportive services.....	\$ 34,659	\$ 7,675
Protection of persons and property.....	82,771	1,417
Public education.....	25,796	-
Health and human services.....	12,325	-
Economic development.....	201	-
Transportation.....	1,014,462	-
Recreation and cultural enrichment.....	15,751	-
Total depreciation and amortization expense.....	<u>\$ 1,185,965</u>	<u>\$ 9,092</u>

Changes in Internal Service funds capital assets for the fiscal year ended June 30, 2010 are as follows (amounts in thousands):

	<u>Balance</u> <u>June 30, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2010</u>
Non-Depreciable Capital Assets:				
Land.....	\$ 6	\$ -	\$ 6	\$ -
Subtotal.....	<u>6</u>	<u>-</u>	<u>6</u>	<u>-</u>
Depreciable Capital Assets:				
Buildings and building improvements.....	6,106	1,131	-	7,237
Improvements other than buildings.....	182	485	-	667
Machinery and equipment.....	96,506	4,838	4,879	96,465
Subtotal.....	<u>102,794</u>	<u>6,454</u>	<u>4,879</u>	<u>104,369</u>
Total Internal Service fund capital assets.....	<u>\$ 102,800</u>	<u>\$ 6,454</u>	<u>\$ 4,885</u>	<u>\$ 104,369</u>

NOTE E – CAPITAL ASSETS (continued)

Changes in Internal Service fund capital assets accumulated depreciation for the fiscal year ended June 30, 2010 are as follows (amounts in thousands):

	Balance June 30, 2009	Increases	Decreases	Balance June 30, 2010
Buildings and building improvements.....	\$ 1,793	\$ 22	\$ -	\$ 1,815
Improvements other than buildings.....	59	19	-	78
Machinery and equipment.....	63,244	9,051	2,993	69,302
Total accumulated depreciation.....	\$ 65,096	\$ 9,092	\$ 2,993	\$ 71,195

Changes in Enterprise fund capital assets for the fiscal year ended June 30, 2010 are as follows (amounts in thousands):

	Balance June 30, 2009	Increases	Decreases	Balance June 30, 2010
Non-Depreciable Capital Assets:				
Land.....	\$ 323	\$ -	\$ -	\$ 323
General construction in progress.....	2,141	745	-	2,886
Subtotal.....	2,464	745	-	3,209
Depreciable and Amortizable Capital Assets:				
Buildings and building improvements.....	45,021	2,490	10	47,501
Machinery and equipment.....	120,951	4,205	1,715	123,441
Internal software.....	-	7,599	-	7,599
Subtotal.....	165,972	14,294	1,725	178,541
Total Enterprise fund capital assets.....	\$ 168,436	\$ 15,039	\$ 1,725	\$ 181,750

Changes in Enterprise fund capital assets accumulated depreciation and amortization for the fiscal year ended June 30, 2010 are as follows (amounts in thousands):

	Balance June 30, 2009	Increases	Decreases	Balance June 30, 2010
Buildings and building improvements.....	\$ 22,936	\$ 2,750	\$ 8	\$ 25,678
Machinery and equipment.....	66,939	15,470	1,702	80,707
Internal software.....	-	973	-	973
Total accumulated depreciation and amortization.....	\$ 89,875	\$ 19,193	\$ 1,710	\$ 107,358

NOTE E – CAPITAL ASSETS (continued)

Construction in progress included in general capital assets at June 30, 2010 includes project information as follows (amounts in thousands):

	<u>Project Authorization</u>	<u>Amounts Expended but not Capitalized at June 30, 2010</u>	<u>Authorization Available</u>
General Construction in Progress:			
Capitol Complex.....	\$ 998,246	\$ 441,294	\$ 556,952
Department of Corrections Institutions.....	1,294,137	52,316	1,241,821
Educational Institutions.....	379,884	123,391	256,493
State Parks and Forests.....	120,266	54,261	66,005
Veterans Homes and Military Armories.....	196,563	98,841	97,722
Department of Public Welfare Institutions.....	21,774	3,351	18,423
Transportation Facilities.....	45,057	20,924	24,133
Historical and Museum Commission Facilities.....	43,961	17,507	26,454
State Police Facilities.....	13,172	5,569	7,603
Agriculture Facilities.....	3,883	662	3,221
Other.....	56,557	20,010	36,547
Total general construction in progress.....	<u>3,173,500</u>	<u>838,126</u>	<u>2,335,374</u>
Highway and Bridge Construction in Progress:.....	<u>3,932,329</u>	<u>2,631,773</u>	<u>1,300,556</u>
Total construction in progress.....	<u>\$ 7,105,829</u>	<u>\$ 3,469,899</u>	<u>\$ 3,635,930</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, 2010 the amount of general capital assets related to the initial 1986 valuation amounted to \$1,726 million and did not include highway, bridge or waterway infrastructure. The infrastructure was retro-actively added in 1989.

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

Tuition Benefits Payable

The reported liability for tuition benefits payable of \$1,329,891 (in thousands) of the **Tuition Payment Fund**, an Enterprise Fund, at June 30, 2010 is based on several actuarial assumptions, including those related to future sales of tuition credits, tuition cost increases, administrative charges, investment experience and program expenses for the Guaranteed Savings Plan of the Tuition Account Program. The June 30, 2010 actuarial analysis includes two changes in assumptions to reflect the current view of updated expense projections and benefit usage patterns. The expense assumption was increased to reflect current expenses, the amount of Plan Credits being managed and the authorized expense increase.

Changes in tuition benefits are as follows:

Balance at July 1, 2009	Additions	Reductions	Balance at June 30, 2010	Due within One Year
\$1,268,849	\$ 214,808	\$ 153,766	\$ 1,329,891	\$ 175,801

Insurance Loss Liability

The reported insurance loss liability of the **State Workers' Insurance Fund (SWIF)**, an Enterprise Fund, is primarily based on historical claims experience. One of the assumptions used to determine the reported liability amount includes using a discount rate of 3.25 percent at December 31, 2009 and 3.75 percent at December 31, 2008. 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, 2009 and 2008, the following summary provides information on prior year reported insurance loss liability, incurred claims and payments, and current year reported insurance loss liability (amounts in thousands).

Year Ended December 31	Prior Year Liability	Incurred Claims		Payments		Current Year Liability
		Current	Prior	Current	Prior	
2009	\$1,635,237	\$248,059	\$(17,991)	\$37,058	\$274,111	\$1,554,136
2008	1,691,251	393,185	(100,331)	44,301	304,567	1,635,237

The current portion of the total **SWIF** insurance loss liability is \$269,248 and the noncurrent portion is \$1,284,888. Additionally, nonmajor Enterprise funds reported a noncurrent insurance loss liability of \$334 at June 30, 2010. Total reported current insurance loss liability amounts to \$269,248 and total noncurrent insurance loss liability amounts to \$1,285,222 (in thousands) at June 30, 2010.

Compensated Absences Liability

The reported compensated absences liability for the Enterprise Funds totaled \$36,975 at June 30, 2010. Of that amount, the liability is primarily owed by the State Stores Fund (\$28,867), the **State Worker's Insurance Fund** (\$2,560), and the **State Lottery Fund** (\$3,114). The following summary provides aggregated information reported for June 30, 2010 compensated absence liabilities; additions and reductions during the fiscal year ended June 30, 2010 and reported compensated absences liabilities at June 30, 2009 (amounts in thousands):

<u>Liability at June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Liability at June 30, 2010</u>
\$ 36,727	\$ 24,319	\$ 24,071	\$ 36,975

The current portion of the total compensated absences liability for Enterprise Funds is \$5,925 and the noncurrent portion is \$31,050 (in thousands).

NOTE G - TAXES, LOANS AND LEASE RENTALS RECEIVABLE

Taxes Receivable: Taxes receivable, by tax type, reported on the Statement of Net Assets at June 30, 2010 consisted of the following (amounts in thousands):

Statement of Net Assets			
Governmental Activities			
	Current	Noncurrent	Total
Sales and use.....	\$ 890,911	\$ 228,039	\$ 1,118,950
Personal income.....	618,316	196,076	814,392
Corporation.....	319,475	655,037	974,512
Liquid fuels.....	178,511	-	178,511
Inheritance.....	309,918	103,099	413,017
Cigarette.....	57,943	-	57,943
Other.....	21,647	-	21,647
Total.....	<u>\$ 2,396,721</u>	<u>\$ 1,182,251</u>	<u>\$ 3,578,972</u>

Taxes receivable reported on the Balance Sheet for Governmental Funds at June 30, 2010 consisted of the following (amounts in thousands):

Fund Balance Sheets							
General Fund					Motor License Fund	Nonmajor Governmental Funds	Fiduciary Funds
Expected to be Collected:							
From							
September 1, 2010							
By	through	After	Total	Collected by	Collected by	Collected by	
August 31, 2010	June 30, 2011	June 30, 2011	Total	August 31, 2010	August 31, 2010	August 31, 2010	August 31, 2010
Sales and use.....	\$ 774,159	\$ 116,752	\$ 228,039	\$1,118,950	\$ -	\$ -	\$ 37,075
Personal income.....	217,136	401,180	196,076	814,392	-	-	-
Corporation.....	23,161	296,314	655,037	974,512	-	-	-
Liquid fuels.....	-	-	-	-	178,511	-	-
Inheritance.....	127,192	182,726	103,099	413,017	-	-	-
Cigarette.....	57,943	-	-	57,943	-	-	-
Other.....	147	-	-	147	-	21,500	883
Total.....	<u>\$ 1,199,738</u>	<u>\$ 996,972</u>	<u>\$ 1,182,251</u>	<u>\$3,378,961</u>	<u>\$ 178,511</u>	<u>\$ 21,500</u>	<u>\$ 37,958</u>

On the governmental funds balance sheet, the **General Fund** taxes receivable of \$2,179,223 expected to be collected after August 31, 2010 is reported as an unearned revenue liability. The total amount of taxes receivable reported on the governmental funds balance sheet, \$2,396,721 (\$2,196,710 reported in the **General Fund**, \$178,511 reported in the **Motor License Fund**, and \$21,500 reported in nonmajor governmental funds), expected to be collected from July 1, 2010 through June 30, 2011 is also reported as current taxes receivable in governmental activities on the Statement of Net Assets. The remaining **General Fund** taxes receivable of \$1,182,251 reported on the governmental funds balance sheet expected to be collected after June 30, 2011 is reported as noncurrent taxes receivable in governmental activities on the Statement of Net Assets. All of the revenue associated with the taxes receivable reported in governmental activities on the Statement of Net Assets is reported as tax revenue in governmental activities on the Statement of Activities (amounts in thousands).

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

Loans Receivable: Loans receivable at June 30, 2010 consisted of the following (amounts in thousands):

	Primary Government				Discretely Presented Component Units
	Governmental Activities		Business Type Activities		
	General Fund	Special Revenue Funds	Enterprise Funds	Fiduciary Funds	
Mortgage loans.....	\$ -	\$ -	\$ -	\$ -	\$ 4,707,205
Student loans.....	-	-	-	-	9,623,802
Economic development loans.....	12,674	15,344	262,673	-	814,747
Drinking water, storm water and sewer system loans.....	-	58,964	-	-	2,064,081
Vounteer fire company loans.....	-	-	102,173	-	-
Environmental program loans.....	-	7,254	-	-	-
Other notes and loans.....	110	-	-	45	8,835
	<u>12,784</u>	<u>81,562</u>	<u>364,846</u>	<u>45</u>	<u>17,218,670</u>
Less: allowance for uncollectible amounts.....	2,795	2,247	32,793	-	310,047
Loans receivable, net.....	<u>\$ 9,989</u>	<u>\$ 79,315</u>	<u>\$ 332,053</u>	<u>\$ 45</u>	<u>\$ 16,908,623</u>

The **General Fund** reported \$9,024 in loans due after June 30, 2011, Special Revenue funds reported \$75,722 in loans due after June 30, 2011 and the Enterprise funds reported \$276,351 in loans due after June 30, 2011. Discretely presented component units reported \$15,501,203 in loans receivable due after June 30, 2011 (amounts in thousands).

The **General Fund** reported \$9,989 in loans receivable for program objectives, all of which represented governmental activities lending and of which, \$9,024 is due after June 30, 2011. Agency Funds reported \$45 in loans receivable to replace underground storage tanks, all of which is due before June 30, 2011 (amounts in thousands).

Lease Rentals Receivable: The Capital Facilities Fund, a Capital Projects fund, reports expenditure amounts related to construction projects for educational institutions funded through the issuance of general obligation bonds, the principal and interest of which are paid through the collection of lease rental payments and deposited in the Capital Debt Fund, a Debt Service fund. At the conclusion of the lease terms, the project facilities are conveyed to the educational institutions. Accordingly, these lease arrangements are classified as direct financing leases. Lease rental receivables and associated unearned revenue equal to the principal lease payments to be received are recorded in the Capital Debt Fund. At June 30, 2010 the total remaining minimum lease payments to be received were \$592, consisting of principal present value of \$410 and interest of \$182 (amounts in thousands).

The Pennsylvania Industrial Development Authority, a discretely presented component unit, reported a lease rental receivable of \$1,427 at June 30, 2010. Also, the Philadelphia Regional Port Authority reported a lease rental receivable of \$828 at June 30, 2010 (amounts in thousands).

Minimum lease payments receivable from prior years and for the fiscal year succeeding June 30, 2010 are as follows (amounts in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units
Prior years	\$ 592	\$ -
2011.....	-	2,255

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

All amounts receivable are due by June 30, 2011.

Governmental Funds Unearned Revenue: The **General Fund**, Special Revenue Funds, and Debt Service Funds reported unearned revenue at June 30, 2010. The following chart provides the portion of total unearned revenue which was 1) unavailable or 2) not yet earned as of June 30, 2010 (amounts in thousands):

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
Unavailable.....	\$ 2,179,222	\$ 207,256	\$ -
Unearned.....	<u>10,223</u>	<u>38,199</u>	<u>3,632</u>
Total unearned revenue.....	<u>\$ 2,189,445</u>	<u>\$ 245,455</u>	<u>\$ 3,632</u>

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS

Statement of Net Assets

Internal Balances

In the Statement of Net Assets, reported internal balances of (\$107,890)/\$107,964 for governmental activities/business-type activities differ by \$74 because the **State Workers' Insurance Fund**, an Enterprise Fund, reports for its fiscal year ended December 31, 2009 (amounts in thousands).

Fund Financial Statements

Interfund Balances

The composition of governmental and proprietary funds interfund balances reported at June 30, 2010 is as follows, with Major Fund titles in bold. Aggregate nonmajor governmental funds receivables from other funds and from component units, respectively, amount to \$84,812 and \$9,542; aggregate nonmajor enterprise funds receivables amount to \$4,342 and \$0; aggregate internal service funds receivables amount to \$28,280 and \$296 (amounts in thousands):

FUND TYPE/FUND <u>PRIMARY GOVERNMENT</u>	DUE FROM		DUE TO	
	OTHER FUNDS	COMPONENT UNITS	OTHER FUNDS	COMPONENT UNITS
General Fund	\$ 57,213	\$ 1,709	\$ 110,492	\$ 330
<u>Special Revenue:</u>				
Motor License Fund	21,700	-	48,337	8,305
Tobacco Settlement Fund	-	-	3,763	-
Public Transportation Trust Fund.....	36,670	-	9	-
Vocational Rehabilitation Fund.....	-	-	4,379	-
Pharmaceutical Assistance Fund.....	8,631	-	2	-
Emergency Medical Services Operating Fund.....	2,527	-	-	-
Agricultural Conservation Easement Purchase Fund.....	10,636	-	-	-
Public Transportation Assistance Fund.....	7,759	-	811	-
Other Funds.....	1,731	-	5,114	461
	<u>89,654</u>	<u>-</u>	<u>62,415</u>	<u>8,766</u>
<u>Capital Projects:</u>				
Capital Facilities Fund.....	10,845	9,542	19,568	4,974
Keystone Recreation, Park and Conservation Fund.....	6,013	-	19,400	-
Land and Water Development Fund.....	-	-	3	-
	<u>16,858</u>	<u>9,542</u>	<u>38,971</u>	<u>4,974</u>
<u>Enterprise:</u>				
Unemployment Compensation Fund	4,982	906	125	3
State Lottery Fund	1	-	148	-
Tuition Payment	-	-	6	-
State Stores Fund.....	13	-	3,626	-
Rehabilitation Center Fund.....	4,207	-	58	-
Other Funds.....	122	-	69	-
	<u>9,325</u>	<u>906</u>	<u>4,032</u>	<u>3</u>
<u>Internal Service:</u>				
Purchasing Fund.....	25,036	293	1,276	-
Manufacturing Fund.....	3,244	3	197	-
	<u>28,280</u>	<u>296</u>	<u>1,473</u>	<u>-</u>
<u>Fiduciary - Pension Trust:</u>				
State Employees' Retirement System.....	11,317	4,549	-	-
Deferred Compensation Fund.....	-	-	114	-
Public School Employees' Retirement System.....	6,440	-	5,629	-
	<u>17,757</u>	<u>4,549</u>	<u>5,743</u>	<u>-</u>
Total primary government.....	\$ 219,087	\$ 17,002	\$ 223,126	\$ 14,073

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

DISCRETELY PRESENTED COMPONENT UNITS	DUE FROM		DUE TO	
	PRIMARY GOVERNMENT	COMPONENT UNITS	PRIMARY GOVERNMENT	COMPONENT UNITS
Pennsylvania Turnpike Commission.....	\$ 6,497	\$ -	\$ -	\$ -
Pennsylvania Housing Finance Agency.....	3	38	14	62
Pennsylvania Higher Education Assistance Agency.....	-	-	410	-
Pennsylvania Infrastructure Investment Authority.....	-	62	84,463	38
State System of Higher Education.....	5,910	83	9,572	-
Commonwealth Financing Authority.....	-	-	599	-
Other component units.....	-	-	65	83
Total component units.....	<u>\$ 12,410</u>	<u>\$ 183</u>	<u>\$ 95,123</u>	<u>\$ 183</u>

The amount of total reported interfund receivables of \$248,682 does not agree with total reported interfund payables of \$332,505 at June 30, 2010 due to different fiscal year ends and reporting differences for certain Funds included in the Fund Financial Statements at June 30, 2010. The amount reported for the Pennsylvania Turnpike Commission, a discretely presented component unit, is reported at its fiscal year ended May 31, 2010; the amounts reported as interfund balances for the State Employees' Retirement System and Deferred Compensation Fund, Pension Trust Funds, the INVEST Program for Local Governments, an Investment Trust Fund, and the **State Workers' Insurance Fund**, an Enterprise Fund, are reported at their fiscal years ended December 31, 2009. The following presents a reconciliation of interfund balances reported at June 30, 2010 and those amounts that would have been reported if all Funds reported at the same fiscal year end (amounts in thousands):

	Governmental Funds	Proprietary Funds	Fiduciary Funds	Component Units	Total
Due from other funds.....	\$ 162,632	\$ 34,846	\$ 3,220	\$ -	\$ 200,698
Due from pension trust funds.....	1,093	2,759	14,537	-	18,389
Due from component units.....	11,251	1,202	4,549	183	17,185
Due from primary government.....	-	-	-	12,410	12,410
Total.....	<u>\$ 174,976</u>	<u>\$ 38,807</u>	<u>\$ 22,306</u>	<u>\$ 12,593</u>	<u>\$ 248,682</u>
Reported Interfund Receivables.....					\$ 248,682
State Employees' Retirement System decrease in receivables from January 1, 2010 through June 30, 2010.....					(10,374)
Pennsylvania Turnpike Commission increase in receivables from June 1, 2010 through June 30, 2010.....					1,656
State Workers' Insurance Fund increase in receivables from January 1, 2010 through June 30, 2010.....					389
Interfund receivables reported as accounts receivable by component units.....					7
Interfund receivables reported as taxes receivable and accounts receivable by Fiduciary Funds.....					9,321
Payroll accrual at June 30, 2010 - receivables attributable to State Employees' Retirement System.....					9,245
General Fund receivable from Pennsylvania Infrastructure Investment Authority (full accrual).....					83,708
Reconciled Interfund Receivables.....					<u>\$ 342,634</u>

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

	Governmental Funds	Proprietary Funds	Fiduciary Funds	Component Units	Total
Due to other funds.....	\$ 192,734	\$ 5,057	\$ 762	\$ -	\$ 198,553
Due to pension trust funds.....	19,144	448	4,981	-	24,573
Due to component units.....	14,070	3	-	183	14,256
Due to primary government.....	-	-	-	95,123	95,123
Total.....	<u>\$ 225,948</u>	<u>\$ 5,508</u>	<u>\$ 5,743</u>	<u>\$ 95,306</u>	<u>\$ 332,505</u>
Reported Interfund Payables.....					\$ 332,505
State Employees' Retirement System increase in payables from January 1, 2010 through June 30, 2010.....					6,439
Deferred Compensation Fund decrease in payables from January 1, 2010 through June,30, 2010.....					(108)
Pennsylvania Turnpike Commission increase in payables from June 1, 2010 through June 30,2010.....					72
State Workers' Insurance Fund increase in payables from January 1, 2010 through June 30, 2010.....					76
INVEST Program for Local Governments increase in payables from January 1, 2010 through June 30, 2010.....					16
Interfund payables reported as accounts payable by component units.....					1,011
Interfund payables reported as accounts payable by Fiduciary Funds.....					<u>2,623</u>
Reconciled Interfund Payables.....					<u>\$ 342,634</u>

Advances – Fund Financial Statements

At June 30, 2010 the **General Fund** reported Advances to Other Funds of \$139,108. Specifically, this amount has been advanced as follows: \$2,300 to the **State Workers' Insurance Fund** and \$110,000 to the State Stores Fund, Enterprise Funds; \$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 \$2,061 at its fiscal year ended December 31, 2009. At June 30, 2010 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. Additionally, the Pennsylvania Infrastructure Bank Fund, an Enterprise Fund, reported an advance of \$1,400; the amount was advanced to the **Motor License Fund**, a Special Revenue Fund. All amounts advanced, with exception to a \$362 repayment from the **Motor License Fund** to the Pennsylvania Infrastructure Bank Fund, are expected to be repaid subsequent to June 30, 2011. The Underground Storage Tank Indemnification Fund, an Agency Fund, reported a \$67,500 statutory advance to the **General Fund** at June 30, 2010; no repayment is expected to occur during the fiscal year ending June 30, 2011 (amounts in thousands).

General Appropriation Act 10-A and Act 50 of 2009

During October 2009, the General Appropriation Act 10-A (Act 10-A) and Act 50 of 2009 (Act 50) included routine, annual amendments to the Fiscal Code and amended other laws to implement the **General Fund** budget for the fiscal year ended June 30, 2010, which was adopted during October 2009. Act 10-A and Act 50 also mandated several non-routine transfers to the **General Fund**. Act 10-A mandated the first two and Act 50 mandated the last three transfers, following, to the **General Fund** during the fiscal year ended June 30, 2010 (amounts in thousands):

Oil and Gas Lease Fund	\$ 143,000
Keystone Recreation, Park and Conservation Fund	19,366
Tobacco Settlement Fund	167,673
Medical Care Availability and Reduction of Error Fund	144,897
Oil and Gas Lease Fund	60,000

Transfers, including General Appropriation Act 10-A and Act 50 of 2009

A summary of transfers reported for the fiscal year ended June 30, 2010 is as follows, with Major Fund titles in bold. Aggregate nonmajor governmental fund transfers from other funds amounted to \$1,507,951 during the fiscal year ended June 30, 2010 and include a \$200,000 transfer from the **State Lottery Fund** to the Pharmaceutical Assistance Fund. Aggregate nonmajor governmental fund transfers to other funds amount to \$588,205. Aggregate nonmajor proprietary fund transfers from other funds amount to \$12,053. Aggregate nonmajor proprietary fund transfers to other funds amount to \$117,377 (amounts in thousands).

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

<u>PRIMARY GOVERNMENT</u>	TRANSFERS IN	TRANSFERS OUT
General Fund.....	\$ 738,871	\$ 1,049,269
<u>Special Revenue:</u>		
Motor License Fund.....	5,164	51,801
Tobacco Settlement Fund.....	-	199,093
Workers' Compensation Administration Fund.....	-	1,800
Environmental Stewardship Fund.....	-	34,097
Public Transportation Trust Fund.....	102,490	-
Gaming Fund.....	-	293,409
Vocational Rehabilitation Fund.....	43,303	-
Pharmaceutical Assistance Fund.....	231,420	-
Public Transportation Assistance Fund.....	-	15,893
Educational Assistance Program Fund.....	5,995	-
Community College Capital Fund.....	46,369	-
Agricultural Conservation Easement Fund.....	5,327	-
Conservation District Fund.....	4,710	-
Oil and Gas Lease Fund.....	-	215,300
Hazardous Sites Cleanup Fund.....	-	5,000
Treasury Initiative Support Fund.....	3,906	-
Other Funds.....	17,263	1,499
	<u>465,947</u>	<u>817,892</u>
<u>Debt Service:</u>		
Disaster Relief Redemption Fund.....	1,648	-
Pennsylvania Infrastructure Investment Authority Redemption Fund.....	5,660	-
Capital Debt Fund.....	990,691	-
Pennsylvania Economic Revitalization Sinking Fund.....	509	-
Water Facilities Loan Redemption Fund.....	1,856	-
Land and Water Development Sinking Fund.....	193	-
Local Criminal Justice Sinking Fund.....	2,382	-
Growing Greener Bond Sinking Fund.....	28,770	-
Water Supply and Wastewater Treatment Sinking Fund.....	14,196	-
Other Funds.....	1,263	-
	<u>1,047,168</u>	<u>-</u>
<u>Capital Projects:</u>		
Keystone Recreation, Park and Conservation Fund.....	-	19,366
Local Criminal Justice Fund.....	-	1,841
	<u>-</u>	<u>21,207</u>
<u>Enterprise:</u>		
Unemployment Compensation Fund.....	-	3,500
State Lottery Fund.....	176,700	286,597
State Stores Fund.....	-	105,377
Small Business First Fund.....	-	12,000
Machinery and Equipment Loan Fund.....	12,000	-
Pennsylvania Infrastructure Bank Fund.....	53	-
	<u>188,753</u>	<u>407,474</u>
Total transfers, fund financial statements.....	2,440,739	2,295,842
Less: net elimination of governmental fund transfers.....	2,077,121	2,077,121
Less: Medical Care Availability and Reduction of Error Fund transfers to General Fund.....	144,897	-
Total transfers, Statement of Activities.....	<u>\$ 218,721</u>	<u>\$ 218,721</u>

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

Assigned Investment Income: During the fiscal year ended June 30, 2010, certain assigning funds, as follows, receive but do not financially report investment income that is assigned to (and reported by) another fund for legal or contractual reasons. Investment income and related interfund transfers are reported by those funds which assign/receive investment income for other than legal/contractual reasons (amounts in thousands):

<u>Assigning Fund</u>	<u>Receiving Fund</u>	<u>Reason</u>	<u>Amount</u>
Liquor License Fund	General Fund	Legal/contractual	\$ 5
Liquid Fuels Tax Fund	Motor License Fund	Legal/contractual	31
Land and Water Development Fund	Land and Water Development Sinking Fund	Legal/contractual	2
Remining Financial Assurance Fund	Land and Water Development Sinking Fund	Other than legal/contractual	4
Fire Insurance Tax Fund	State Insurance Fund	Legal/contractual	(31)
Fire Insurance Tax Fund	Municipal Pension Aid Fund	Legal/contractual	52

Primary Government Transactions with Discretely Presented Component Units

Financial Support Provided to:

Major Discretely Presented Component Units

During the fiscal year ended June 30, 2010 (May 31, 2010 for PA Turnpike Commission), the Commonwealth provided financial support to major discretely presented component units, reported by the component units as follows (amounts in thousands):

State System of Higher Education (appropriations, grants and contracts, ARRA state fiscal stabilization funds)	\$ 640,592
PA Higher Education Assistance Agency (grants).....	455,497
PA Infrastructure Investment Authority (capital contributions).....	116,383
PA Turnpike Commission (capital contributions).....	87,733
PA Housing Finance Agency (program income and fees).....	11,234

Nonmajor Discretely Presented Component Units

During the fiscal year ended June 30, 2010, the Commonwealth provided financial support to nonmajor component units by appropriations, as follows (amounts in thousands):

Commonwealth Financing Authority.....	\$ 81,655
Ben Franklin Technology Development Authority.....	20,000
Thaddeus Stevens College of Technology	8,550
Port of Pittsburgh Commission.....	767

During the fiscal year ended June 30, 2010, the Commonwealth also provided financial support to the Philadelphia Regional Port Authority; the Philadelphia Regional Port Authority categorized the support among governmental appropriations, capital appropriations and contributions, and transfers in. For the fiscal year ended June 30, 2010, the Philadelphia Regional Port Authority’s reported revenues include about \$118,000 of financial support from the Commonwealth. A significant portion of the total, \$91,461, was designated for a new Food Distribution Center in Philadelphia (amounts in thousands).

Financial Support Provided to the Commonwealth

During its fiscal year ended May 31, 2010, the PA Turnpike Commission provided \$500,000 to the **Motor License Fund** and provided \$400,000 to the Public Transportation Trust Fund under the statutory provisions of Act 44 of 2007 and the related Lease and Funding Agreement between the PA Turnpike Commission and the Commonwealth. Additionally, during the fiscal year ended June 30, 2010, the Commonwealth Financing Authority provided \$85,000 to the **General Fund** under the provisions of Act 1 of Special Session 1 of 2008 (amounts in thousands).

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS

Pension Systems

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

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

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

State Employees' Retirement System

Plan Description: The SERS is the administrator of a cost-sharing multiple-employer defined benefit retirement plan established to provide pension benefits for Commonwealth employees and certain other organizations. At December 31, 2009 there were 106 employer state agencies and other organizations participating in the SERS.

Retirement Benefits: Article II of the Pennsylvania Constitution provides the General Assembly the authority to establish and amend plan benefit provisions. The SERS provides retirement, death, and disability benefits. Retirement benefits generally vest after five years of credited service. Employees who retire at age 60 with three years of service, or with 35 years of service if under age 60, are entitled to a normal (unreduced) annual retirement benefit. Members of the General Assembly and certain employees classified in hazardous duty positions can retire with full benefits at age 50 with at least three years of service.

Most members of the SERS, and all covered employees hired after June 30, 2001 (except State Police officers and certain members of the judiciary and legislators), are Class AA members, pursuant to Act 2001-9 (Act 9), signed into law on May 17, 2001. Among other things, Act 9 provides for general annual retirement benefits of 2.5 percent of the member's highest three-year average salary (final average salary) multiplied by years of service. State police troopers are entitled to an annual benefit equal to a percentage of their highest annual salary (excluding their year of retirement). The annual benefit is 75 percent of salary for 25 or more years of service and 50 percent of salary for 20-24 years of service. Judges are entitled to a benefit of 4 percent of final average salary for each of the first 10 years of service and 3 percent for subsequent years. District Justices are entitled to a benefit of 3 percent of final average salary for each year of service. For legislators in office on May 17, 2001 Act 9 established Class D-4 membership whereby the general annual benefit is 3 percent of final average salary for each year of service. The general annual benefit for full retirement for Class A members is 2 percent of the member's highest three-year salary multiplied by years of service.

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

Act 9 provided that new benefits arising therefrom were to be funded over a ten-year period, with level dollar funding, beginning July 1, 2002. Act 9 also provided that all the existing actuarial assets and liabilities be combined and amortized over a ten-year period using level dollar funding and future actuarial gains and losses were to be amortized using ten-year level dollar funding. On December 10, 2003, 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, as follows: Pre-Act 9 funding credit, ten years; Act 9 liability, 30 years; post-2000 gains and losses, 30 years; and, existing and future cost of living adjustments, ten years.

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

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

<u>Year ended December 31</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2009	\$ 643,861	39.1
2008	\$ 584,248	39.9
2007	\$ 617,253	39.3

At December 31, 2009, the SERS disclosed no long-term contracts for contributions to the plan.

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

Investment Valuation: Investments are reported at fair value, which is the amount that the SERS can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. The investments in short-term funds, including those managed by the State Treasurer, are reported at cost plus allocated interest, which approximates fair value. The securities lending collateral pool, which is a fund operated by the securities lending agent, also is reported at cost plus accrued interest, which approximates fair value. U.S. government securities, corporate and foreign bonds and notes, common and preferred stocks, and the underlying holdings in funds-of-hedge funds (reported as part of alternative investments), are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Securities that are not traded on a national security exchange are valued by the asset manager or third parties based on similar sales. Foreign exchange and futures contracts are marked-to-market daily with changes in fair value recognized as part of investments and investment income. The fair values of equity 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. Real estate investments, which are subject to annual independent audits, are primarily valued based on independent appraisals. Properties that have not been appraised are valued using the present value of the projected future net income stream. Alternative investments, which are subject to an annual independent audit, include interests in limited partnerships invested in venture capital, leveraged buyouts, private equities, and other investments, are valued based on estimated fair value established by valuation committees.

The collective trust funds (CTF) consist primarily of domestic and international institutional mutual and index funds. The funds do not pay interest or dividends to shareholders, and reinvest all income earned on securities held by the fund. The fair value of CTF is based on the reported share value of the respective fund. The CTF is subject to an annual independent audit.

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

Public School Employees’ Retirement System

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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, 2010 there were 747 participating employers, generally school districts. In relation to the PSERS, the Commonwealth is a non-employer contributor organization.

Benefits: The PSERS provides retirement, disability retirement, death and health care benefits. In most cases, retirement benefits vest after 5 years of credited service. Members are eligible for full monthly retirement benefits upon reaching (a) age 62 with at least one year of service, (b) age 60 with 30 or more years of service, or (c) 35 or more years of service regardless of age. Benefits for full retirement are generally equal to 2 percent (Membership Class T-C) or 2.5 percent (Membership Class T-D) of the member’s final average salary multiplied by the member’s number of years of credited service. The Commonwealth has the authority to establish or amend benefit provisions.

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

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

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

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

Fiscal year <u>Ended June 30</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>
2010	\$ 1,928,278	27
2009	\$ 1,761,295	29
2008	\$ 1,852,238	41

At June 30, 2010, the PSERS disclosed that \$110,162 of \$240,569 (in thousands) of member contributions receivable for purchases of service credit is due subsequent to June 30, 2011.

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 for which employees’ salaries are reported. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investment Valuation: Investments are reported at fair value, which is the amount that the PSERS can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

liquidation sale. Short-term securities are reported at cost, which approximates fair value, unless they have published market prices or quotations from national security exchanges or securities pricing services, in which case they are reported at the published market price. Fixed income securities and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges or securities pricing services. Securities that are not traded on a national security exchange are valued by the respective fund manager or other third parties based on similar sales.

Directly-owned real estate investments are primarily valued based on appraisals performed by independent appraisers and, for properties not appraised, the present value of the projected future net income. Real estate owned investments are reported net of related debt borrowed against the market value of the property. As of June 30, 2010 line of credits advances amounting to \$132 million were netted against the related property valuation.

Alternative investments, which include private equity, private debt, venture capital and equity real estate, are primarily valued based on amounts established by valuation committees; such amounts include cash flow activity through fiscal year-end. Futures contracts, foreign exchange contracts, and options are marked-to-market daily; changes in market value are recognized as part of net appreciation/depreciation in the fair value of investments. Initial margin requirements for such financial instruments are provided by investment securities pledged as collateral or by cash.

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

Other Postemployment Benefits**Primary Government**

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

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

REHP contribution requirements are established by the Office of Administration and the Governor's Budget Office. All employing agencies and certain plan members must contribute specified amounts to the REHP. During the fiscal year ended June 30, 2010, almost all employing agencies contributed \$240 (whole dollars) for each current, active employee per biweekly pay period to fund the REHP. Several employing agencies contribute under comparable payment arrangements. Effective July 1, 2003 certain changes to prescription formulary and certain member co-payment costs were made. Beginning July 1, 2004 other periodic changes to both member contributions and REHP benefits were made. Starting July 1, 2005, REHP plan members with membership dates after June 30, 2004 contribute between 1.0 percent and 2.0 percent of their final salary, based on REHP enrollment date. In February 2008 a three tiered prescription REHP member copayment was

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

introduced and in May 2008 a Medicare Private Fee-For-Service plan for REHP was started. In January 2010, the majority of REHP Medicare-eligible members were enrolled in Medicare HMO or Medicare PPO medical plans.

RPSPP contribution requirements are established within collective bargaining agreements. During the fiscal year ended June 30, 2010 employing agencies contributed \$700 (whole dollars) for each current, active employee per biweekly pay period to fund the RPSPP. RPSPP plan members are not required to make contributions.

The REHP and RPSPP funding rates needed to fund ongoing annuitant health care costs are established as part of the Commonwealth’s annual budgeting process. During the fiscal year ended June 30, 2010, the Commonwealth funded \$515.4 million and \$62 million of annuitant health care claims and administrative costs for the REHP and RPSPP, respectively. Any additional contributions to advance fund annuitant health care costs are determined annually by the Commonwealth. During the fiscal year ended June 30, 2008, advance funding of \$60 million for the REHP and \$50.8 million for the RPSPP was contributed to the Other Postemployment Benefits Investment Pool, a Pension (and Other Employee Benefit) Trust Fund. No such additional, advance contributions were made during the fiscal years ended June 30, 2010 or 2009.

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

<u>As of and for the fiscal year ended June 30, 2010</u>	<u>REHP</u>	<u>RPSPP</u>	<u>Judiciary</u>	<u>House</u>	<u>Senate</u>	<u>Total</u>
Annual required contributions.....	\$848.530	\$151.150	\$34.252	\$38.231	\$16.834	\$1,088.997
Interest on net OPEB obligation.....	15.650	4.720	2.019	2.543	1.855	26.787
Adjustment to annual required contribution..	-13.740	-4.140	-1.789	-3.469	-1.472	-24.610
Annual OPEB cost (expense).....	<u>850.440</u>	<u>151.730</u>	<u>34.482</u>	<u>37.305</u>	<u>17.217</u>	<u>1,091.174</u>
Qualifying contributions.....	-515.434	-62.020	-18.030	-10.080	-5.659	-611.223
Increase in net OPEB obligation.....	335.006	89.710	16.452	27.225	11.558	479.951
Net OPEB obligation, July 1, 2009.....	312.950	94.320	40.465	56.504	41.220	545.459
Net OPEB obligation, June 30, 2010.....	<u>\$647.956</u>	<u>\$184.030</u>	<u>\$56.917</u>	<u>\$83.729</u>	<u>\$52.778</u>	<u>\$1,025.410</u>

(amounts in millions)

For the primary government, for all OPEB plans, total qualifying contributions of \$611.2 during the fiscal year ended June 30, 2010 in relation to the total annual OPEB cost of \$1,091.2 for the fiscal year, resulted in an increase in prior year OPEB obligations of \$480.0 and an unfunded OPEB liability of \$1,025.4 (in millions) is reported as of June 30, 2010. The net OPEB obligation attributable to REHP at June 30, 2010 is allocated among all REHP-participating employers. Several REHP-participating employer organizations are not financially reported as part of the Commonwealth’s financial reporting entity or are reported as discretely presented component units. Percentage of annual OPEB cost contributed during the fiscal years ended June 30, 2010, 2009 and 2008 (transition year) is as follows (dollar amounts in millions):

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

	REHP	RPSPP	Judiciary	House	Senate	Total
For the fiscal year ended June 30, 2010						
Annual OPEB cost.....	\$850.440	\$151.730	\$34.482	\$37.305	\$17.217	\$1,091.174
Percentage of annual OPEB cost contributed.....	60.608	40.875	52.288	27.021	32.869	56.015
Net OPEB obligation.....	\$647.956	\$184.030	\$56.917	\$83.729	\$52.778	\$1,025.410
For the fiscal year ended June 30, 2009						
Annual OPEB cost.....	\$818.510	\$143.390	\$38.598	\$37.778	\$26.443	\$1,064.719
Percentage of annual OPEB cost contributed.....	61.766	38.057	47.570	23.654	19.661	55.660
Net OPEB obligation.....	\$312.950	\$94.320	\$40.465	\$56.504	\$41.220	\$545.459
For the fiscal year ended June 30, 2008 (transition year)						
Annual OPEB cost.....	\$590.400	\$120.300	\$36.400	\$35.900	\$40.500	\$823.500
Percentage of annual OPEB cost contributed.....	100.000	95.428	44.505	23.120	50.677	91.102
Net OPEB obligation.....	-	\$5.500	\$20.228	\$27.662	\$19.976	\$73.366

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

OPEB Plan	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio (assets as % of AAL)	Estimated Annual Covered Payroll	UAAL as a Percentage of Annual Covered Payroll
REHP.....	July 1, 2008	\$47.920	\$13,257.570	\$13,209.650	0.361	\$4,093.000	322.7
RPSPP.....	July 1, 2008	40.570	2,104.240	2,063.670	1.928	337.000	612.4
Judiciary.....	July 1, 2010	-	423.300	423.300	-	189.600	223.3
House.....	July 1, 2008	-	308.459	308.459	-	102.701	300.3
Senate.....	July 1, 2009	-	210.048	210.048	-	49.712	422.5
Total primary government.....		\$88.490	\$16,303.617	\$16,215.127	0.543	\$4,772.013	339.8

The REHP and RPSPP data in the preceding charts was obtained from an actuarial valuation, prepared by an independent actuary, as of July 1, 2008 using census data collected as of December 2008 and health care claims costs for calendar year 2008. The valuation measurements result, in part, from estimates of the value of reported amounts and assumptions about the probability of events far into the future and such actuarially determined estimates are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Also, the valuation measurements are based, in part, on the types of benefits provided under the terms of the substantive plan at the time of the valuation and on the pattern of sharing of costs between the Commonwealth and its employing agencies and the plan members through July 1, 2008. Inherently, the projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial measurements were made using a long-term perspective and, consistent with that perspective, the different actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in both actuarial accrued liabilities and the actuarial value of assets.

Specific actuarial assumptions for the REHP and RPSPP:

Actuarial cost method:	Projected Unit Credit
Method used to determine actuarial value of assets:	Fair Value
Investment returns:	5.0 percent

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Healthcare cost trend increases:	<u>Initial Rate</u>		<u>Ultimate Rate</u>	
	REHP	RPSPP	REHP	RPSPP
Medicare-Retiree				
Medical Benefits (REHP)	20.7	--	4.75	--
Non-Medicare Retiree				
Medical Benefits (REHP)	10.0	--	4.75	--
Medical Benefits (RPSPP)	--	10.0	--	4.75
Pharmacy Benefits	7.0	7.0	4.75	4.75
Dental Benefits (RPSPP)	--	6.0	--	4.75
Part B Premiums	--	--	4.75	4.75

Amortization method:	Level percent of payroll
Amortization period:	30 years, using fresh start each year

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

Discretely Presented Component Units

Each discretely presently component unit with employees participates in the Commonwealth’s REHP except for the Pennsylvania Turnpike Commission (PTC) and the Pennsylvania Housing Finance Agency, which have both established and sponsor their own, separate OPEB plans. The State System of Higher Education (SSHE), another discretely presented component unit, participates in the REHP, for certain employees, as well as its own, separate SSHE OPEB plan. All separate, non-REHP plans, have been established under pertinent statutory authority. All benefit provisions and contributions are established by the plan sponsors. Net OPEB obligations (assets) are reported at June 30, 2010 (May 31, 2009 for the PTC) as follows:

<u>As of and for the fiscal year ended</u> <u>June 30, 2010</u>	<u>PA Turnpike</u> <u>Commission</u>	<u>PA Housing</u> <u>Finance Agency</u>	<u>State System of</u> <u>Higher Education</u>	<u>Total</u>
Annual required contributions.....	\$28.044	\$4.318	\$92.989	\$125.351
Interest on net OPEB obligation.....	1.100	0.255	31.475	32.830
Adjustment to annual required contribution....	0.045	-0.348	-32.693	-32.996
Annual OPEB cost (expense).....	<u>29.189</u>	<u>4.225</u>	<u>91.771</u>	<u>125.185</u>
Qualifying contributions.....	<u>-28.677</u>	<u>-0.488</u>	<u>-31.830</u>	<u>-60.995</u>
Increase in net OPEB obligation/(asset).....	0.512	3.737	59.941	64.190
Net OPEB obligation/(asset), July 1, 2009.....	<u>-2.276</u>	<u>5.949</u>	<u>662.633</u>	<u>666.306</u>
Net OPEB obligation/(asset), June 30, 2010.....	<u><u>-\$1.764</u></u>	<u><u>\$9.686</u></u>	<u><u>\$722.574</u></u>	<u><u>\$730.496</u></u>

(amounts in millions)

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

As of and for the fiscal year ended June 30, 2010	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio (assets as % of AAL)	Estimated Covered Payroll	UAAL as a Percentage of Covered Payroll
State System of Higher Education.....	-	\$1,127.437	\$1,127.437	-	\$525.684	214.5
PA Turnpike Commission (May 31, 2010).	\$66.436	263.398	196.962	25.223	123.754	159.2
PA Housing Finance Agency.....	-	36.652	36.652	-	15.320	239.2

(\$ amounts in millions)

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

**NOTE J - SHORT-TERM DEBT, DEMAND REVENUE BONDS PAYABLE,
NOTES PAYABLE AND OTHER FINANCING OBLIGATIONS**

Primary Government

During the fiscal year ended June 30, 2010: 1) the **General Fund** borrowed \$650 million from the **Motor License Fund** in October 2009 and 2) the Commonwealth issued \$800 million of tax anticipation notes in December 2009 to provide cash to the General Fund to permit disbursements in accordance with statutory payment dates and to allow the timely payment of payrolls, vendor invoices and other **General Fund** disbursements in advance of the receipt of general revenues to the **General Fund**. The **General Fund** repaid the **Motor License Fund** on April 14, 2010 and the tax anticipation notes were retired on June 30, 2010. At June 30, 2010 and 2009, no short-term debt was outstanding. During October 2010 the Commonwealth issued \$1 billion of tax anticipation notes; these notes must be repaid on June 30, 2011.

	Balance July 1, 2009 (in millions)	Additions	Reductions	Balance June 30, 2010
TANS – principal and interest	\$ 0	\$ 804	\$ 804	\$ 0
Loan from Motor License Fund	0	650	650	0
Total	\$ 0	\$ 1454	\$ 1454	\$ 0

Discretely Presented Component Units

The Pennsylvania Higher Education Assistance Agency (PHEAA), a discretely presented component unit, has reported \$6,693,560 of demand revenue and auction rate security bonds payable, \$3,045,640 of notes payable (consisting of student loan financings of \$144,000, student loan floating rate notes of \$1,590,836 and student loan variable rate notes of \$1,310,804), and \$224,098 of other obligations (consisting of capital financings of \$125,665, term financings of \$72,874 and lines of credit of \$26,000, net of unamortized discount of \$441) at June 30, 2010 as follows (amounts in thousands):

**NOTE J – SHORT-TERM DEBT, DEMAND REVENUE BONDS PAYABLE,
NOTES PAYABLE AND OTHER FINANCING OBLIGATIONS (continued)**

	Balance <u>June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2010</u>
Bonds payable:				
Student loan demand revenue bonds, due 2016-2033, at weighted-average rates of zero as of June 30, 2010 and 3.76 percent as of June 30, 2009.....	\$ 1,170,800	\$ -	\$ 1,170,800	\$ -
Less: deferred amount on current refunding of student loan demand revenue bonds.....	6,581	-	6,581	-
Subtotal.....	<u>\$ 1,164,219</u>	<u>\$ -</u>	<u>\$ 1,164,219</u>	<u>\$ -</u>
Student loan auction rate security bonds, due 2022-2047, at weighted-average rates of 1.28 percent as of June 30, 2010 and 1.16 percent as of June 30, 2009.....	\$ 7,395,950	\$ -	\$ 700,050	\$ 6,695,900
Less: deferred amount on current refunding of student loan auction rate security bonds.....	2,544	-	204	2,340
Subtotal.....	<u>\$ 7,393,406</u>	<u>\$ -</u>	<u>\$ 699,846</u>	<u>\$ 6,693,560</u>
Total demand revenue and auction rate security bonds payable.....	<u>\$ 8,557,625</u>	<u>\$ -</u>	<u>\$ 1,864,065</u>	<u>\$ 6,693,560</u>
Notes payable:				
Student loan variable rate funding notes, due 2014- 2015, at an estimated weighted-average rate of 0.63 percent as of June 30, 2010 and 0.74 percent as of June 30, 2009.....	\$ 799,960	\$ 619,355	\$ 102,830	\$ 1,316,485
Less: deferred amount on current refunding of student loan variable rate funding notes.....	-	6,421	740	5,681
Subtotal.....	<u>\$ 799,960</u>	<u>\$ 612,934</u>	<u>\$ 102,090</u>	<u>\$ 1,310,804</u>
Student loan floating rate notes, due 2016-2038 at weighted average rates of .062 percent as of June 30, 2010 and 1.21 percent as of June 30, 2009.....	\$ 1,277,949	\$ 457,600	\$ 140,017	\$ 1,595,532
Less: deferred amount on current refundings of student loan floating rate notes.....	-	5,006	310	4,696
Subtotal.....	<u>\$ 1,277,949</u>	<u>\$ 452,594</u>	<u>\$ 139,707</u>	<u>\$ 1,590,836</u>
Student loan financings, due on demand at weighted-average rates of 1.07 percent as of June 30, 2010 and 1.08 percent as of June 30, 2009	\$ 726,019	\$ -	\$ 582,019	\$ 144,000
Total notes payable.....	<u>\$ 2,803,928</u>	<u>\$ 1,065,528</u>	<u>\$ 823,816</u>	<u>\$ 3,045,640</u>
Capital and other financing obligations:				
Capital acquisition bonds, due 2010 at weighted- average rates of 6.25 percent as of June 30, 2010 and 5.29 percent as of June 30, 2009.....	\$ 76,286	\$ -	\$ 15,166	\$ 61,120
Capital acquisition refunding bonds, due 2010-2030, at weighted-average rates of 5.09 percent as of June 30, 2010 and 2009.....	66,410	-	1,865	64,545
Term financing, due 2029-2030, at zero percent interest as of June 30, 2010.....	60,680	26,174	13,980	72,874
Line of credit, due 2010, at weighted-average rates of 2.76 percent as of June 30, 2010 and 2.82 percent as of June, 2009.....	72,000	-	46,000	26,000
Subtotal.....	<u>\$ 275,376</u>	<u>\$ 26,174</u>	<u>\$ 77,011</u>	<u>\$ 224,539</u>
Less: unamortized discount.....	521	-	80	441
Total capital and other financing obligations.....	<u>\$ 274,855</u>	<u>\$ 26,174</u>	<u>\$ 76,931</u>	<u>\$ 224,098</u>

NOTE J – SHORT-TERM DEBT, DEMAND REVENUE BONDS PAYABLE, NOTES PAYABLE AND OTHER FINANCING OBLIGATIONS (continued)

The note and bond indentures, among other things, require the PHEAA to comply with various covenants. Student loans and investments collateralize all student loan financings, student loan floating rate notes, and student loan demand revenue bonds and auction rate notes. As of June 30, 2010, \$9.7 billion of student loan principal and related interest receivable and \$297.6 million of cash equivalents and related interest receivable collateralized the \$10.0 billion of student loan financings and notes and bond payable.

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

Debt service requirements subsequent to June 30, 2010, based upon stated maturities for demand bonds and estimated interest rates for variable-rate debt after considering terms renegotiated after June 30, 2010 are as follows (amounts in thousands):

Year of Maturity	Student Loan Bonds and Notes		Other Financing Obligations	
	Principal	Interest	Principal	Interest
2011.....	\$ 144,000	\$ 103,919	\$ 89,055	\$ 7,823
2012.....	-	103,792	1,965	5,340
2013.....	-	103,792	2,040	3,133
2014.....	730,210	103,767	2,125	3,031
2015.....	586,274	97,466	2,220	2,924
2016-20.....	113,428	476,643	12,709	12,858
2021-25.....	423,390	468,817	16,160	9,368
2026-30.....	557,559	454,903	93,500	4,922
2031-35.....	-	428,991	4,765	459
2036-40.....	1,348,456	409,284	-	-
2041-45.....	2,131,850	289,499	-	-
2046-50.....	3,716,750	40,561	-	-
Total.....	\$ 9,751,917	\$ 3,081,434	\$ 224,539	\$ 49,858
Reported as:				
Demand revenue/auction rate security bonds payable...	\$ 6,693,560		\$ -	
Add: Deferred amount on current refundings.....	2,340		-	
Total principal owed on demand revenue/ auction rate security bonds payable.....	6,695,900		-	
Notes payable - current.....	144,000		-	
Notes payable - non-current.....	2,901,640		-	
Add: Deferred amount on current refundings.....	10,377		-	
Other financing obligations, current.....	-		89,055	
Other financing obligations, non-current.....	-		135,043	
Add: Unamortized discount.....	-		441	
Total principal	\$ 9,751,917		\$ 224,539	

The PHEAA has \$9.7 billion of the \$10.0 billion of student loan notes, bonds and financings that are variable-rate debt, of which \$6.0 billion resets based upon auctions every 28 days, \$711.0 million resets based upon auctions every 35 days, \$1.7 billion is indexed to the 1-month or 3-month LIBOR, \$22.0 million is indexed to 3-month financial commercial paper and \$1.3 billion is conduit financing. PHEAA notes and bonds payable, as well as all other debt, are limited obligations of the PHEAA payable only from related pledged assets.

In addition to the PHEAA’s reported current notes payable of \$144,000 at June 30, 2010, the Philadelphia Regional Port Authority (PRPA) reported current notes payable of \$182. Also, in addition to the PHEAA’s reported non-current notes payable of \$2,901,640 at June 30, 2010, component unit organizations of the State System of Higher Education reported non-current notes payable of \$254,476; the Philadelphia Shipyard Development Corporation (PSDC) reported non-current notes payable of \$18,704 (at its December 31, 2009 year end); and the PRPA reported non-current notes payable of \$581. Total reported notes payable, current and non-current, for all discretely presented component units totaled \$144,182 and \$3,175,401, respectively, at June 30, 2010 (December 31, 2009 for the PSDC) (amounts in thousands).

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

Long-term obligations of the Commonwealth’s governmental activities at June 30, 2010 and changes therein during the fiscal year ended June 30, 2010 are as follows (amounts in thousands):

GENERAL LONG-TERM OBLIGATIONS	Issue Dates	Interest Rates	Maturity Dates Through	Bonds Authorized But Unissued	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010
General Obligation Bonds Payable From Tax Revenues:								
Capital Facilities.....	1992-10	2.00-5.45%	2030	\$74,134,406	\$ 5,096,890	\$1,655,000	\$ 970,830	\$ 5,781,060
Disaster Relief.....	2001	5.00%	2011	105,908	3,175	-	3,020	155
Land and Water Development.....	1992	6.25%	2012	300	900	-	205	695
Nursing Home Loan Development.....	-	-	-	31,000	-	-	-	-
Volunteer Companies Loan.....	1992	6.25%	2012	50,000	295	-	70	225
Vietnam Conflict Veterans Compensation.....								
Water Facilities Loan.....	1992	6.25%	2012	11,500	6,555	-	1,495	5,060
Pennsylvania Economic Revitalization.....	1992	6.25%	2012	14,000	1,790	-	410	1,380
Pennsylvania Infrastructure Investment Authority.....								
Agricultural Conservation Easement Purchase.....	1992	6.25%	2012	-	2,380	-	545	1,835
Local Criminal Justice.....	2000-08	4.00-5.25%	2028	3,000	4,990	-	955	4,035
Water Supply and Wastewater Treatment.....								
Growing Greener.....	2005-10	2.00-5.60%	2030	140,500	367,370	100,000	56,990	410,380
Persian Gulf Conflict Veterans Compensation.....								
Refunding Bonds.....	2002-09	2.00-5.50%	2021	-	2,877,680	695,945	255,885	3,317,740
Total principal.....				74,972,614	8,666,760	2,595,945	1,338,130	9,924,575
Unamortized premium on bonds issued..				-	638,978	196,077	46,037	789,018
Unamortized deferred net refunded loss..				-	(155,374)	(83,805)	(24,380)	(214,799)
Total general obligation bonds payable..				74,972,614	9,150,364	2,708,217	1,359,787	10,498,794
Other General Long-Term Obligations Payable From Tax and Other Revenues:								
Installment Purchase Obligations.....	-	-	-	-	6,480	307	1,455	5,332
Capital Lease Obligations.....	-	-	-	-	30,250	-	3,624	26,626
Self-Insurance—Note M *.....	-	-	-	-	760,107	674,599	551,562	883,144
Compensated Absences *.....	-	-	-	-	757,627	489,870	478,432	769,065
Pollution Remediation Obligations	-	-	-	-	274,103	20,872	29,293	265,682
Other	-	-	-	-	1,224,997	273,975	174,223	1,324,749
Subtotal.....				-	3,053,564	1,459,623	1,238,589	3,274,598
TOTAL GENERAL LONG-TERM OBLIGATIONS.....				\$74,972,614	\$12,203,928	\$4,167,840	\$2,598,376	\$ 13,773,392

*The reported current liability portion of: self-insurance is \$148,555; compensated absences is \$128,019; pollution remediation is \$12,193 and Other liabilities is \$173,128 (amounts in thousands).

Total principal ‘Additions’ above, amounting to \$2,595,945, are equal to Bonds Issued of \$1,900,000 (less \$401 reported in the Capital Facilities Fund which represents the refunding cost of issue amounts from the 2nd Refunding Series of 2009) and Refunding Bonds Issued of \$695,945 reported in the Governmental Funds ‘Statement of Revenues, Expenditures, and Changes in Fund Balances’ for the fiscal year ended June 30, 2010 (amounts in thousands).

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

Revenue bond obligations of discretely presented component units at June 30, 2010 (May 31, 2010 for the Pennsylvania Turnpike Commission (PTC)) and changes during the fiscal year then ended are as follows (amounts in thousands):

<u>REVENUE BONDS PAYABLE</u>	<u>Issue</u>	<u>Interest</u>	<u>Maturity</u>	<u>Bonds</u>	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
	<u>Dates</u>	<u>Rates</u>	<u>Dates</u>	<u>Authorized</u>	<u>July 1, 2009</u>			<u>June 30, 2010</u>
Philadelphia Regional Port Authority.....	2008	3.00-5.00	2021		\$ 41,965	\$ -	\$ 2,745	\$ 39,220
Pennsylvania Housing Finance Agency.....	1995-10	various	2040		4,257,824	1,773,180	1,197,619	4,833,385
Pennsylvania Industrial Development Authority.....	2002-08	4.00-5.50	2024		385,895	-	22,500	363,395
Pennsylvania Turnpike Commission.....	2001-10	various	2041		4,772,335	2,956,336	1,298,700	6,429,971
Commonwealth Financing Authority.....	2005-10	0.93-6.40	2039		798,100	542,000	26,645	1,313,455
Pennsylvania Infrastructure Investment Authority.....	1998-05	4.25-5.00	2014		35,285	-	12,165	23,120
Total principal obligations.....					10,291,404	5,271,516	2,560,374	13,002,546
Less: Bond discounts.....	-	-	-	-	(15,323)	(3,612)	(1,633)	(17,302)
Add: Bond premiums.....	-	-	-	-	73,831	39,869	5,611	108,089
Less: Deferred net refunded loss.....	-	-	-	-	(91,006)	(70,759)	(24,203)	(137,562)
TOTAL					\$ 10,258,906	\$ 5,237,014	\$ 2,540,149	\$ 12,955,771

Additionally, the Port of Pittsburgh Commission and component unit organizations of the State System of Higher Education reported non-current revenue bonds payable of \$2,000 and \$676,627, respectively, at June 30, 2010 for total revenue bonds payable for all discretely presented component units of \$13,634,398. Total reported current and non-current revenue bonds payable were \$746,774 and \$12,887,624, respectively, at June 30, 2010 (May 31, 2010 for the PTC) (amounts in thousands).

Primary Government

The Commonwealth has pledged its full faith and credit for the payment of principal and interest on its general obligation bonds. The **General Fund**, the **Motor License Fund** and the PA Gaming Economic Development and Tourism Fund transferred amounts to Debt Service funds for general obligation bond principal and interest payments. During the fiscal year ended June 30, 2010 these three funds transferred \$906,669, \$49,321 and \$34,701, respectively, to the Capital Debt Fund, which reported \$971,971 (nearly 94 percent) of total Debt Service funds principal and interest expenditures of \$1,031,978 (amounts in thousands). Typically, except for Catastrophic Loss Benefits Claims, which are funded by motorist violation fines, general long-term obligations other than general obligation bonds are mostly funded by the **General Fund** and/or the **Motor License Fund**. In specific, limited instances, a variety of individual funds will fund some obligations; such instances include capital assets being procured using long-term vendor or other financing; Commonwealth employees earning compensated absences; or self-insurance claims originating.

The total "Additions" of \$2,708,217 for General Obligation Bonds Payable at June 30, 2010 consists of total bond and refunding bond proceeds of \$1,995,777 and \$796,245, respectively, for Governmental Funds (including premium of \$196,077) less deferred net refunded losses of \$83,805 during the fiscal year ended June 30, 2010.

The total "Reductions" of \$1,359,787 for General Obligation Bonds Payable at June 30, 2010 consists of total principal repayments of \$1,338,130, plus \$46,037 of bond premium that was amortized and credited to bond interest expense in the Statement of Activities (unamortized premium in the Statement of Net Assets at June 30, 2010 is \$789,019), less \$24,380 of deferred net refunded loss that was amortized and charged to bond interest expense in the Statement of Activities (unamortized deferred net refunded loss in the Statement of Net Assets at June 30, 2010 is \$214,799) (amounts in thousands):

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

	<u>Additions</u>	<u>Reductions</u>
Bonds/refunding bonds issued.....	\$ 2,595,945	\$ 1,338,130
Net principal accretion.....	-	-
Total principal.....	2,595,945	1,338,130
Unamortized premium on bond/refunding bond issued.....	196,077	46,037
Unamortized deferred net refunded loss.....	(83,805)	(24,380)
Changes in general obligation bonds payable.....	<u>\$ 2,708,217</u>	<u>\$ 1,359,787</u>

Pollution remediation obligations generally involve groundwater, surface water and/or soil at or adjacent to former manufacturing/industrial locations. Also, affected landfills have either received specific contaminants and/or are the source of leachate, either on-site or affecting adjacent properties. Typical contaminants include petroleum, chlorinated and/or polycyclic aromatic hydrocarbons; also, priority pollutant and/or target analyte list metals or lead. Financial responsibility is often coordinated between the Commonwealth, the Federal Environmental Protection Agency and, from time to time, either private responsible or potentially responsible parties. Reported obligation amounts do not include instances, or portions of instances, where specific components of a potential remediation effort are not reasonably estimable as of June 30, 2010. The nature of the remediation activities in such instances is often site assessment, investigation or feasibility studies. Remediation efforts are typically funded through the Hazardous Sites Cleanup Fund or the **Motor License Fund**, both special revenue funds.

Included in "Other" for Other General Long-Term Obligations payable from workers' compensation insurance carrier assessments, **General Fund**, **Motor License Fund**, Hazardous Sites Cleanup Fund and/or other governmental Fund tax revenues, investment income and escheated property are the following at June 30, 2010 (amounts in thousands):

Workers' Compensation Security Trust Claims.....	\$ 407,308
Catastrophic Loss Benefits Claims.....	92,610
Public Utility Realty Tax Act (PURTA).....	27,176
Litigation--Note N.....	14,650
State Insurance Fund Claims.....	8,046
Foster Care Litigation - Note N.....	219,000
Restricted Receipts.....	2,434
Escheats liability.....	553,525
Total.....	<u>\$ 1,324,749</u>

The Workers' Compensation Security Trust Fund provides for payment of valid claims under the Workers' Compensation Law to individuals whose employers are insured by insolvent insurance carriers. The Catastrophic Loss Benefits Continuation Fund provides specific benefits to qualifying claimants who sustained severe injuries in motor vehicle accidents. The PURTA provides for a tax on utility realty property whereby amounts received during the fiscal year are used as a **General Fund** revenue source. The Act also provides for payment of a majority of the PURTA revenues as a distribution to local taxing authorities during the following fiscal year (normally in October). Such payments are appropriated for expenditure in the following fiscal year and are, therefore, not expendable during the fiscal year the related revenue is received. Escheated property is held in perpetuity for the rightful owner. This property may be claimed at any time without the appropriation process. None of the 'Other' amounts included in General Long-Term Obligations at June 30, 2010 are payable with currently expendable available financial resources.

The Commonwealth's constitutional debt limit, which allows for the incurrence of debt to be used for capital projects without electorate approval as specifically itemized in a capital budget, was \$57.1 billion as of August 31, 2010, with net debt outstanding of \$8.55 billion.

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

Discretely Presented Component Units

The Pennsylvania Housing Finance Agency (PHFA), the Pennsylvania 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 at June 30, 2010 (May 31, 2010 for the PTC) include unamortized bond discount, unamortized bond premium, and deferred net refunded losses of \$17.3 million, \$108.1 million, and \$137.6 million, respectively.

The following tables present annual principal and interest payments for long-term debt outstanding for the primary government and discretely presented component units at June 30, 2010 (May 31, 2010 for the Pennsylvania Turnpike Commission) (amounts in thousands):

Primary Government

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016-20</u>	<u>2021-25</u>
GENERAL OBLIGATION BONDS:							
Capital Facilities.....	\$ 659,213	\$ 623,149	\$ 567,896	\$ 533,877	\$ 473,801	\$ 2,041,035	\$ 2,307,813
Disaster Relief.....	163	-	-	-	-	-	-
Land and Water Development.....	256	253	253	-	-	-	-
Nursing Home Loan Development.....	-	-	-	-	-	-	-
Volunteer Companies Loan.....	82	82	83	-	-	-	-
Vietnam Conflict Veterans Compensation.....	-	-	-	-	-	-	-
Water Facilities Loan.....	1,852	1,850	1,845	-	-	-	-
Pennsylvania Economic Revitalization.....	503	505	505	-	-	-	-
Pennsylvania Infrastructure Investment Authority.....	19,642	19,667	19,609	17,633	17,579	74,242	116,586
Agricultural Conservation Easement Purchase.....	672	670	670	-	-	-	-
Local Criminal Justice.....	522	421	370	364	238	1,594	1,723
Water Supply and Wastewater Treatment.....	13,920	13,913	13,905	13,909	13,916	57,465	69,300
Growing Greener.....	37,169	36,885	36,795	36,694	36,625	156,103	174,203
Persian Gulf Conflict Veterans.....	500	499	498	506	503	2,187	2,443
Refunding Bonds.....	440,767	449,636	464,458	426,176	401,038	1,704,835	359,735
Total Principal and Interest.....	1,175,261	1,147,530	1,106,887	1,029,159	943,700	4,037,461	3,031,803
Less: Interest Payments.....	476,420	439,668	409,528	398,686	524,031	1,088,068	663,949
Total General Obligation Bonds.....	698,841	707,862	697,359	630,473	419,669	2,949,393	2,367,854
Other General Long-Term Obligations.....	461,895	171,039	170,900	181,591	191,608	920,507	625,991
TOTAL GENERAL LONG-TERM OBLIGATIONS	\$ 1,160,736	\$ 878,901	\$ 868,259	\$ 812,064	\$ 611,277	\$ 3,869,900	\$ 2,993,845

The portion of Total General Long-Term Obligations principal due by June 30, 2011 amounts to \$1,160,736 (in thousands).

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

Primary Government (continued)

	<u>2026-30</u>	<u>Total</u>
GENERAL OBLIGATION BONDS:		
Capital Facilities.....	\$ 1,397,549	\$ 8,604,333
Disaster Relief.....	-	163
Land and Water Development.....	-	762
Nursing Home Loan Development.....	-	-
Volunteer Companies Loan.....	-	247
Vietnam Conflict Veterans Compensation.....	-	-
Water Facilities Loan.....	-	5,547
Pennsylvania Economic Revitalization.....	-	1,513
Pennsylvania Infrastructure Investment Authority.....	97,238	382,196
Agricultural Conservation Easement Purchase.....	-	2,012
Local Criminal Justice.....	528	5,760
Water Supply and Wastewater Treatment.....	38,345	234,673
Growing Greener.....	107,312	621,786
Persian Gulf Conflict Veterans.....	1,721	8,857
Refunding Bonds.....	-	<u>4,246,645</u>
Total Principal and Interest.....	1,642,693	14,114,494
Less: Interest Payments.....	<u>189,569</u>	<u>4,189,919</u>
Total General Obligation Bonds.....	1,453,124	9,924,575
Other General Long-Term Obligations.....	<u>551,067</u>	<u>3,274,598</u>
TOTAL GENERAL LONG-TERM OBLIGATIONS.....	<u>\$ 2,004,191</u>	<u>\$ 13,199,173</u>

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

DISCRETELY PRESENTED COMPONENT UNITS

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016-20</u>	<u>2021-25</u>
Philadelphia Regional Port Authority..	\$ 4,609	\$ 4,604	\$ 4,604	\$ 4,604	\$ 4,608	\$ 25,014	\$ 4,607
Pennsylvania Housing Finance Agency	651,958	245,543	240,809	226,973	238,379	1,298,640	1,197,142
Pennsylvania Industrial Development Authority.....	42,396	39,318	38,304	39,156	40,418	180,798	129,433
Pennsylvania Turnpike Commission....	407,524	681,505	376,415	414,760	398,663	1,809,247	1,915,676
Commonwealth Financing Authority...	105,321	105,311	114,528	114,422	114,295	569,115	563,738
Pennsylvania Infrastructure Investment Authority.....	9,991	7,054	3,913	2,419	1,608	-	-
Total Principal and Interest.....	<u>1,221,799</u>	<u>1,083,335</u>	<u>778,573</u>	<u>802,334</u>	<u>797,971</u>	<u>3,882,814</u>	<u>3,810,596</u>
Less: Interest Payments.....	<u>475,025</u>	<u>460,190</u>	<u>449,844</u>	<u>438,577</u>	<u>425,694</u>	<u>1,994,850</u>	<u>1,655,299</u>
TOTAL PRINCIPAL OBLIGATIONS.....	<u>\$ 746,774</u>	<u>\$ 623,145</u>	<u>\$ 328,729</u>	<u>\$ 363,757</u>	<u>\$ 372,277</u>	<u>\$ 1,887,964</u>	<u>\$ 2,155,297</u>
	<u>2026-30</u>	<u>2031-35</u>	<u>2036-40</u>	<u>2041-45</u>	<u>Total</u>		
Philadelphia Regional Port Authority..	\$ -	\$ -	\$ -	\$ -	\$ 52,650		
Pennsylvania Housing Finance Agency	1,214,872	1,021,157	526,230	6,986	6,868,689		
Pennsylvania Industrial Development Authority.....	-	-	-	-	509,823		
Pennsylvania Turnpike Commission....	1,728,828	1,881,729	1,705,563	350,804	11,670,714		
Commonwealth Financing Authority...	303,526	212,716	102,187	-	2,305,159		
Pennsylvania Infrastructure Investment Authority.....	-	-	-	-	24,985		
Total Principal and Interest.....	<u>3,247,226</u>	<u>3,115,602</u>	<u>2,333,980</u>	<u>357,790</u>	<u>21,432,020</u>		
Less: Interest Payments.....	<u>1,215,861</u>	<u>903,335</u>	<u>388,369</u>	<u>22,430</u>	<u>8,429,474</u>		
TOTAL PRINCIPAL OBLIGATIONS.....	<u>\$2,031,365</u>	<u>\$ 2,212,267</u>	<u>\$ 1,945,611</u>	<u>\$ 335,360</u>	<u>\$ 13,002,546</u>		

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, 2010 (amounts in thousands):

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

	<u>Primary Government</u>		<u>Discretely Presented</u>
	<u>Capital Lease Obligations</u>	<u>Installment Purchase Obligations</u>	<u>Component Unit State System of Higher Education Bonds Payable</u>
Fiscal Year Ending June 30			
2011.....	\$ 6,378	\$ 1,490	\$ 78,160
2012.....	6,276	1,278	73,479
2013.....	6,206	1,198	73,419
2014.....	6,188	980	78,012
2015.....	6,178	517	82,315
2016-20.....	6,178	698	395,447
2021-25.....	-	-	268,924
2026-30.....	-	-	98,362
2031-35.....	-	-	48,661
2036-40.....	-	-	11,546
Total minimum lease payments.....	<u>37,404</u>	<u>6,161</u>	<u>1,208,325</u>
Less: amount representing estimated executory cost included in minimum lease payments.....	<u>4,861</u>	<u>-</u>	<u>-</u>
Net minimum lease payments and installment purchases.....	<u>32,543</u>	<u>6,161</u>	<u>1,208,325</u>
Less: amount representing interest.....	<u>5,917</u>	<u>829</u>	<u>382,975</u>
Total Capital Lease and Installment Purchase Obligations.....	<u>\$ 26,626</u>	<u>\$ 5,332</u>	<u>\$ 825,350</u>

At June 30, 2010 general capital assets included \$89.7 million of buildings and \$7.3 million of equipment being procured by capital leases. A total of \$17.6 million in general capital assets is being procured by vendor-financed installment purchase arrangements.

Capital lease obligations outstanding as of June 30, 2010 reported by the State System of Higher Education (SSHE), a discretely presented component unit as bonds payable, relate to various capital projects currently under construction for which a related public financing authority is the lessor. Revenue bonds were issued by the public financing authority to provide funding for these capital projects. SSHE capital assets include \$160 million of construction in progress related to capital leases at June 30, 2010.

In addition, the PA Higher Education Assistance Agency (PHEAA) reported a capital lease obligation of \$4.5 million at June 30, 2010. Further, the State System of Higher Education, along with its component unit organizations, reported total capital lease obligations of \$66.3 million at June 30, 2010.

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, 2010 the SPSBA had \$2.35 billion of debt outstanding. Neither the SPSBA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are reported in the accompanying financial statements.

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

The Pennsylvania Higher Educational Facilities Authority (PHEFA), a discretely presented component unit, finances projects through the issuance of tax-exempt instruments (bonds, notes or other obligations) to provide a source of tax-exempt financing for colleges and universities. The debt instruments issued by the PHEFA represent limited obligations payable solely from payments made by the related borrowing institutions and related assets held by the trustees. At June 30, 2010 the PHEFA had \$6.1 billion of debt outstanding. Neither the PHEFA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are reported in the accompanying financial statements.

The Pennsylvania Housing Finance Agency (PHFA), a discretely presented component unit, is financing a portion of housing projects through the issuance of limited obligation or special limited obligation bonds to provide more affordable housing in the Commonwealth. These bonds are secured solely by the specific housing properties and related revenues or by appropriations to be paid by the U.S. Department of Housing and Urban Development. At June 30, 2010 the PHFA had \$106 million of such bonds outstanding. Neither the PHFA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds payable are reported in the accompanying financial statements.

The Pittsburgh Port Commission (PPC), a discretely presented component unit, is financing an economic development project in its port district through the issuance of tax-exempt bonds for the purpose of making lower cost tax-exempt financing available to the enterprise engaging in the development project. The tax exempt bonds issued by the PPC represent limited obligations and are payable solely from lease payments made by the enterprise and related assets held by trustees. At June 30, 2010, the Commission had \$30.6 million of such bonds outstanding. Neither the PPC nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds payable are reported in the accompanying financial statements.

The Pennsylvania Economic Development Financing Authority (PEDFA) finances projects on behalf of local industrial and commercial development authorities to promote economic growth within the Commonwealth. Revenue bonds issued by the PEDFA represent limited obligations payable solely from Authority financed project revenues. At June 30, 2010 the PEDFA had \$1.858 billion of debt outstanding. Neither the PEDFA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are reported in the accompanying financial statements.

The Pennsylvania Energy Development Authority (PEDA) finances projects related to energy conservation and research. Fees are assessed to recover related processing and application costs incurred. The bonds issued by the Authority represent limited obligations payable solely from payments made by the borrowing entities. The majority of the bonds are secured by the property financed. Upon repayment of a bond, ownership of acquired property transfers from the trustees to the entity served by the bond issuance. At June 30, 2010 the PEDA had \$25.4 million of revenue bonds outstanding. Neither the PEDA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are reported in the accompanying financial statements.

NOTE L - REFUNDED DEBT**Primary Government**

During the fiscal year ended June 30, 2010, the Commonwealth issued \$696.0 million in general obligation bonds, Second Refunding Series of 2009 with an average interest cost of 4.58 percent to advance refund \$712.1 million of previously issued general obligation bonds with average interest rates of 4.99 percent. The net refunding bond proceeds of \$795.8 million (including bond premium of \$99.9 million), after payment of underwriting fees 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 \$31.5 million and to obtain an economic gain of \$23.8 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, 2010, \$1,662.9 million of general obligation bonds outstanding that were previously accounted for in the Commonwealth's financial statements were defeased through advance refundings.

Discretely Presented Component Units

In October 2009 the PTC issued Oil Franchise Tax Senior Revenue Bonds, Series A of 2009; PTC Oil Franchise Tax Subordinate Revenue Bonds Series D of 2009; and PTC Oil Franchise Tax Subordinate Revenue Bonds Series E of 2009. The 2009 A bonds were issued to refund the Oil Franchise Tax Series 1998A and to provide funds to finance road construction. The D and E bonds were issued primarily to refund the Series B of 1998 and to provide construction funds. The reacquisition price exceeded the net carrying amount of the 1998 A & B bonds by approximately \$1.26 million and will be amortized over the life of the old bonds. These advance refundings resulted in a net present value savings of \$1.7 million for the 1998 A bonds and \$1.1 million for the 1998 B bonds. In December 2009 the PTC issued Turnpike Senior Revenue Refunding Bonds Series B of 2009 and Turnpike Senior Revenue Refunding Bonds Series C of 2009. The Series B bonds were issued to refund Series U of 2001, Series B of 2002 and partially refund Series A of 2002. The reacquisition price exceeded the net carrying value of these bonds by a total of \$11.9 million and will be amortized over the life of the 2001 U and 2002 B and over the life of the new bonds for the 2002 Series A. In December 2009 the PTC issued Turnpike Senior Revenue Refunding Bonds Series C of 2009 to refund Series Q of 1998 and partially refund Series A of 2002. The reacquisition price exceeded the net carrying amount of the 1998 Q bonds by \$447 thousand and 2002 A bonds by \$3.4 million and will be amortized over the life of the new bonds. At May 31, 2010, \$881.6 million of bonds that were previously reported by the Pennsylvania Turnpike Commission have been defeased through refundings.

During the fiscal year ended June 30, 2010, in current refundings, the Pennsylvania Housing Finance Agency (PHFA) redeemed prior to maturity \$215 million of certain Single Family Mortgage Loan Program Bonds (revenue bonds). A deferred loss of \$1 million and an economic loss of \$9 million resulted from the refundings. The PHFA increased its aggregate debt service payment as a result of these transactions by a total of \$19 million over the next 30 years. Also, in early extinguishments, the PHFA redeemed prior to maturity \$89.8 million of certain revenue bonds resulting in current year expense of \$901 thousand during the fiscal year ended June 30, 2010. In prior years, the PHFA defeased Multifamily Residential Development Bonds, Issue H. At June 30, 2010, \$2.7 million of bonds outstanding that were previously reported by the PHFA have been defeased through advance refundings.

In September 2009 the State System of Higher Education issued Series AK bonds totaling \$47.3 million to refund Series R and advance refund the Series S revenue bonds. The refunding was completed to reduce debt service by approximately \$5 million and resulted in an economic gain (the difference between the present values of the old and new debt service payments) of approximately \$4.8 million.

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

NOTE M – SELF-INSURANCE LIABILITIES

The Commonwealth is self-insured for statutory workers’ compensation, which includes indemnity and medical benefits (employee disability), for its employees injured on the job. The Commonwealth is also self-insured for annuitant medical/hospital claims and for tort liability claims. Major tort risks include automobile, employee and general torts. For property losses, the Commonwealth has \$1 million retention with excess commercial insurance coverage up to \$350 million per occurrence (\$500 million, as of September 19, 2010). The Commonwealth is also self-insured for claims against the Department of Transportation (transportation claims). The Commonwealth has established various administrative policies that are intended to avoid or limit the aforementioned risks. Accrued liabilities for statutory workers’ compensation and annuitant medical/hospital claims are established based on reserves computed from the Commonwealth’s claim experience; such claims are not discounted and do not include non-incremental claims adjustment expenses.

There were no reductions in commercial insurance coverage during the fiscal year ended June 30, 2010. No settlements exceeded commercial insurance coverage during any of the past three fiscal years.

Accrued liabilities for tort and transportation claims are established based on reserves computed from the Commonwealth’s claim experience; such claims are not discounted and do not include non-incremental claims adjustment expenses. These liabilities include liabilities for allocated claim adjustment expenditures/expenses and include salvage and subrogation. Salvage and subrogation were not material for the fiscal year ended June 30, 2010. No accrued liability has been reported for property losses under self-insurance.

At June 30, 2010, 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 \$627,666 and \$225,173. Business-type activities liabilities are primarily owed by the **State Lottery Fund** (\$2,833), the **State Workers’ Insurance Fund** (\$2,387) and the **State Stores Fund** (\$28,017), all Enterprise Funds. All accrued self-insurance liabilities at June 30, 2010 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.....	\$ 95,843	\$ 503,186	\$ 5,559	\$ 29,353	\$ 89	\$ 467
Annuitant medical/hospital.	30,712	-	-	-	-	-
Automobile tort.....	3,250	15,809	-	-	-	-
Employee tort.....	5,750	52,981	-	-	-	-
General tort.....	500	35,473	-	-	-	-
Transportation.....	12,500	127,140	-	-	-	-
Totals.....	<u>\$ 148,555</u>	<u>\$ 734,589</u>	<u>\$ 5,559</u>	<u>\$ 29,353</u>	<u>\$ 89</u>	<u>\$ 467</u>

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

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

NOTE M – SELF-INSURANCE LIABILITIES (continued)

The following summary provides aggregated information on June 30, 2008 self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2009; and reported self-insurance liabilities at June 30, 2009 (amounts in thousands):

	June 30, 2008	Incurred Claims		Payments		June 30, 2009
	<u>Liability</u>	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	<u>Liability</u>
Employee disability.....	\$ 459,905	\$ 82,710	\$ 48,387	\$ 11,414	\$ 77,702	\$ 501,886
Annuitant medical/hospital.	42,682	444,591	-	413,240	42,682	31,351
Automobile tort.....	19,821	4,271	(585)	1,182	2,972	19,353
Employee tort.....	55,772	4,606	1,596	259	4,132	57,583
General tort.....	39,169	1,524	(3,961)	47	901	35,784
Transportation.....	146,316	8,944	(6,455)	484	7,063	141,258
Totals.....	<u>\$ 763,665</u>	<u>\$ 546,646</u>	<u>\$ 38,982</u>	<u>\$ 426,626</u>	<u>\$ 135,452</u>	<u>\$ 787,215</u>

NOTE N – COMMITMENTS AND CONTINGENCIES

Construction and Other Commitments: At June 30, 2010, the Department of Transportation (DOT) had contractual commitments of approximately \$2.885 billion, for various DOT highway construction and mass transit projects. Financing for these future expenditures will be primarily from approved Federal grants and general obligation bond proceeds. In addition, the Commonwealth has a variety of contractual and other commitments for future subsidies and purchases of goods and services for approximately \$6.2 billion at June 30, 2010. Actual expenditures are contingent upon approved spending authority and/or availability of financial resources. Also, at May 31, 2010 the Pennsylvania Turnpike Commission, a discretely presented component unit, had open purchase order commitments of \$676 million.

Investment Commitments: At December 31, 2009, the SERS had contractual commitments totaling approximately \$4 billion to fund future alternative investments and \$354 million to fund future real estate investments. At June 30, 2010, the Treasury Commonwealth Investment Program had capital commitments of \$55 million to fund alternative investments, of which \$32.2 million was unfunded. At June 30, 2010, the **Tuition Payment Fund** had capital commitments of \$135 million to fund alternative investments, of which \$108.8 million was unfunded. At June 30, 2010, the **Tobacco Settlement Fund** had capital commitments of \$290.6 million to fund private equity investments, of which \$109.9 million was unfunded.

Loan Commitments: At June 30, 2010, primary government funds had approved \$76.7 million in loans that had not been disbursed. Also at June 30, 2010, the following discretely presented component units had approved loans that had not been disbursed (amounts in millions):

Pennsylvania Housing Finance Agency	\$	97
Pennsylvania Infrastructure Investment Authority.....		393
Commonwealth Financing Authority.....		36
Pennsylvania Industrial Development Authority		59

Operating Lease Commitments: As of June 30, 2010, the Commonwealth has commitments to lease certain buildings and equipment. Future minimum rental commitments for non-cancelable operating leases as of June 30, 2010 were as follows (amounts in thousands):

Fiscal year ending June 30:	<u>Amount</u>
2011.....	\$ 217,667
2012.....	156,432
2013.....	125,411
2014.....	97,956
2015.....	71,859
2016-20.....	218,401
2021-25.....	96,726
2026-30.....	49,567
2031-35.....	<u>23,795</u>
Total Minimum Lease Payments.....	<u>\$ 1,057,814</u>

Rental expenditures/expenses for all operating leases for the fiscal year ended June 30, 2010 amounted to \$304.5 million.

Child Support Payments: At June 30, 2010, the Commonwealth was contingently liable for approximately \$17 million in payments received by a contractor to be used for child support payments.

Litigation: The Commonwealth is a defendant in numerous legal proceedings pertaining to matters normally incidental to routine operations. Such litigation includes, but is not limited to, claims asserted against the Commonwealth arising from alleged torts, alleged breaches of contracts, condemnation proceedings and other alleged violations of Commonwealth and Federal laws. The Commonwealth has reported accrued liabilities at June 30, 2010 with respect to torts as described in Note M for probable losses, and, separately, other General Long-Term Obligations with respect to litigation cases in the amount of \$234 million for which the likelihood of an unfavorable outcome is probable.

NOTE N – COMMITMENTS AND CONTINGENCIES (continued)

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 reported as of June 30, 2010. Unfavorable outcomes for such cases, which the Commonwealth is vigorously contesting, could range from approximately \$92 million to \$1.3 billion for the **General Fund**; \$1 million to \$186 million for the **Motor License Fund**, a Special Revenue Fund; \$0 to \$54 million for the **Tobacco Settlement Fund**, a Special Revenue Fund; and \$.1 million to \$1.1 billion of possible additional liabilities for the State Employees' Retirement System, a fiduciary fund. The range of potential liability for governmental activities was from \$93 million to \$2.6 billion.

Among the **General Fund** cases for which an unfavorable outcome is reasonably possible, the Commonwealth is defendant against petitioner organizations' claims which seek the repayment of funds paid from the Healthcare Providers Retention Account and the Medical Care Availability and Reduction of Error Fund (amounting to \$800 million) to the **General Fund** through October 2009, in accordance with Act 50 of 2009 (Act 50). Plaintiff organizations allege, among other things, that the sections of Act 50 which mandated that the amounts be paid to the **General Fund** are unconstitutional. On April 15, 2010, in a split (4-1) decision, Commonwealth Court ruled in favor of plaintiff organizations and the Commonwealth is, among other things, appealing the Commonwealth Court decision to the Pennsylvania Supreme Court. It is the Commonwealth's best judgment, including that of outside counsel, based on the latest available information to the Commonwealth, that it will ultimately prevail in this matter. The Commonwealth cannot, and does not, assure or guarantee that it will ultimately prevail in this matter.

Federal Grants: The Commonwealth receives significant financial assistance from the Federal government in the form of grants and entitlements, including several non-cash programs (which are not included in the basic financial statements). Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit Act or to financial and compliance audits by the grantor agencies of the Federal government or their designees. Disallowances and sanctions as a result of these audits may become liabilities of the Commonwealth. The Commonwealth is currently involved in administrative and legal proceedings, with certain Federal agencies, contesting various disallowances and sanctions related to Federal Assistance Programs ranging from \$13 million to \$807 million at June 30, 2010. The Commonwealth's management believes ultimate disallowances and sanctions, if any, will not have a material effect on the basic financial statements.

Loan Guarantees: The Pennsylvania Higher Education Assistance Agency (PHEAA), a discretely presented component unit, guarantees loans made by private lenders to certain resident students. Total original principal of outstanding guarantees issued by PHEAA approximated \$49.3 billion at June 30, 2010. Under the Federal Family Education Loan Program, as amended, PHEAA has entered into agreements with the U.S. Department of Education (DOE) for reinsurance of death, disability, bankruptcy, default, school closure and borrower ineligibility claims paid to lenders. Pursuant to these agreements, PHEAA receives reimbursement of claims paid to lenders, provided that PHEAA is in compliance with numerous Federal requirements. Reinsurance rates vary from 75 percent to 100 percent depending upon default rates in the portfolio guaranteed by PHEAA and upon the time period when specific loans were guaranteed by PHEAA. During the fiscal year ended June 30, 2010, PHEAA's default rate was in a range that permitted the maximum reinsurance reimbursement from the DOE.

The Commonwealth Financing Agency (CFA), a discretely presented component unit, through various economic development programs, provided loan guarantees as of June 30, 2010 as follows (amounts in thousands):

First Industries loan guarantees.....	\$	37,797
Tax increment financing guarantees.....		44,912
Second stage loan guarantees		2,910
Venture capital guarantees.....		197,500
Total loan guarantees	\$	283,119

Through June 30, 2010 the CFA has not been required, with respect to any loan guarantees, to make principal or interest payments on behalf of the ultimate borrowers.

NOTE N – COMMITMENTS AND CONTINGENCIES (continued)

Lottery Prizes: The **State Lottery Fund**, an Enterprise Fund, awards a variety of prizes, including immediate, lump-sum cash prizes and certain large prizes, which provide for periodic payments to winners for specific periods of time (in some cases throughout the winners' lifetimes, and to designated beneficiaries). At June 30, 2010, the amount of future payments owed to prizewinners was \$880 million. To satisfy its financial obligation to these prizewinners, the Fund purchases annuity contracts from insurance companies whereby the insurance companies make periodic payments to prizewinners. Generally, in the event of insurance company default, the Fund is liable for the related annuity payments. However, certain prizewinners voluntarily assign their annuity rights to other parties and receive lump-sum payments in return. In the event of insurance company default where annuity rights have been voluntarily assigned by prizewinners, the Fund is not liable for the related annuity payments. At June 30, 2010, prizewinners had voluntarily assigned future payments of \$510 million.

Student Loan Purchase Commitments: At June 30, 2010 the Pennsylvania Higher Education Assistance Agency (PHEAA), a discretely presented component unit, had outstanding commitments to purchase approximately \$91.9 million of student loans that PHEAA has been unable to fund or settle. Most of these commitments are with financial institutions and PHEAA continues to work with these financial institutions to resolve the commitments by renegotiating the terms and timing of the commitments.

Primary Government Commitment for the Commonwealth Financing Authority: According to a contractual arrangement (Service Agreement) among the Department of Community and Economic Development, the Office of the Budget and the Commonwealth Financing Authority (CFA), a discretely presented component unit, the primary government is required to request sufficient annual appropriations from the General Assembly (to be funded by the **General Fund** and the Gaming Fund) to finance the Service Fee established in the Service Agreement. The service fee is the only significant source of funds the CFA has to pay its debt service obligations. The amount of such Service Fee is to be requested by October 1, each year, for the succeeding fiscal year budget effective July 1 of the following year. During the term of the Service Agreement, there can be no assurance that 1) the General Assembly will annually appropriate sufficient amounts to fund the annual Service Fee, or 2) funds will be available to finance such annual appropriations. During the fiscal year ended June 30, 2010 the primary government paid a Service Fee in the amount of \$82 million; also, during the fiscal year the CFA used \$98 million of proceeds from bonds it issued during the fiscal year (amounting to approximately \$542 million) to pay the Department of Environmental Protection (\$85 million) and the Ben Franklin Technology Development Authority (\$13 million), a discretely presented component unit, as prescribed by applicable legislation. Disclosures related to the CFA's revenue bonds payable are provided in Note K to the basic financial statements.

Primary Government Contingent Liability for the Pennsylvania Turnpike Commission Revenue Bonds Payable: In July 2007, Act 44 was signed into law creating a "public-public partnership" between the Pennsylvania Turnpike Commission (Commission) and Pennsylvania Department of Transportation (PennDOT) to provide funding for roads, bridges and transit throughout the Commonwealth. Under Act 44 a 50 year Lease and Funding Agreement (Agreement) was entered into by the Commission and PennDOT. Act 44 requires the Commission to make scheduled annual payment to PennDOT in quarterly installments. In the three years ended June 30, 2010 the Commission transferred \$2.5 billion to PennDOT. Act 44 provides that under certain circumstances payments to PennDOT drop to \$450 million annually for the remaining term of the Agreement. There is currently a dispute between the Commission and PennDOT for fiscal year 2010-11, where the Commission believes the payment should drop from \$900 million in fiscal year 2009-10, to \$450 million and PennDOT has countered that the reduction is not effective until fiscal year 2011-12, with \$922,500,000 payable in fiscal year 2010-11. The Commission has been advised that the Office of the Budget may also assert that the reduced annual payment obligation is not effective until fiscal year 2011-12.

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

Under Act 44, the Commission is authorized to issue Special Revenue Bonds up to an aggregate principal amount of \$5 billion (not to exceed \$600 million per year). In the event the Commission does not make a required deposit for debt service on the Special Revenue Bonds with the bond Trustee, such deposit is to be made from funds available for such purpose on deposit in

NOTE N – COMMITMENTS AND CONTINGENCIES (continued)

the Commonwealth's Motor License Fund (MLF). In order to clarify the requirements of Act 44, PennDOT, Office of the Budget (OB), and the State Treasurer entered into a Memorandum of Agreement (MOA) that went into effect on July 28, 2010. The MOA established a special account in the **MLF** and the State Treasurer agreed to use its best efforts to maintain in such account an amount equal to the maximum annual debt service on outstanding Special Revenue Bonds used to finance a portion of the Commission's Act 44 payments. The account has not been legally pledged to the secure the bonds, but the account is intended to be available to allow the Commonwealth to issue payment in the event that the Commission fails to make its monthly deposit with the bond Trustee and there are no other funds available in the **MLF**. The special account cannot be used for any other purpose unless there are no other funds available for the operations of the **MLF**. If utilized the account must be restored with first available designated **MLF** funds.

NOTE O - CERTAIN AGENCY FUND CLAIMS LIABILITIES

The Pennsylvania Medical Care Availability and Reduction of Error Fund, an Agency Fund, acts as a service agent to facilitate the payment of medical malpractice claims to claimants which exceed basic liability coverage carried by healthcare providers practicing in the Commonwealth. The fund collects statutory healthcare provider surcharges, as a percentage of insurance premiums for basic liability coverage, and collects certain statutory motorist moving vehicle violation assessment surcharges; in turn, the fund pays claimants on behalf of healthcare providers. The fund has assets of \$.16 billion at June 30, 2010. The actuarially computed liability for outstanding claims for injuries caused by alleged negligence by certain healthcare providers totaled \$1.34 billion at June 30, 2010. The claims will be funded exclusively through statutory surcharge assessments in future years as claims are settled and paid.

The Underground Storage Tank Indemnification Fund (the Fund), an Agency Fund, is used to collect fees from underground storage tank owners and operators sufficient to pay owners and operators for costs associated with corrective actions or for bodily injury or property damage caused by underground tank leaks and other releases. Owners and operators are assessed actuarially determined amounts to accumulate sufficient assets to pay claims. The estimated actuarial liability for existing and potential future claims totaled \$2.1 billion at June 30, 2010. 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, 2010. The fund has assets of \$.2 billion at June 30, 2010. Owners and operators will be assessed for any claims exceeding Fund assets and no financial liability is reported for those claims.

NOTE P - DEFERRED COMPENSATION PLAN

The Commonwealth sponsors a deferred compensation plan (the Deferred Compensation Program) for its employees, which is a defined contribution benefit plan, created in accordance with Internal Revenue Code Section 457. The plan, which is administered by the State Employees' Retirement System, permits participants to defer a portion of their salary until future years. Amounts deferred under the plan are not available to employees until termination, retirement, death or unforeseeable emergency. The Commonwealth makes no contributions to the plan; contributions are limited to voluntary, participating employee salary deferrals, and/or employee transfers from other plans.

Of the \$1,818 million in net assets reported in the Deferred Compensation Fund, a Pension Trust Fund, at December 31, 2009, \$1,750 million relates to primary government employees and \$60 million relates to employees of discretely presented component units. The remaining balance of \$8 million relates to organizations not included in the Commonwealth's financial reporting entity.

NOTE Q - JOINT VENTURE

The Commonwealth and various labor unions representing Commonwealth collective bargaining employees participate in a joint venture, the Pennsylvania Employees Benefit Trust Fund (PEBTF). The PEBTF was established through an Agreement, which has been modified from time to time, in 1988. The PEBTF establishes and provides healthcare benefits for active Commonwealth employees and is the Commonwealth's third party administrator for paying retiree healthcare benefits for the Commonwealth Retired Employee Health Program and the Retired Pennsylvania State Police Plan. The Commonwealth has, in its collective bargaining agreements with unions participating in the Agreement, obligated itself to provide certain contributions on behalf of nearly all active collective bargaining employees. The Commonwealth also remits contractually established contributions on behalf of active non-union employees and other active employees covered by contracts between the Commonwealth and other unions. Effective July 1, 2007 nearly all active employees contribute established percentages of their salaries and wages received, constituting an 'employee share,' to finance active employee benefits. During the fiscal year ended June 30, 2010, total employer contributions for active employees amounted to approximately \$884 million; active employee contributions amounted to approximately \$60 million. Neither the Commonwealth nor the unions have an equity interest in the PEBTF.

A memorandum of Agreement between the Commonwealth and the various unions permitted contributions to the PEBTF to be reduced, on a temporary basis, by 20 percent of the applicable employer contribution rate effective with the April 2009 monthly payment and continuing through and including the June 2010 monthly payment. The parties to the Agreement agreed that the deferred contributions would be paid to the PEBTF in fifteen equal monthly installment payments over the period commencing with the December 2010 payment to the PEBTF. Of the total amount deferred through June 30, 2010, the Commonwealth's portion is \$158 million. In November 2010 the Commonwealth began negotiations with Council 13 of the American Federation of State, County and Municipal Employees (AFSCME) to 1) extend the contribution reduction/deferral period beyond June 2010 and 2) delay the December 2010 commencement of Commonwealth repayments to the PEBTF provided in the initial memorandum of Agreement. AFSCME is conducting meetings with its membership about the tentative changes to the memorandum of Agreement.

At June 30, 2010, for the active employees benefit program, the PEBTF reported total assets of over \$491 million, total liabilities of less than \$2.5 million, total benefit obligations of \$79 million, and an excess of net assets over benefit obligations of \$410 million. The financial status of the PEBTF is monitored on a continuing basis; financial stress is not evident. During the fiscal year ended June 30, 2010 the PEBTF reported an increase in net assets over benefit obligations of over \$111 million for the active employees benefit program.

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

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

NOTE R – SUBSEQUENT EVENTS**Debt Issuances**

Subsequent to June 30, 2010 (May 31, 2010 for the Pennsylvania Turnpike Commission)(PTC), the Commonwealth has issued tax anticipation notes and general obligation bonds and several discretely presented component unit organizations have issued other debt or have renegotiated debt repayment terms, as follows:

Primary Government

On October 12, 2010 the Commonwealth issued \$1 billion in Tax Anticipation Notes, First Series of 2010-2011. The notes are payable from and secured by the pledges of revenues to be received in the General Fund during the fiscal year ending June 30, 2011. These obligations are due and payable on June 30, 2011.

On December 23, 2010 the Commonwealth will issue \$650 million of general obligation bonds to finance the following: capital facilities projects including construction and major rehabilitation of public buildings and highway bridges, redevelopment assistance projects, and transportation assistance projects; environmental initiatives related to the Growing Greener program including, but not limited to, open space and farmland preservation, watershed protection, abandoned mine reclamation, and acid mine drainage remediation; loans and grants related to the Pennsylvania Infrastructure Investment Authority, a discretely presented component unit, and Pennworks programs for the improvement of water supply and sewage treatment systems. The bonds will mature serially on July 15 from 2012 to 2030 with interest rates ranging from 0.6 percent to 5.85 percent. The Series B portion of the issue will be designated as federally taxable "Build America Bonds" for the purposes of the American Recovery and Reinvestment Act of 2009. The Commonwealth is entitled to receive a subsidy payment from the U.S. Treasury for each interest payment it makes for the Series B Bonds.

Discretely Presented Component Units

In July 2010 the Pennsylvania Higher Educational Facilities Authority (PHEFA) issued Series AL tax-exempt revenue bonds in the amount of \$135 million. The net proceeds were used to finance various capital projects at certain PA State System of Higher Education (SSHE) Universities and advance refund the Series T revenue bonds. The refunding reduced debt service by approximately \$2.6 million and resulted in an economic gain of approximately \$2.5 million. In connection with the PHEFA bond issuance, the SSHE entered into a loan agreement with the PHEFA under which SSHE pledged its full faith and credit for repayment of the PHEFA bonds.

On July 30, 2010 the Pennsylvania Higher Education Assistance Agency (PHEAA) extended the maturity date on \$144 million of student loan financings to July 31, 2011. On August 16, 2010 the PHEAA paid off the remaining \$26 million of a revolving line of credit prior to maturity.

On October 14, 2010 the Pennsylvania Housing Finance Authority (PHFA) issued \$156 million of Single Family Mortgage Revenue Bonds, Series 107B, converting New Issue Bond Program escrow into long-term fixed rate bonds, leaving approximately \$238 million of escrow available for conversion. The bonds have a maturity date of April 1, 2041. On October 14, 2010 the PHFA issued \$104,000 of Single Family Mortgage Revenue Bonds, Series 109. These are general obligation bonds with a final maturity date of April 1, 2028. These bonds will be primarily secured by program obligations consisting of qualifying single-family mortgage loans purchased from bond proceeds. On October 14, 2010 the PHFA issued \$250 million of Single Family Mortgage Revenue Bonds, Series 110A through 110B with a final maturity date of October 1, 2039. These bonds will be primarily secured by program obligations consisting of qualifying single-family mortgage loans purchased from bond proceeds.

In July, 2010 the Pennsylvania Turnpike Commission (PTC) issued \$209 million of Turnpike Multi-Modal Revenue Refunding Bonds, Series A which will mature on December 1, 2035. These bonds were issued to refund outstanding Multi-Modal Revenue Refunding Bonds, Series A-1, A-2 and A-3 of 2008. In addition, in July 2010, the PTC issued \$273 million of Turnpike Subordinate Revenue Bonds Series B of 2010 consisting of Series B-1 and B-2. The Series B-1 bonds will mature December 1, 2037 and the Series B-2 bonds will mature December 1, 2034. The 2010 B bonds were used to finance the costs of redeeming a portion of the Subordinate Revenue Bond Anticipation Notes, Subseries A-2 of 2010 and also for making payments to the Pennsylvania Department of Transportation (PennDOT) in accordance with Act 44. The PTC also issued \$187 million of Motor

NOTE R – SUBSEQUENT EVENTS (continued)

License Fund-Enhanced Turnpike Subordinate Special Revenue Bonds, Series A of 2010 consisting of Sub-Series A-1 maturing on December 1, 2038, Sub-Series A-2 maturing on December 1, 2034 and Sub-Series A-3 maturing on December 1, 2029. The proceeds were used to redeem a portion of the Subseries A-1 Subordinate Revenue Bond Anticipation Notes and for making payments to PennDOT in accordance with Act 44. In September 2010 the PTC issued \$600 million of Federally Taxable Build America Bonds Series B of 2010. The PTC has designated the bonds as “Build America Bonds” for purposes of the American Recovery and Reinvestment Act of 2009 and has elected to receive a cash subsidy from the United States Treasury equal to 35 percent of the interest payable on the 2010 B bonds. The bonds will mature on December 1, 2049. The proceeds will be used to finance the costs of various capital expenditures set forth in the PTC’s current Ten Year Capital Plan. In October 2010, the PTC issued \$105 million of Motor License Fund-Enhanced Turnpike Subordinate Special Revenue Bonds, Series B of 2010, consisting of series B-1, B-2, and B-3. The bonds will bear interest at fixed rates from 3.95% to 5.125%. Series B-1 matures on December 1, 2040, Series B-2 matures on December 1, 2035 and Series B-3 on December 1, 2025. Series B-2 are Convertible Capital Appreciation Bonds with the interest compounding from delivery date to December 1, 2015. The interest will be added to the principal. Series B-3 are Capital Appreciation Bonds with the interest being compounded from delivery date and added to the principal to be paid at maturity or earlier redemption. Also issued in October were \$139 million of Turnpike Subordinate Revenue Bonds Series C of 2010, consisting of series C-1, C-2 and C-3. The bonds will bear interest at fixed rates from 4.25% to 5.45%. Series C-1 matures on December 1, 2040, Series C-2 matures on December 1, 2035 and Series C-3 on December 1, 2025. Series C-2 are Convertible Capital Appreciation Bonds with the interest compounding from delivery date to December 1, 2015. The interest will be added to the principal. Series C-3 Capital Appreciation Bonds with the interest being compounded from delivery date and added to the principal to be paid at maturity or earlier redemption.

Pension Legislation

Act 120 of 2010, House Bill 2497, (Act 120) was signed into law on November 23, 2010 and is expected to, in comparison to prior law, reduce Commonwealth employer-financed pension contributions to the State Employees’ Retirement System beginning in fiscal year ending June 30, 2013 by establishing collars (limits) on the increase in employer contributions ranging from 3 percent, beginning in fiscal year ending June 30, 2012, to 4.5 percent beginning in fiscal year ending June 30, 2014 and extending to each fiscal year thereafter. Act 120 is expected to delay employer pension contribution rates that were expected to, under prior law, increase significantly beginning in the fiscal year ending June 30, 2013. The following chart provides a comparison of expected employer contribution amounts required by prior law and Act 120, for the five fiscal years ending June 30, 2015 (amounts in millions):

Fiscal year ending June 30	Prior Law	Act 120
2011	\$ 297	\$ 297
2012	491	491
2013	1,692	728
2014	1,915	1,047
2015	1,877	1,386



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

Required Supplementary Information

Commonwealth of Pennsylvania
Schedules of Funding Progress and Employer Contributions
Retired Employees Health Plan (REHP)
Retired Pennsylvania State Police Program (RPSPP)
PA Judiciary
PA House of Representatives
PA Senate
For the Fiscal Year Ended June 30, 2010
(\$ amounts in millions)

Funding Progress:	REHP	RPSPP	PA Judiciary	PA House of Representatives	PA Senate	Total Primary Government
As of and for the fiscal year ended June 30, 2010						
Actuarial Valuation Date.....	July 1, 2008	July 1, 2008	July 1, 2010	July 1, 2008	July 1, 2009	
Actuarial Value of Assets.....	\$ 47.920	\$ 40.570	\$ -	\$ -	\$ -	\$ 88.490
Actuarial Accrued Liability (AAL).....	\$ 13,257.570	\$ 2,104.240	\$ 423.300	\$ 308.459	\$ 210.048	\$ 16,303.617
Unfunded Actuarial Accrued Liability (UAAL).....	\$ 13,209.650	\$ 2,063.670	\$ 423.300	\$ 308.459	\$ 210.048	\$ 16,215.127
Funded Ratio (assets as % of AAL).....	0.361%	1.928%	0.000%	0.000%	0.000%	0.543%
Estimated Annual Covered Payroll.....	\$ 4,093.000	\$ 337.000	\$ 189.600	\$ 102.701	\$ 49.712	\$ 4,772.013
UAAL as a Percentage of Covered Payroll.....	322.7%	612.4%	223.3%	300.3%	422.5%	339.8%
As of and for the fiscal year ended June 30, 2009						
Actuarial Valuation Date.....	July 1, 2008	July 1, 2008	December 31, 2007	July 1, 2008	July 1, 2007	
Actuarial Value of Assets.....	\$ 47.920	\$ 40.570	\$ -	\$ -	\$ -	\$ 88.490
Actuarial Accrued Liability (AAL).....	\$ 13,257.570	\$ 2,104.240	\$ 426.700	\$ 308.459	\$ 252.329	\$ 16,349.298
Unfunded Actuarial Accrued Liability (UAAL).....	\$ 13,209.650	\$ 2,063.670	\$ 426.700	\$ 308.459	\$ 252.329	\$ 16,260.808
Funded Ratio (assets as % of AAL).....	0.361%	1.928%	0.000%	0.000%	0.000%	0.541%
Estimated Annual Covered Payroll.....	\$ 4,093.000	\$ 337.000	\$ 185.300	\$ 102.701	\$ 49.712	\$ 4,767.713
UAAL as a Percentage of Covered Payroll.....	322.7%	612.4%	230.3%	300.3%	507.6%	341.1%
As of and for the fiscal year ended June 30, 2008 (transition year)						
Actuarial Valuation Date.....	July 1, 2007	July 1, 2007	December 31, 2007	July 1, 2007	July 1, 2007	
Actuarial Value of Assets.....	\$ 38.500	\$ 53.300	\$ -	\$ -	\$ -	\$ 91.800
Actuarial Accrued Liability (AAL).....	\$ 7,297.500	\$ 1,833.100	\$ 400.300	\$ 287.500	\$ 230.200	\$ 10,048.600
Unfunded Actuarial Accrued Liability (UAAL).....	\$ 7,259.000	\$ 1,779.800	\$ 400.300	\$ 287.500	\$ 230.200	\$ 9,956.800
Funded Ratio (assets as % of AAL).....	0.528%	2.908%	0.000%	0.000%	0.000%	0.914%
Estimated Annual Covered Payroll.....	\$ 3,863.100	\$ 314.000	\$ 179.600	\$ 102.700	\$ 49.700	\$ 4,509.100
UAAL as a Percentage of Covered Payroll.....	187.91%	566.82%	222.88%	279.94%	463.18%	220.82%
Employer Contributions:						
For the fiscal year ended June 30, 2010						
Annual required contribution.....	\$ 848.530	\$ 151.150	\$ 34.252	\$ 38.231	\$ 16.834	\$ 1,088.997
Percentage contributed.....	60.744%	41.032%	52.639%	26.366%	33.616%	56.127%
For the fiscal year ended June 30, 2009						
Annual required contribution.....	\$ 818.510	\$ 143.350	\$ 38.483	\$ 38.231	\$ 26.206	\$ 1,064.780
Percentage contributed.....	61.766%	38.068%	47.712%	23.374%	19.839%	55.657%
For the fiscal year ended June 30, 2008 (transition year)						
Annual required contribution.....	\$ 590.400	\$ 120.300	\$ 36.400	\$ 35.900	\$ 40.500	\$ 823.500
Percentage contributed.....	100.000%	95.428%	44.505%	23.120%	50.677%	91.102%

Commonwealth of Pennsylvania

Budgetary Comparison Schedule

Budgeted Major Funds

General Fund

For the Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Taxes, net of refunds.....	\$ 24,786,200	\$ 87,997	\$ 24,874,197	\$ (1,089,268)	\$ 23,784,929
Liquor store profits transfer.....	105,000	-	105,000	-	105,000
Licenses and fees.....	317,400	(1,097)	316,303	(32,301)	284,002
Fines, penalties and interest.....	19,500	231	19,731	6,813	26,544
Investment income.....	71,500	(766)	70,734	(60,687)	10,047
Unclaimed property.....	75,300	1,687	76,987	39,221	116,208
Departmental services.....	1,951,615	549,963	2,501,578	-	2,501,578
Miscellaneous.....	2,199,800	(1,706)	2,198,094	(1,662)	2,196,432
TOTAL STATE PROGRAMS.....	29,526,315	636,309	30,162,624	(1,137,884)	29,024,740
Federal Programs.....	24,166,319	37,694	24,204,013	(1,740,061)	22,463,952
TOTAL REVENUES.....	53,692,634	674,003	54,366,637	(2,877,945)	51,488,692
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	1,029,227	(5,333)	1,023,894	(18,246)	1,005,648
Protection of persons and property.....	3,052,495	566,132	3,618,627	(37,464)	3,581,163
Health and human services.....	10,388,317	(11,021)	10,377,296	(98,728)	10,278,568
Public education.....	11,047,485	(2,840)	11,044,645	(28,272)	11,016,373
Recreation and cultural enrichment.....	252,751	220	252,971	(3,512)	249,459
Debt service.....	932,759	(1,715)	931,044	-	931,044
Economic development.....	414,958	(34,652)	380,306	(8,757)	371,549
Transportation.....	10,998	(326)	10,672	(511)	10,161
TOTAL STATE PROGRAMS.....	27,128,990	510,465	27,639,455	(195,490)	27,443,965 (A)
Federal Programs.....	24,166,319	37,694	24,204,013	(1,740,061)	22,463,952 (B)
TOTAL EXPENDITURES.....	51,295,309	548,159	51,843,468	(1,935,551)	49,907,917
REVENUES OVER/(UNDER) EXPENDITURES.....					
	2,397,325	125,844	2,523,169	(942,394)	1,580,775
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	150,409	150,409	-	150,409
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....					
	2,397,325	276,253	2,673,578	(942,394)	1,731,184
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2009, REVISED....					
	(2,025,417)	-	(2,025,417)	-	(2,025,417)
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2010.....					
	\$ 371,908	\$ 276,253	\$ 648,161	\$ (942,394)	\$ (294,233)

A separately available report, the "Status of Appropriations" (General Fund), demonstrates budgetary expenditure compliance for the General Fund for the fiscal year ended June 30, 2010.

	General Fund "Status" Report Page Reference	Total Appropriations (Column A)	Plus	Total Actual Augmentations (Column B)	Less	Total Lapses (Column C)	Equals	Reported Expenditure Amounts
(A)-Total State Programs-Actual Expenditures								
General Fund amounts, 'Total' Row.....	7 ¹	\$ 26,262,877		\$ 2,501,578		\$ 195,490		\$ 28,568,965
Less: tax refunds, 'Refunds' Row.....	7 ¹	(1,125,000)		-		-		(1,125,000)
TOTAL STATE PROGRAMS Actual (Budgetary Basis) reported....		\$ 25,137,877		\$ 2,501,578		\$ 195,490		\$ 27,443,965
	General Fund "Status" Report Page Reference	Commitments (Column D)	Plus	Expenditures (Column E)	Plus	Appropriation Balance	Equals	Reported Expenditure Amounts
(B)-Total Federal Programs-Actual Expenditures								
TOTAL FEDERAL PROGRAMS Actual (Budgetary Basis) reported	235 ²	\$ 1,273,398		\$ 17,465,380		\$ 3,725,174		\$ 22,463,952

¹ Page no. 7, June 30, 2010 "Status of Appropriations" -Fund 001-General Fund -Summary of All Current State Ledgers by Character of Expenditure

² Page no. 235, June 30, 2010 "Status of Appropriations" -Fund 001-General Fund -Summary of All Current Federal Ledgers by Character of Expenditure

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

Commonwealth of Pennsylvania
Budgetary Comparison Schedule
 Budgeted Major Funds
 Special Revenue Fund-Motor License
 For the Fiscal Year Ended June 30, 2010
 (Amounts in thousands)

	<u>Original Budget</u>	<u>Difference</u>	<u>Final Budget</u>	<u>Difference</u>	<u>Actual (Budgetary Basis)</u>
REVENUES:					
State Programs:					
Taxes, net of refunds.....	\$ 1,198,780	\$ -	\$ 1,198,780	\$ (14,856)	\$ 1,183,924
Licenses and fees.....	854,400	-	854,400	3,266	857,666
Fines, penalties and interest.....	32,230	-	32,230	(2,372)	29,858
Investment income.....	24,760	-	24,760	16,377	41,137
Departmental services.....	267,925	(215,883)	52,042	-	52,042
Act 44 Receipts *.....	500,000	-	500,000	-	500,000
Miscellaneous.....	25,890	-	25,890	2,591	28,481
TOTAL STATE PROGRAMS.....	2,903,985	(215,883)	2,688,102	5,006	2,693,108
Federal Programs.....	1,506,658	698,526	2,205,184	(572,498)	1,632,686
TOTAL REVENUES.....	4,410,643	482,643	4,893,286	(567,492)	4,325,794
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	75,157	(441)	74,716	(2,845)	71,871
Protection of persons and property.....	685,118	(155)	684,963	(22,488)	662,475
Public education.....	1,125	-	1,125	(250)	875
Recreation and cultural enrichment.....	1,000	-	1,000	-	1,000
Debt service.....	24,736	-	24,736	-	24,736
Transportation.....	2,167,906	(215,287)	1,952,619	(33,861)	1,918,758
TOTAL STATE PROGRAMS.....	2,955,042	(215,883)	2,739,159	(59,444)	2,679,715 (A)
Federal Programs.....	1,506,658	698,526	2,205,184	(572,498)	1,632,686 (B)
TOTAL EXPENDITURES.....	4,461,700	482,643	4,944,343	(631,942)	4,312,401
REVENUES OVER/(UNDER) EXPENDITURES.....	(51,057)	-	(51,057)	64,450	13,393
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	94,068	94,068	-	94,068
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....	(51,057)	94,068	43,011	64,450	107,461
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2009.....					
	57,684	-	57,684	-	57,684
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2010.....					
	\$ 6,627	\$ 94,068	\$ 100,695	\$ 64,450	\$ 165,145

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

A separately available report, the "Status of Appropriations" (Special Funds), demonstrates budgetary expenditure compliance for the Motor License Fund for the fiscal year ended June 30, 2010.

	<i>Special Funds "Status" Report Page Reference</i>	<i>Total Appropriations (Column A)</i>	<i>Plus</i>	<i>Total Actual Augmentations (Column B)</i>	<i>Less</i>	<i>Total Lapses (Column C)</i>	<i>Equals</i>	<i>Reported Expenditure Amounts</i>
(A)-Total State Programs-Actual Expenditures								
Motor License Fund amounts, "Total All Current State Ledgers" Row.....	54 ¹	\$ 3,602,094		\$ 1,901,853		\$ 84,636		\$ 5,419,311
Less: reductions.....	2	(914,977)		(1,849,811)		(25,192)		(2,739,596)
TOTAL STATE PROGRAMS Actual (Budgetary Basis) reported.....		\$ 2,687,117		\$ 52,042		\$ 59,444		\$ 2,679,715

	<i>Special Funds "Status" Report</i>				<i>Report of Revenues and Receipts</i>	<i>Equals</i>	<i>Reported Expenditure Amounts</i>
	<i>Commitments (Column D)</i>	<i>Plus</i>	<i>Expenditures (Column E)</i>	<i>Plus</i>	<i>Appropriation Balance</i>		
(B)-Total Federal Programs-Actual Expenditures							
June 30, 2010 "Status of Appropriations" -Special Fund							
Motor License Fund amounts, "Total All Current Federal Ledgers" Row ³	\$ 6,246		\$ 20,108		\$ 6,612	\$ -	\$ 32,966
Report of Revenues and Receipts ⁴	-		-		-	1,599,720	1,599,720
TOTAL FEDERAL PROGRAMS Actual (Budgetary Basis) reported.....	\$ 6,246		\$ 20,108		\$ 6,612	\$ 1,599,720	\$ 1,632,686

¹ Page no. 54, June 30, 2010 "Status of Appropriations" -Special Fund -Summary of All Current State Ledgers by Type
² Excludes the following appropriation symbols, beginning on page 57, June 30, 2010 "Status of Appropriations" -Special Fund : " 010-78-571-09-16; 010-78-572-09-16; 010-78-579-09-16; 010-73-132-09-26; 010-38-226-09-20; 010-78-172-09-26; 010-78-173-09-26; 010-78-174-09-26; 010-78-177-09-26 through 010-78-185-09-26.
³ Page no. 84, June 30, 2010 "Status of Appropriations" -Special Fund -Summary of All Current State Ledgers by Type
⁴ The amount of \$1,599,720 is found in the Year-to-Date column for "Total Federal Revenue Augmenting Current State Expenditure Symbols" on page 90 of the June 30, 2010 "Report of Revenues and Receipts". This amount, less \$373,063 (for Commitment Items (CI) 4850020; (CI) 4850021; (CI) 4850024; and (CI) 4850025) equals \$1,226,657, the net reduction of federal funds from Motor License Fund Actual Augmentations.

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1 - Budget Preparation Process

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

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

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

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

Additional information regarding Pennsylvania's budgeting process may be located at: <http://www.budget.state.pa.us/> and click on Current and Proposed Commonwealth Budgets.

Note 2 – Basis of Budgeting

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

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

Note 3 - Reconciliation of Budgetary to GAAP Basis Amounts

The Commonwealth adopts formal annual budgets for two major governmental funds (**General Fund** and **Motor License Fund**, a Special Revenue Fund) and three nonmajor governmental funds (Workers' Compensation Administration, Banking Department, and Milk Marketing Special Revenue funds). The Budgetary Comparison Schedules for Budgeted Major and Nonmajor Funds present comparisons of the legally adopted budget, as amended, with actual data on a budgetary basis,

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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):

	<u>Major Budgeted Funds</u>	
	<u>General Fund</u>	<u>Motor License Fund</u>
Budgetary basis – revenues and other sources under expenditures and other uses.....	<u>\$ 1,731,184</u>	<u>\$ 107,461</u>
Adjustments:		
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(2,954,638)	1,372,351
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	<u>993,079</u>	<u>(1,328,123)</u>
Net adjustments.....	<u>(1,961,559)</u>	<u>44,228</u>
Modified accrual basis – net change in governmental fund balance.....	<u>\$ (230,375)</u>	<u>\$ 151,689</u>

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

Note 4 – Budgetary Compliance – Legal Level of Budgetary Control

The General Assembly passes, and the Governor approves (or reduces or vetoes), individual appropriations as part of the annual budget adoption process. Budgetary expenditure control occurs at the appropriation level; this is the lowest level of 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 \$38.6 million in appropriations decreases approved during the fiscal year ended June 30, 2010.

A separately available report, the “*Status of Appropriations*” (*General Fund*), demonstrates budgetary expenditure compliance for the **General Fund** for the fiscal year ended June 30, 2010. This report includes a variety of detail information and summaries related to individual appropriations. A second “*Status of Appropriations*” report (for Special Funds) demonstrates compliance for the four budgeted Special Revenue funds: **Motor License**, Workers’ Compensation Administration, Banking Department and Milk Marketing. Both “*Status*” reports are available online at the Office of the Budget internet site: <http://www.budget.state.pa.us> and click on Financial Reports. The Governor controls spending by using executive authorizations for Special Revenue funds not controlled by legislatively adopted budgets.



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

Combining Financial Statements

Including
Nonmajor Budgetary Comparison Schedules

Commonwealth of Pennsylvania
Combining Balance Sheet-Nonmajor Governmental Funds

June 30, 2010

(Amounts in thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
ASSETS				
Cash.....	\$ 23,602	\$ 13,703	\$ 3,720	\$ 41,025
Temporary investments.....	2,584,271	33,107	1,012,225	3,629,603
Long-term investments.....	463,147	-	-	463,147
Receivables, net:				
Taxes.....	21,500	-	-	21,500
Accounts.....	12,154	3,223	14,371	29,748
Investment income.....	3,846	97	257	4,200
Loans.....	79,315	-	-	79,315
Lease rentals.....	-	410	-	410
Investment sale proceeds.....	2,587	-	-	2,587
Other.....	25,198	-	-	25,198
Due from other funds.....	67,954	-	16,858	84,812
Due from component units.....	-	-	9,542	9,542
Due from Federal government.....	27,692	-	-	27,692
Due from political subdivisions.....	8	-	2,146	2,154
Advances to other funds.....	3,000	-	-	3,000
TOTAL ASSETS.....	\$ 3,314,274	\$ 50,540	\$ 1,059,119	\$ 4,423,933
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities.....	\$ 224,593	\$ -	\$ 192,760	\$ 417,353
Investment purchases payable.....	2,231	-	-	2,231
Securities lending obligations.....	196,959	55	218	197,232
Due to other funds.....	9,951	-	38,971	48,922
Due to component units.....	461	-	4,974	5,435
Due to pension trust funds.....	364	-	-	364
Due to political subdivisions.....	49,950	-	75,081	125,031
Due to other governments.....	677	-	-	677
Unearned revenue.....	35,257	3,632	-	38,889
Advances from other funds.....	10,333	-	-	10,333
TOTAL LIABILITIES.....	530,776	3,687	312,004	846,467
Fund balances:				
Reserved for:				
Encumbrances.....	330,110	-	1,229,823	1,559,933
Advances.....	3,000	-	-	3,000
Loans receivable.....	79,315	-	-	79,315
Other.....	267,307	-	8,878	276,185
Unreserved:				
Designated for:				
Capital Projects Funds.....	-	-	32,879	32,879
Debt Service Funds.....	-	46,853	-	46,853
Special Revenue Funds.....	2,218	-	-	2,218
Undesignated (deficit).....	2,101,548	-	(524,465)	1,577,083
TOTAL FUND BALANCES.....	2,783,498	46,853	747,115	3,577,466
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 3,314,274	\$ 50,540	\$ 1,059,119	\$ 4,423,933

Commonwealth of Pennsylvania
Combining Statement of Revenues, Expenditures, and Changes in Fund
Balances-Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
REVENUES:				
Taxes.....	\$ 1,847,068	\$ -	\$ 51,851	\$ 1,898,919
Licenses and fees.....	493,185	-	-	493,185
Intergovernmental.....	567,237	-	-	567,237
Charges for sales and services.....	379,019	-	29,914	408,933
Investment income.....	116,110	137	1,542	117,789
Lease rental principal and interest.....	-	99	-	99
Interest on notes and loans.....	1,618	-	-	1,618
Other.....	26,191	14,619	23	40,833
TOTAL REVENUES	3,430,428	14,855	83,330	3,528,613
EXPENDITURES:				
Current:				
Direction and supportive services.....	372,901	5,026	307,171	685,098
Protection of persons and property.....	426,223	-	2,184	428,407
Health and human services.....	345,985	-	-	345,985
Public education.....	676,524	-	2,004	678,528
Recreation and cultural enrichment.....	163,458	-	48,604	212,062
Economic development.....	288,036	-	265,528	553,564
Transportation.....	981,250	-	421,154	1,402,404
Capital outlay.....	25,854	-	545,366	571,220
Debt service:				
Principal retirement.....	-	626,090	-	626,090
Interest and fiscal charges.....	-	405,888	-	405,888
TOTAL EXPENDITURES	3,280,231	1,037,004	1,592,011	5,909,246
EXCESS/(DEFICIENCY) OF REVENUES				
OVER/(UNDER) EXPENDITURES	150,197	(1,022,149)	(1,508,681)	(2,380,633)
OTHER FINANCING SOURCES (USES):				
Bonds issued.....	100,000	-	1,800,401	1,900,401
Refunding bonds issued.....	-	695,945	-	695,945
Premium on bonds/refunding bonds/TANS issued.....	7,011	104,899	91,691	203,601
Discount on bonds issued.....	-	-	(2,924)	(2,924)
Transfers in.....	460,783	1,047,168	-	1,507,951
Transfers out.....	(566,998)	-	(21,207)	(588,205)
Payment to refunded bond escrow agent.....	-	(795,844)	-	(795,844)
NET OTHER FINANCING				
SOURCES.....	796	1,052,168	1,867,961	2,920,925
NET CHANGE IN FUND BALANCES.....	150,993	30,019	359,280	540,292
FUND BALANCES JULY 1, 2009.....	2,632,505	16,834	387,835	3,037,174
FUND BALANCES JUNE 30, 2010.....	\$ 2,783,498	\$ 46,853	\$ 747,115	\$ 3,577,466

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

Special Revenue Funds

Including
Nonmajor Budgetary Comparison Schedules

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 workers' 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.

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

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

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

Growing Greener Bond Fund — to account for certain bond issuance financing and expenditures for environmental projects such as watershed protection, mine drainage remediation, advanced energy, flood protection, brownfields remediation, state parks and forest facilities, open space conservation, farm land preservation, capital improvement projects for fishing, boating, and hunting, and for county environmental initiatives.

Water Supply and Wastewater Treatment Fund — to provide single-year or multiyear grants to municipalities and municipal authorities and loans to municipalities, municipal authorities, industrial development corporations, and investor-owned water or wastewater enterprises for projects which construct, expand, or improve water and wastewater infrastructure.

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

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

Commonwealth of Pennsylvania
Combining Balance Sheet-Nonmajor Governmental Funds
Special Revenue Funds
June 30, 2010

	Budgeted Funds											Total
	Banking Department	Milk Marketing	Workers' Compensation Admin.	Workers' Compensation Security	Catastrophic Loss Benefits	Environmental Stewardship	Public Transportation Trust	Gaming	Growing Greener Bond	Water Supply and Wastewater Treatment	Other	
ASSETS												
Cash.....	\$ 58	\$ 249	\$ 10,820	\$ 102	\$ -	\$ -	\$ 144	\$ 1,238	\$ -	\$ -	\$ 10,991	\$ 23,602
Temporary investments.....	15,875	3,378	107,141	178,610	110,939	72,788	128,344	863,593	67,599	26,814	1,009,190	2,584,271
Long-term investments.....	-	-	-	463,147	-	-	-	-	-	-	-	463,147
Receivables, net:												
Taxes.....	-	-	-	-	-	-	-	-	-	-	21,500	21,500
Accounts.....	5,755	-	5	12	-	-	-	1	-	-	6,381	12,154
Investment income.....	-	-	-	3,488	-	2	23	200	16	7	110	3,846
Loans.....	-	-	-	-	-	-	-	-	-	58,964	20,351	79,315
Investment sale proceeds.....	-	-	-	2,587	-	-	-	-	-	-	-	2,587
Other.....	-	-	-	-	-	-	-	-	-	-	25,198	25,198
Due from other funds.....	-	-	165	-	-	-	36,670	2	-	-	31,117	67,954
Due from Federal government.....	-	-	-	-	-	-	-	-	-	-	27,692	27,692
Due from political subdivisions.....	-	-	-	-	-	-	-	-	-	-	8	8
Advances to other funds.....	-	-	-	-	-	-	-	-	-	-	3,000	3,000
TOTAL ASSETS.....	\$ 21,688	\$ 3,627	\$ 118,131	\$ 647,946	\$ 110,939	\$ 72,790	\$ 165,181	\$ 865,034	\$ 67,615	\$ 85,785	\$ 1,155,538	\$ 3,314,274
LIABILITIES AND FUND BALANCES												
Liabilities:												
Accounts payable and accrued liabilities.....	\$ 1,746	\$ 160	\$ 2,663	\$ 4,352	\$ 940	\$ 4,657	\$ 27,208	\$ 29,603	\$ 9,908	\$ 1,393	\$ 141,963	\$ 224,593
Investment purchases payable.....	-	-	-	2,231	-	-	-	-	-	-	-	2,231
Securities lending obligations.....	2,174	358	-	72,071	15,162	9,550	9,920	1,506	120	48	86,050	196,959
Due to other funds.....	28	18	81	9	6	-	6	606	1,145	-	8,052	9,951
Due to component units.....	-	-	-	-	-	-	-	-	-	-	461	461
Due to pension trust funds.....	11	3	28	-	-	-	3	76	-	-	243	364
Due to political subdivisions.....	-	-	-	-	-	2,595	4,336	28,295	2,829	1,989	9,906	49,950
Due to other governments.....	24	6	62	1	-	-	6	58	-	-	520	677
Unearned revenue.....	-	1,221	-	-	-	-	-	23,484	-	-	10,552	35,257
Advances from other funds.....	-	-	-	-	-	-	-	-	-	-	10,333	10,333
TOTAL LIABILITIES.....	3,983	1,766	2,834	78,664	16,108	16,802	41,479	83,628	14,002	3,430	268,080	530,776
Fund balances:												
Reserved for:												
Encumbrances.....	155	6	4,091	7,500	87	39,957	22,552	47,658	99,039	44,836	64,229	330,110
Advances.....	-	-	-	-	-	-	-	-	-	-	3,000	3,000
Loans receivable.....	-	-	-	-	-	-	-	-	-	58,964	20,351	79,315
Other.....	-	-	762	-	-	250	-	187,347	-	-	78,948	267,307
Unreserved:												
Designated for:												
Other.....	-	-	-	-	-	603	-	-	-	-	1,615	2,218
Undesignated (deficit).....	17,550	1,855	110,444	561,782	94,744	15,178	101,150	546,401	(45,426)	(21,445)	719,315	2,101,548
TOTAL FUND BALANCES.....	17,705	1,861	115,297	569,282	94,831	55,988	123,702	781,406	53,613	82,355	887,458	2,783,498
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 21,688	\$ 3,627	\$ 118,131	\$ 647,946	\$ 110,939	\$ 72,790	\$ 165,181	\$ 865,034	\$ 67,615	\$ 85,785	\$ 1,155,538	\$ 3,314,274

Commonwealth of Pennsylvania
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-Nonmajor Governmental Funds
Nonmajor Governmental Funds
 Special Revenue Funds
 For the Fiscal Year Ended June 30, 2010

	Budgeted Funds										Total	
	Banking Department	Milk Marketing	Workers' Compensation Admin.	Workers' Compensation Security	Catastrophic Loss Benefits	Environmental Stewardship	Public Transportation Trust	Gaming	Growing Greener Bond	Water Supply and Wastewater Treatment		Other
REVENUES:												
Taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 372,977	\$ 1,232,829	\$ -	\$ -	\$ 241,262	\$ 1,847,068
Licenses and fees.....	5,284	2,530	185	102,463	-	62,104	-	24,738	-	-	295,881	493,185
Intergovernmental.....	-	-	-	-	-	-	400,374	4,506	-	-	162,357	567,237
Charges for sales and services.....	15,873	-	65,737	-	-	-	-	-	-	-	297,409	379,019
Investment income.....	1,979	208	649	35,708	9,138	5,805	5,794	1,983	83	104	54,659	116,110
Interest on notes and loans.....	-	-	-	-	-	-	-	-	7	1,115	496	1,618
Other.....	17	-	110	857	-	52	-	-	-	-	25,155	26,191
TOTAL REVENUES	23,153	2,738	66,681	139,028	9,138	67,961	779,145	1,264,056	90	1,219	1,077,219	3,430,428
EXPENDITURES:												
Current:												
Direction and supportive services.....	177	-	4	-	-	-	-	366,313	61	-	6,346	372,901
Protection of persons and property.....	18,175	2,500	343	30,605	6,874	14,213	-	26,717	20,807	-	305,989	426,223
Health and human services.....	-	-	43,996	-	-	-	-	4,971	-	-	297,018	345,985
Public education.....	-	-	-	-	-	-	-	613,200	7,355	-	55,969	676,524
Recreation and cultural enrichment.....	-	-	-	-	-	7,332	-	8,528	19,455	-	128,143	163,458
Economic development.....	-	-	138	-	-	8,531	-	91,559	5,963	18,930	162,915	288,036
Transportation.....	-	-	-	-	-	-	830,519	-	-	-	150,731	981,250
Capital outlay.....	-	-	-	-	-	-	-	-	24,685	-	1,169	25,854
TOTAL EXPENDITURES	18,352	2,500	44,481	30,605	6,874	30,076	830,519	1,111,288	78,326	18,930	1,108,280	3,280,231
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	4,801	238	22,200	108,423	2,264	37,885	(51,374)	152,768	(78,236)	(17,711)	(31,061)	150,197
OTHER FINANCING SOURCES (USES):												
Bonds issued.....	-	-	-	-	-	-	-	-	100,000	-	-	100,000
Premium on bonds/refunding bonds issued	-	-	-	-	-	-	-	-	7,011	-	-	7,011
Transfers in.....	-	-	-	-	-	-	102,490	-	-	-	358,293	460,783
Transfers out.....	-	-	(1,800)	-	-	(34,097)	-	(293,409)	-	-	(237,692)	(566,998)
NET OTHER FINANCING SOURCES (USES)	-	-	(1,800)	-	-	(34,097)	102,490	(293,409)	107,011	-	120,601	796
NET CHANGE IN FUND BALANCES	4,801	238	20,400	108,423	2,264	3,788	51,116	(140,641)	28,775	(17,711)	89,540	150,993
FUND BALANCES, JULY 1, 2009	12,904	1,623	94,897	460,859	92,567	52,200	72,586	922,047	24,838	100,066	797,918	2,632,505
FUND BALANCES, JUNE 30, 2010	\$ 17,705	\$ 1,861	\$ 115,297	\$ 569,282	\$ 94,831	\$ 55,988	\$ 123,702	\$ 781,406	\$ 53,613	\$ 82,355	\$ 887,458	\$ 2,783,498

Commonwealth of Pennsylvania
Budgetary Comparison Schedule
 Budgeted Nonmajor Funds
 Special Revenue Fund-Banking Department
 For the Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	<u>Original Budget</u>	<u>Difference</u>	<u>Final Budget</u>	<u>Difference</u>	<u>Actual (Budgetary Basis)</u>
REVENUES:					
State Programs:					
Licenses and fees.....	\$ 16,500	\$ (1,290)	\$ 15,210	\$ 621	\$ 15,831
Fines, penalties and interest.....	750	-	750	12	762
Investment income.....	450	(100)	350	(570)	(220)
TOTAL REVENUES.....	17,700	(1,390)	16,310	63	16,373
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	5	-	5	-	5
Protection of persons and property.....	21,054	-	21,054	-	21,054
TOTAL EXPENDITURES.....	21,059	-	21,059	-	21,059 (A)
REVENUES UNDER EXPENDITURES.....	(3,359)	(1,390)	(4,749)	63	(4,686)
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	3,525	3,525	-	3,525
REVENUES AND OTHER SOURCES OVER (UNDER)					
EXPENDITURES.....	(3,359)	2,135	(1,224)	63	(1,161)
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2009.....	9,842	-	9,842	-	9,842
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2010.....	\$ 6,483	\$ 2,135	\$ 8,618	\$ 63	\$ 8,681

A separately available report, the "Status of Appropriations" (Special Funds), demonstrates budgetary expenditure compliance for the Banking Department Fund for the fiscal year ended June 30, 2010.

	<u>Special Funds "Status" Report Page Reference</u>	<u>Total Appropriations (Column A)</u>	<u>Plus</u>	<u>Total Actual Augmentations (Column B)</u>	<u>Less</u>	<u>Total Lapses (Column C)</u>	<u>Equals</u>	<u>Reported Expenditure Amounts</u>
(A)-Total State Programs-Actual Expenditures								
Banking Department Fund amounts, 'Total All Current State Ledgers' Row.....	101	\$ 21,059		\$ -		\$ -		\$ 21,059

Reconciliation of Budgetary to GAAP Basis Amounts

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

Budgetary basis — revenues and other sources under expenditures (from Actual column above).....	<u>\$ (1,161)</u>
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	3,255
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	<u>2,707</u>
Net adjustments.....	<u>5,962</u>
Modified accrual basis — net change in governmental fund balance.....	<u>\$ 4,801</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 147 to 148 are an integral part of this schedule. -

Commonwealth of Pennsylvania
Budgetary Comparison Schedule
 Budgeted Nonmajor Funds
 Special Revenue Fund-Milk Marketing
 For the Fiscal Year Ended June 30, 2010
 (Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Licenses and fees.....	\$ 2,450	\$ -	\$ 2,450	\$ 75	\$ 2,525
Fines, penalties and interest.....	50	-	50	(45)	5
Investment income.....	25	(18)	7	12	19
TOTAL REVENUES.....	2,525	(18)	2,507	42	2,549
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	5	-	5	-	5
Protection of persons and property.....	2,894	-	2,894	(33)	2,861
TOTAL EXPENDITURES.....	2,899	-	2,899	(33)	2,866 (A)
REVENUES OVER (UNDER) EXPENDITURES.....	(374)	(18)	(392)	75	(317)
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	286	286	-	286
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....	(374)	268	(106)	75	(31)
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2009.....	1,453	-	1,453	-	1,453
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2010.....	\$ 1,079	\$ 268	\$ 1,347	\$ 75	\$ 1,422

A separately available report, the "Status of Appropriations" (Special Funds), demonstrates budgetary expenditure compliance for the Milk Marketing Fund for the fiscal year ended June 30, 2010.

<u>(A)-Total State Programs-Actual Expenditures</u>	<u>Special Funds</u>	<u>Total</u>	<u>F</u>	<u>Total Actual</u>	<u>L</u>	<u>Total Lapses</u>	<u>E</u>	<u>Reported</u>
Milk Marketing Fund amounts, 'Total All Current State Ledgers' Row....	108	\$ 2,899	\$	-	\$	33	\$	2,866

Reconciliation of Budgetary to GAAP Basis Amounts

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

Budgetary basis — revenues and other sources over expenditures (from Actual column above).....	\$ (31)
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(97)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	366
Net adjustments.....	269
Modified accrual basis — net change in governmental fund balance.....	\$ 238

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 147 to 148 are an integral part of this schedule. -

Commonwealth of Pennsylvania

Budgetary Comparison Schedule

Budgeted Nonmajor Funds

Special Revenue Fund-Workers' Compensation Administration

For the Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Taxes, net of refunds.....	\$ 72,218	\$ (4,000)	\$ 68,218	\$ 3,997	\$ 72,215
Fines, penalties and interest.....	51	(31)	20	-	20
Investment income.....	1,664	(1,004)	660	(13)	647
Departmental services.....	190	-	190	-	190
Miscellaneous.....	285	(172)	113	(3)	110
TOTAL REVENUES.....	74,408	(5,207)	69,201	3,981	73,182
EXPENDITURES:					
State Programs:					
Health and human services.....	72,218	396	72,614	-	72,614
Economic development.....	190	-	190	-	190
TOTAL EXPENDITURES.....	72,408	396	72,804	-	72,804 (A)
REVENUES OVER (UNDER) EXPENDITURES.....	2,000	(5,603)	(3,603)	3,981	378
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	22,755	22,755	-	22,755
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....	2,000	17,152	19,152	3,981	23,133
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2009.....					
	69,459	-	69,459	-	69,459
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2010.....					
	\$ 71,459	\$ 17,152	\$ 88,611	\$ 3,981	\$ 92,592

A separately available report, the "Status of Appropriations" (Special Funds), demonstrates budgetary expenditure compliance for the Worker's Compensation Administration Fund for the fiscal year ended June 30, 2010.

<u>(A)-Total State Programs-Actual Expenditures</u>	<u>Special Funds</u>	<u>Total</u>	<u>Plus</u>	<u>Total Actual</u>	<u>Less</u>	<u>Total Lapses</u>	<u>Equals</u>	<u>Reported</u>
Worker's Compensation Administration Fund amounts, "Total All Current State Ledgers" Row.....	276	\$ 72,218	\$	586	\$	-	\$	72,804

Reconciliation of Budgetary to GAAP Basis Amounts

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

Budgetary basis — revenues and other sources under expenditures (from Actual column above).....	\$ 23,133
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(29,256)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	26,523
Net adjustments.....	(2,733)
Modified accrual basis — net change in governmental fund balance.....	<u>\$ 20,400</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 147 to 148 are an integral part of this schedule. -

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

Debt Service Funds

**DEBT SERVICE FUNDS
DESCRIPTION
NONMAJOR FUNDS**

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

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

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

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

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

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

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

Other — these funds account for the payment of principal and interest on bonds issued for loans to nursing homes and volunteer fire companies, compensation to Vietnam conflict veterans, finance of various environmental initiatives, and for water and wastewater infrastructure projects related to economic development. Funding consists of transfers from the General Fund, Environmental Stewardship Fund, and investment income. This other category is an aggregation of twelve individual debt service funds.

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

Commonwealth of Pennsylvania
Combining Balance Sheet-Nonmajor Governmental Funds
 Debt Service Funds
 June 30, 2010

(Amounts in thousands)

	Disaster Relief Redemption	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Land and Water Development Sinking	Other	Total
ASSETS								
Cash.....	\$ -	\$ -	\$ 11,862	\$ -	\$ -	\$ -	\$ 1,841	\$ 13,703
Temporary investments.....	-	1,775	31,186	-	-	1	145	33,107
Receivables, net:								
Accounts.....	-	1	3,222	-	-	-	-	3,223
Investment income.....	-	-	7	-	-	-	90	97
Lease rentals.....	-	-	410	-	-	-	-	410
TOTAL ASSETS.....	\$ -	\$ 1,776	\$ 46,687	\$ -	\$ -	\$ 1	\$ 2,076	\$ 50,540
LIABILITIES AND FUND BALANCES								
Liabilities:								
Securities lending obligations.....	\$ -	\$ -	\$ 55	\$ -	\$ -	\$ -	\$ -	\$ 55
Unearned revenue.....	-	-	3,632	-	-	-	-	3,632
TOTAL LIABILITIES.....	-	-	3,687	-	-	-	-	3,687
Fund balances:								
Unreserved:								
Designated for:								
Debt service:								
Retirement of general obligation bonds..	-	1,776	43,000	-	-	1	2,076	46,853
TOTAL FUND BALANCES.....	-	1,776	43,000	-	-	1	2,076	46,853
TOTAL LIABILITIES AND FUND BALANCES.....	\$ -	\$ 1,776	\$ 46,687	\$ -	\$ -	\$ 1	\$ 2,076	\$ 50,540

Commonwealth of Pennsylvania
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds

Debt Service Funds

For the Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	Disaster Relief Redemption	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Land and Water Development Sinking	Other	Total
REVENUES:								
Investment income.....	\$ -	\$ 5	\$ 9	\$ -	\$ -	\$ 7	\$ 116	\$ 137
Lease rental principal and interest.....	-	-	99	-	-	-	-	99
Other.....	-	5,321	9,298	-	-	-	-	14,619
TOTAL REVENUES	<u>-</u>	<u>5,326</u>	<u>9,406</u>	<u>-</u>	<u>-</u>	<u>7</u>	<u>116</u>	<u>14,855</u>
EXPENDITURES:								
Current:								
Direction and supportive services.....	-	-	-	-	-	-	5,026	5,026
Debt service:								
Principal retirement.....	1,510	5,870	596,750	410	1,495	205	19,850	626,090
Interest and fiscal charges.....	138	5,099	375,221	99	361	50	24,920	405,888
TOTAL EXPENDITURES	<u>1,648</u>	<u>10,969</u>	<u>971,971</u>	<u>509</u>	<u>1,856</u>	<u>255</u>	<u>49,796</u>	<u>1,037,004</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(1,648)</u>	<u>(5,643)</u>	<u>(962,565)</u>	<u>(509)</u>	<u>(1,856)</u>	<u>(248)</u>	<u>(49,680)</u>	<u>(1,022,149)</u>
OTHER FINANCING SOURCES (USES):								
Refunding bonds issued.....	-	-	695,945	-	-	-	-	695,945
Premium on refunding bonds/TANS.....	-	-	99,899	-	-	-	5,000	104,899
Transfers in.....	1,648	5,660	990,691	509	1,856	193	46,611	1,047,168
Payment to refunded bond escrow agent....	-	-	(795,844)	-	-	-	-	(795,844)
NET OTHER FINANCING SOURCES	<u>1,648</u>	<u>5,660</u>	<u>990,691</u>	<u>509</u>	<u>1,856</u>	<u>193</u>	<u>51,611</u>	<u>1,052,168</u>
NET CHANGE IN FUND BALANCES	-	17	28,126	-	-	(55)	1,931	30,019
FUND BALANCES, JULY 1, 2009	-	1,759	14,874	-	-	56	145	16,834
FUND BALANCES, JUNE 30, 2010	<u>\$ -</u>	<u>\$ 1,776</u>	<u>\$ 43,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 2,076</u>	<u>\$ 46,853</u>



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

Capital Projects Funds



**CAPITAL PROJECTS FUNDS
DESCRIPTION
NONMAJOR FUNDS**

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

Capital Facilities Fund — to account for general obligation bond proceeds used to fund capital projects specifically itemized and authorized by Capital Budget Acts. Projects fall within six broad categories: public improvements, public improvement-original furniture and equipment, transportation assistance, redevelopment assistance, flood control and highway projects. Such projects include those of the primary government and also grants to non-primary government recipients.

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

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

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.

Commonwealth of Pennsylvania
Combining Balance Sheet-Nonmajor Governmental Funds
 Capital Project Funds
 June 30, 2010

(Amounts in thousands)

	Capital Facilities	Keystone Recreation, Park and Conservation	Local Criminal Justice	Land and Water Development	Total
ASSETS					
Cash.....	\$ 3,186	\$ 534	\$ -	\$ -	\$ 3,720
Temporary investments.....	889,037	120,675	1,844	669	1,012,225
Receivables, net:					
Accounts.....	14,371	-	-	-	14,371
Investment income.....	227	30	-	-	257
Due from other funds.....	10,845	6,013	-	-	16,858
Due from component units.....	9,542	-	-	-	9,542
Due from political subdivisions.....	2,146	-	-	-	2,146
TOTAL ASSETS.....	\$ 929,354	\$ 127,252	\$ 1,844	\$ 669	\$ 1,059,119
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities.....	\$ 186,105	\$ 4,802	\$ 1,841	\$ 12	\$ 192,760
Securities lending obligations.....	-	214	3	1	218
Due to other funds.....	19,568	19,400	-	3	38,971
Due to component units.....	4,974	-	-	-	4,974
Due to political subdivisions.....	72,150	2,931	-	-	75,081
TOTAL LIABILITIES.....	282,797	27,347	1,844	16	312,004
Fund balances:					
Reserved for:					
Encumbrances.....	1,162,834	66,422	-	567	1,229,823
Other.....	7,241	-	-	1,637	8,878
Unreserved:					
Designated for:					
Capital projects.....	-	32,879	-	-	32,879
Undesignated (deficit).....	(523,518)	604	-	(1,551)	(524,465)
TOTAL FUND BALANCES.....	646,557	99,905	-	653	747,115
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 929,354	\$ 127,252	\$ 1,844	\$ 669	\$ 1,059,119

Commonwealth of Pennsylvania
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
 Capital Projects Funds
 For the Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	Capital Facilities	Keystone Recreation, Park and Conservation	Local Criminal Justice	Land and Water Development	Total
REVENUES:					
Taxes.....	\$ -	\$ 51,851	\$ -	\$ -	\$ 51,851
Charges for sales and services.....	29,914	-	-	-	29,914
Investment income.....	1,070	467	5	-	1,542
Other.....	23	-	-	-	23
TOTAL REVENUES	31,007	52,318	5	-	83,330
EXPENDITURES:					
Current:					
Direction and supportive services.....	306,839	332	-	-	307,171
Protection of persons and property.....	1,921	-	-	263	2,184
Public education.....	-	2,004	-	-	2,004
Recreation and cultural enrichment.....	1,007	47,597	-	-	48,604
Economic development.....	265,528	-	-	-	265,528
Transportation.....	421,154	-	-	-	421,154
Capital outlay.....	542,437	2,929	-	-	545,366
TOTAL EXPENDITURES	1,538,886	52,862	-	263	1,592,011
EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER) EXPENDITURES	(1,507,879)	(544)	5	(263)	(1,508,681)
OTHER FINANCING SOURCES:					
Bonds issued.....	1,800,401	-	-	-	1,800,401
Premium on bonds issued.....	91,691	-	-	-	91,691
Discount on bonds issued.....	(2,924)	-	-	-	(2,924)
Transfers out.....	-	(19,366)	(1,841)	-	(21,207)
NET OTHER FINANCING SOURCES	1,889,168	(19,366)	(1,841)	-	1,867,961
NET CHANGE IN FUND BALANCES	381,289	(19,910)	(1,836)	(263)	359,280
FUND BALANCES JULY 1, 2009	265,268	119,815	1,836	916	387,835
FUND BALANCES JUNE 30, 2010	\$ 646,557	\$ 99,905	\$ -	\$ 653	\$ 747,115



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

Enterprise Funds

**ENTERPRISE FUNDS
DESCRIPTION
NONMAJOR FUNDS**

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

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

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

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

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

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

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

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

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

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

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Commonwealth of Pennsylvania
Combining Statement of Net Assets-Nonmajor Proprietary Funds
 Enterprise Funds
 June 30, 2010

(Amounts in thousands)

	State Stores	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Minority Business Development	Other	Total
ASSETS									
Current assets:									
Cash	\$ 11,086	\$ 155	\$ 109	\$ 201	\$ 3	\$ 157	\$ 8	\$ 132	\$ 11,851
Temporary investments.....	45,270	66,369	42,622	76,726	88,634	58,037	3,945	16,633	398,236
Receivables:									
Accounts	2,931	-	-	-	-	-	-	106	3,037
Investment income.....	-	1	2	2	1	-	-	1	7
Interest on loans.....	-	-	186	-	-	528	-	-	714
Loans.....	-	13,452	16,279	15,790	-	7,970	1,770	441	55,702
Due from other funds	13	-	-	-	-	115	-	4,214	4,342
Due from Federal government.....	-	-	-	-	-	-	-	123	123
Other-Advances to other funds.....	-	-	-	-	-	1,400	-	-	1,400
Inventory.....	304,819	-	-	-	-	-	-	4	304,823
Prepaid expenses.....	4,430	-	-	-	-	-	-	-	4,430
Total current assets	<u>368,549</u>	<u>79,977</u>	<u>59,198</u>	<u>92,719</u>	<u>88,638</u>	<u>68,207</u>	<u>5,723</u>	<u>21,654</u>	<u>784,665</u>
Noncurrent assets:									
Receivables:									
Loans.....	-	59,738	85,274	75,543	-	51,237	3,268	1,291	276,351
Non-depreciable capital assets:									
Land.....	323	-	-	-	-	-	-	-	323
Construction in progress.....	-	-	-	-	-	-	-	2,886	2,886
Depreciable or amortizable capital assets:									
Buildings and building improvements.....	22,166	-	-	-	-	-	-	25,335	47,501
Machinery and equipment.....	66,695	-	-	-	86	-	-	3,820	70,601
Intangible assets.....	7,599	-	-	-	-	-	-	-	7,599
Less: accumulated depreciation and amortization.....	(44,416)	-	-	-	(20)	-	-	(18,783)	(63,219)
Net depreciable or amortizable capital assets.....	<u>52,044</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66</u>	<u>-</u>	<u>-</u>	<u>10,372</u>	<u>62,482</u>
Total noncurrent assets	<u>52,367</u>	<u>59,738</u>	<u>85,274</u>	<u>75,543</u>	<u>66</u>	<u>51,237</u>	<u>3,268</u>	<u>14,549</u>	<u>342,042</u>
TOTAL ASSETS.....	<u>420,916</u>	<u>139,715</u>	<u>144,472</u>	<u>168,262</u>	<u>88,704</u>	<u>119,444</u>	<u>8,991</u>	<u>36,203</u>	<u>1,126,707</u>

Commonwealth of Pennsylvania
Combining Statement of Net Assets-Nonmajor Proprietary Funds
 Enterprise Funds
 June 30, 2010

(Amounts in thousands)

	State Stores	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Minority Business Development	Other	Total
LIABILITIES									
Current liabilities:									
Accounts payable and accrued liabilities.....	238,381	7	885	20	206	500	7	2,455	242,461
Securities lending obligations.....	80	8,323	4,622	9,527	11,371	7,957	387	1,557	43,824
Due to other funds.....	3,259	1	-	2	17	-	2	102	3,383
Due to pension trust funds.....	367	-	-	1	1	-	-	1	370
Due to political subdivisions.....	-	-	-	-	-	-	-	7	7
Due to other governments.....	640	1	-	1	3	-	-	2	647
Unearned revenue.....	-	-	81	-	2,458	-	-	18	2,557
Self insurance liabilities.....	4,461	4	-	6	24	-	2	231	4,728
Compensated absences.....	4,619	-	-	-	58	-	-	315	4,992
Advances from other funds.....	110,000	3,000	-	-	-	-	-	-	113,000
Total current liabilities.....	361,807	11,336	5,588	9,557	14,138	8,457	398	4,688	415,969
Non-current liabilities:									
Insurance loss liability.....	-	-	-	-	334	-	-	-	334
Compensated absences.....	24,248	-	-	-	303	-	-	1,629	26,180
Self insurance liabilities.....	23,556	21	-	30	127	-	9	1,221	24,964
Other postemployment benefit obligations.....	25,406	45	-	49	167	-	21	962	26,650
Total non-current liabilities.....	73,210	66	-	79	931	-	30	3,812	78,128
TOTAL LIABILITIES.....	435,017	11,402	5,588	9,636	15,069	8,457	428	8,500	494,097
NET ASSETS									
Invested in capital assets, net of related debt.....	52,367	-	-	-	66	-	-	13,258	65,691
Restricted for:									
Health-related programs.....	-	-	-	-	-	-	-	2,837	2,837
Transportation.....	-	-	-	-	-	110,987	-	-	110,987
Economic development.....	-	128,313	-	158,626	-	-	8,563	-	295,502
Emergency support.....	-	-	138,884	-	-	-	-	-	138,884
Other purposes.....	-	-	-	-	73,569	-	-	11,608	85,177
Deficit.....	(66,468)	-	-	-	-	-	-	-	(66,468)
TOTAL NET ASSETS.....	\$ (14,101)	\$ 128,313	\$ 138,884	\$ 158,626	\$ 73,635	\$ 110,987	\$ 8,563	\$ 27,703	\$ 632,610

Commonwealth of Pennsylvania

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

Enterprise Funds

For the Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	State Stores	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Minority Business Development	Other	Total
OPERATING REVENUES:									
Sales and services.....	\$ 1,527,998	\$ -	\$ -	\$ 176	\$ 5,471	\$ -	\$ 3	\$ 4,466	\$ 1,538,114
Interest on loans.....	-	3,120	2,076	3,367	-	1,328	151	35	10,077
Other.....	-	7	-	6	-	-	3	660	676
OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTIBLE ACCOUNTS.....	1,527,998	3,127	2,076	3,549	5,471	1,328	157	5,161	1,548,867
Provision for uncollectible accounts.....	-	(3,062)	(532)	(659)	-	-	(316)	17	(4,552)
NET OPERATING REVENUES.....	1,527,998	65	1,544	2,890	5,471	1,328	(159)	5,178	1,544,315
OPERATING EXPENSES:									
Cost of sales and services.....	1,467,976	760	-	560	2,567	-	165	3,949	1,475,977
Depreciation.....	10,858	-	-	-	-	-	-	1,153	12,011
TOTAL OPERATING EXPENSES.....	1,478,834	760	-	560	2,567	-	165	5,102	1,487,988
OPERATING INCOME (LOSS).....	49,164	(695)	1,544	2,330	2,904	1,328	(324)	76	56,327
NONOPERATING REVENUES (EXPENSES):									
Investment income.....	369	5,175	2,655	5,774	6,511	5,954	223	1,009	27,670
Grants and other revenues.....	-	-	-	7	-	-	-	1,378	1,385
Other expenses.....	(137)	-	-	-	-	-	-	-	(137)
TOTAL NONOPERATING REVENUES (EXPENSES).....	232	5,175	2,655	5,781	6,511	5,954	223	2,387	28,918
INCOME (LOSS) BEFORE TRANSFERS.....	49,396	4,480	4,199	8,111	9,415	7,282	(101)	2,463	85,245
TRANSFERS:									
Transfers in.....	-	-	-	12,000	-	53	-	-	12,053
Transfers out.....	(105,377)	(12,000)	-	-	-	-	-	-	(117,377)
CHANGE IN NET ASSETS.....	(55,981)	(7,520)	4,199	20,111	9,415	7,335	(101)	2,463	(20,079)
TOTAL NET ASSETS, JULY 1, 2009.....	41,880	135,833	134,685	138,515	64,220	103,652	8,664	25,240	652,689
TOTAL NET ASSETS, JUNE 30, 2010.....	\$ (14,101)	\$ 128,313	\$ 138,884	\$ 158,626	\$ 73,635	\$ 110,987	\$ 8,563	\$ 27,703	\$ 632,610

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Commonwealth of Pennsylvania
Combining Statement of Cash Flows-Nonmajor Proprietary Funds

Enterprise Funds
 For the Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	State Stores	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Minority Business Development	Other	Total
CASH FLOWS FROM OPERATING ACTIVITIES:									
Receipts from customers.....	\$ 1,526,731	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,561	\$ 1,531,292
Receipts from borrowers.....	-	20,977	18,047	18,220	-	8,082	1,037	577	66,940
Receipt of premiums.....	-	-	-	-	5,474	-	-	-	5,474
Payments to claimants.....	-	-	-	-	(1,025)	-	-	-	(1,025)
Payments to borrowers.....	-	(11,225)	(13,507)	(27,256)	-	(24,541)	(320)	(140)	(76,989)
Payments for vendors, employees and other costs.....	(1,485,528)	(753)	-	(533)	(1,913)	-	(154)	(4,713)	(1,493,594)
Other receipts.....	-	-	-	-	-	-	-	660	660
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	41,203	8,999	4,540	(9,569)	2,536	(16,459)	563	945	32,758
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:									
Transfers in.....	-	-	-	12,000	-	-	-	-	12,000
Transfers out.....	(105,377)	(12,000)	-	-	-	-	-	-	(117,377)
Grants and other revenues.....	-	-	-	7	-	-	-	1,365	1,372
Other.....	(137)	-	-	-	-	-	-	-	(137)
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES.....	(105,514)	(12,000)	-	12,007	-	-	-	1,365	(104,142)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:									
Acquisition and construction of capital assets.....	(9,183)	-	-	-	(27)	-	-	(2,622)	(11,832)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....	(9,183)	-	-	-	(27)	-	-	(2,622)	(11,832)
CASH FLOWS FROM INVESTING ACTIVITIES:									
Purchase of investments.....	(878,486)	(16,841)	(14,900)	(31,438)	(5,380)	(5,805)	(982)	(22,110)	(975,942)
Sales and maturities of investments.....	945,013	21,033	10,605	30,556	3,579	24,660	447	22,624	1,058,517
Investment income.....	369	529	227	428	524	1,066	20	135	3,298
Change in securities lending obligations.....	80	(1,648)	(487)	(1,853)	(1,229)	(3,407)	(40)	(344)	(8,928)
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	66,976	3,073	(4,555)	(2,307)	(2,506)	16,514	(555)	305	76,945
NET INCREASE (DECREASE) IN CASH.....	(6,518)	72	(15)	131	3	55	8	(7)	(6,271)
CASH AT JULY 1, 2009.....	17,604	83	124	70	-	102	-	139	18,122
CASH AT JUNE 30, 2010.....	\$ 11,086	\$ 155	\$ 109	\$ 201	\$ 3	\$ 157	\$ 8	\$ 132	\$ 11,851

Commonwealth of Pennsylvania
Combining Statement of Cash Flows-Nonmajor Proprietary Funds
 Enterprise Funds
 For the Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	State Stores	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Minority Business Development	Other	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES									
Operating income (loss).....	\$ 49,164	\$ (695)	\$ 1,544	\$ 2,330	\$ 2,904	\$ 1,328	\$ (324)	\$ 76	\$ 56,327
Depreciation and amortization.....	10,858	-	-	-	-	-	-	1,153	12,011
Provision for uncollectible accounts.....	-	3,062	532	659	-	-	316	(17)	4,552
Change in assets and liabilities:									
Accounts receivable.....	(1,322)	-	-	-	2	489	-	(45)	(876)
Interest receivable.....	-	1	(31)	-	-	(527)	-	-	(557)
Loans receivable.....	-	6,626	1,617	(12,585)	-	(17,024)	559	402	(20,405)
Inventory.....	(96,013)	-	-	-	-	-	-	-	(96,013)
Due from other funds.....	55	-	-	-	-	-	-	(1,484)	(1,429)
Other current assets.....	(2,564)	-	-	-	-	-	-	-	(2,564)
Accounts payable and accrued liabilities.....	64,582	(18)	885	(4)	(237)	(725)	-	216	64,699
Due to other funds.....	(3,038)	-	-	1	14	-	1	17	(3,005)
Due to political subdivisions.....	-	-	-	-	-	-	-	(10)	(10)
Due to other governments.....	92	-	-	-	-	-	-	1	93
Unearned revenue.....	-	-	(7)	-	3	-	-	(45)	(49)
Insurance loss liability.....	-	-	-	-	(296)	-	-	-	(296)
Other liabilities.....	19,389	23	-	30	146	-	11	681	20,280
Total Adjustments.....	(7,961)	9,694	2,996	(11,899)	(368)	(17,787)	887	869	(23,569)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	\$ 41,203	\$ 8,999	\$ 4,540	\$ (9,569)	\$ 2,536	\$ (16,459)	\$ 563	\$ 945	\$ 32,758
Increase in fair value of investments during the fiscal year.....	\$ -	\$ 4,615	\$ 2,411	\$ 5,309	\$ 5,947	\$ 4,855	\$ 202	\$ 868	\$ 24,207

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

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

Internal Service Funds

INTERNAL SERVICE FUNDS DESCRIPTION

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

Purchasing Fund — to account for the purchase of materials, supplies, motor vehicles, and other equipment by the Department of General Services for the sale or lease to other Commonwealth departments, boards or commissions. This fund is also used to account for all Commonwealth telecommunication activities, which are accounted for by the Governor's Executive Offices. Revenue is derived from reimbursements from Commonwealth agencies that use Fund services or products.

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

There are a total of two individual internal service funds.

Commonwealth of Pennsylvania
Combining Statement of Net Assets-Nonmajor Proprietary Funds
Internal Service Funds
June 30, 2010

(Amounts in thousands)	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash.....	\$ 2,030	\$ 1,115	\$ 3,145
Temporary investments.....	39,408	30,608	70,016
Receivables:			
Accounts.....	663	847	1,510
Investment income.....	9	1	10
Due from other funds.....	24,791	733	25,524
Due from pension trust funds.....	245	2,511	2,756
Due from component units.....	293	3	296
Due from political subdivisions.....	1	-	1
Due from other governments.....	-	86	86
Inventory.....	198	11,334	11,532
Other assets.....	-	12	12
Total current assets.....	<u>67,638</u>	<u>47,250</u>	<u>114,888</u>
Noncurrent assets:			
Depreciable capital assets:			
Land improvements.....	192	475	667
Buildings and building improvements.....	-	7,237	7,237
Machinery and equipment.....	74,538	21,927	96,465
Less: accumulated depreciation.....	<u>(56,289)</u>	<u>(14,906)</u>	<u>(71,195)</u>
Net depreciable capital assets.....	<u>18,441</u>	<u>14,733</u>	<u>33,174</u>
Total noncurrent assets.....	<u>18,441</u>	<u>14,733</u>	<u>33,174</u>
TOTAL ASSETS.....	<u>86,079</u>	<u>61,983</u>	<u>148,062</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities.....	31,651	7,466	39,117
Securities lending obligations.....	70	3,360	3,430
Due to other funds.....	1,265	167	1,432
Due to pension trust funds.....	11	30	41
Due to other governments.....	19	40	59
Self insurance liabilities.....	109	254	363
Compensated absences.....	117	244	361
Advances from other funds.....	14,300	-	14,300
Total current liabilities.....	<u>47,542</u>	<u>11,561</u>	<u>59,103</u>
Non-current liabilities:			
Installment purchase.....	397	-	397
Compensated absences.....	615	1,281	1,896
Self insurance liabilities.....	574	1,342	1,916
Other postemployment benefit obligations.....	615	1,891	2,506
Total non-current liabilities.....	<u>2,201</u>	<u>4,514</u>	<u>6,715</u>
TOTAL LIABILITIES.....	<u>49,743</u>	<u>16,075</u>	<u>65,818</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	18,044	14,733	32,777
Restricted for:			
Correctional industries and procurement.....	18,292	31,175	49,467
TOTAL NET ASSETS.....	<u>\$ 36,336</u>	<u>\$ 45,908</u>	<u>\$ 82,244</u>

Commonwealth of Pennsylvania
Combining Statement of Revenues, Expenses, and Changes in Fund
Net Assets-Nonmajor Proprietary Funds
Internal Service Funds
For the Fiscal Year Ended June 30, 2010

(Amounts in thousands)	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
OPERATING REVENUES:			
Sales and services.....	\$ 34,893	\$ 64,042	\$ 98,935
Other.....	44	1	45
NET OPERATING REVENUES.....	34,937	64,043	98,980
OPERATING EXPENSES:			
Cost of sales and services.....	22,931	61,116	84,047
Depreciation.....	7,675	1,417	9,092
TOTAL OPERATING EXPENSES	30,606	62,533	93,139
OPERATING INCOME.....	4,331	1,510	5,841
NONOPERATING REVENUES (EXPENSES):			
Investment income.....	75	1,928	2,003
Other expenses.....	(767)	-	(767)
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(692)	1,928	1,236
CHANGE IN NET ASSETS.....	3,639	3,438	7,077
TOTAL NET ASSETS, JULY 1, 2009.....	32,697	42,470	75,167
TOTAL NET ASSETS, JUNE 30, 2010.....	\$ 36,336	\$ 45,908	\$ 82,244

Commonwealth of Pennsylvania
Combining Statement of Cash Flows-Nonmajor Proprietary Funds
Internal Service Funds
For the Fiscal Year Ended June 30, 2010

(Amounts in thousands)	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers.....	\$ 39,629	\$ 63,909	\$ 103,538
Payments for vendors, employees and other costs.....	(20,990)	(58,854)	(79,844)
Other receipts.....	60	1	61
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	<u>18,699</u>	<u>5,056</u>	<u>23,755</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets.....	(1,442)	(3,726)	(5,168)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES..	<u>(1,442)</u>	<u>(3,726)</u>	<u>(5,168)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments.....	(328,550)	(45,369)	(373,919)
Sales and maturities of investments.....	302,845	44,368	347,213
Investment income.....	75	80	155
Change in securities lending obligations.....	70	(1,075)	(1,005)
NET CASH USED FOR INVESTING ACTIVITIES.....	<u>(25,560)</u>	<u>(1,996)</u>	<u>(27,556)</u>
NET DECREASE IN CASH.....	<u>(8,303)</u>	<u>(666)</u>	<u>(8,969)</u>
CASH AT JULY 1, 2009.....	<u>10,333</u>	<u>1,781</u>	<u>12,114</u>
CASH AT JUNE 30, 2010.....	<u>\$ 2,030</u>	<u>\$ 1,115</u>	<u>\$ 3,145</u>

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income.....	\$ 4,331	\$ 1,510	\$ 5,841
Depreciation and amortization.....	7,675	1,417	9,092
Change in assets and liabilities:			
Accounts receivable.....	(653)	(476)	(1,129)
Inventory.....	34	455	489
Due from other funds.....	(384)	370	(14)
Due from other governments.....	-	(27)	(27)
Due from component units.....	(44)	-	(44)
Due from political subdivisions.....	(1)	-	(1)
Other current assets.....	-	16	16
Accounts payable and accrued liabilities.....	6,321	617	6,938
Due to other funds.....	821	11	832
Due to other governments.....	2	1	3
Other liabilities.....	597	1,162	1,759
Total Adjustments.....	<u>14,368</u>	<u>3,546</u>	<u>17,914</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	<u>\$ 18,699</u>	<u>\$ 5,056</u>	<u>\$ 23,755</u>

Increase in fair value of investments during the fiscal year..... \$ - \$ 1,833 \$ 1,833

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

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

Pension (and Other Employee Benefit) Trust Funds

PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS DESCRIPTION

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

PENSION TRUST FUNDS

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

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

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

OTHER EMPLOYEE BENEFIT TRUST FUNDS

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

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

Commonwealth of Pennsylvania
Combining Statement of Fiduciary Net Assets
 Pension (and Other Employee Benefit) Trust Funds
 June 30, 2010

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust					
	State Employees'	Deferred	Public School Employees'	Other		Total
	Retirement System (December 31, 2009)	Compensation (December 31, 2009)	Retirement System Pension	Postemployment Healthcare	Postemployment Benefits Investment Pool	
ASSETS						
Cash.....	\$ -	\$ 5,077	\$ -	\$ -	\$ -	\$ 5,077
Temporary investments.....	-	12,132	-	-	59,836	71,968
Long-term investments.....	-	34,424	-	-	103,991	138,415
Short-term funds.....	478,100	48,213	3,941,231	222,284	-	4,689,828
Corporate obligations.....	649,842	290,833	2,417,208	-	-	3,357,883
Collective trust funds.....	4,965,931	-	7,714,725	-	-	12,680,656
Real estate.....	2,003,911	-	3,973,873	-	-	5,977,784
Alternative.....	11,294,562	-	11,176,721	-	-	22,471,283
Securities lending collateral.....	392,073	39,937	1,524,234	-	-	1,956,244
Asset-backed securities.....	8,810	21,728	-	-	-	30,538
Domestic equities.....	740,327	698,415	5,247,040	-	-	6,685,782
International equities.....	1,957,460	102,325	5,583,038	-	-	7,642,823
International private debt securities.....	-	-	542,459	-	-	542,459
International public debt securities.....	384,975	10,557	633,434	-	-	1,028,966
Mortgage-backed securities.....	101,889	334,862	3,432,285	-	-	3,869,036
Private placements.....	260,932	4,283	-	-	-	265,215
State and municipal obligations.....	-	7,801	-	-	-	7,801
U.S. Treasury obligations.....	1,432,032	146,891	1,239,662	-	-	2,818,585
U.S. government agency debt securities.....	17,023	97,432	380,308	-	-	494,763
Receivables, net:						
Accounts.....	-	-	-	-	27	27
Investment income.....	45,766	27	252,495	-	-	298,288
Pension contributions.....	-	5,391	407,387	36,821	-	449,599
Investment sale proceeds.....	470,747	-	347,033	-	-	817,780
Other.....	6,062	68	748	7,906	-	14,784
Due from other funds.....	2,764	-	456	-	-	3,220
Due from pension trust funds.....	8,553	-	5,984	-	-	14,537
Due from component units.....	4,549	-	-	-	-	4,549
Due from political subdivisions.....	5,359	-	-	-	-	5,359
Due from other governments.....	-	-	-	6,231	-	6,231
Depreciable or amortizable capital assets:						
Machinery and equipment.....	-	-	12,007	-	-	12,007
Intangible assets.....	-	-	23,849	-	-	23,849
Less: accumulated depreciation and amortization	-	-	(16,641)	-	-	(16,641)
Net depreciable or amortizable capital assets.....	-	-	19,215	-	-	19,215
TOTAL ASSETS.....	25,231,667	1,860,396	48,839,536	273,242	163,854	76,368,695
LIABILITIES						
Liabilities:						
Accounts payable and accrued liabilities.....	46,783	847	76,289	1,648	21	125,588
Investment purchases payable.....	112,129	-	1,099,768	-	-	1,211,897
Securities lending obligations.....	410,806	41,761	1,524,234	-	59,804	2,036,605
Due to other funds.....	-	3	759	-	-	762
Due to pension trust funds.....	-	111	4,870	-	-	4,981
Other liabilities.....	-	-	535,141	32,542	-	567,683
TOTAL LIABILITIES.....	569,718	42,722	3,241,061	34,190	59,825	3,947,516
NET ASSETS:						
Held in trust for:						
Pension benefits.....	24,661,949	-	45,598,475	-	-	70,260,424
Postemployment healthcare benefits.....	-	-	-	239,052	104,029	343,081
Employee salary deferrals.....	-	1,817,674	-	-	-	1,817,674
TOTAL NET ASSETS.....	\$ 24,661,949	\$ 1,817,674	\$ 45,598,475	\$ 239,052	\$ 104,029	\$ 72,421,179

Commonwealth of Pennsylvania
Combining Statement of Changes in Fiduciary Net Assets
Pension (and Other Employee Benefit) Trust Funds
For the Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust					
	State Employees' Retirement System	Deferred Compensation	Public School Employees' Retirement System	Other Postemployment Benefits	Investment Pool	Total
	(December 31, 2009)	(December 31, 2009)	Pension	Healthcare		
ADDITIONS:						
Pension contributions:						
Employer.....	\$ 253,250	\$ -	\$ 535,331	\$ 136,604	\$ -	\$ 925,185
Employee.....	348,805	122,346	952,047	191,184	-	1,614,382
Transfer in from other plans.....	-	23,407	-	-	-	23,407
Total contributions.....	602,055	145,753	1,487,378	327,788	-	2,562,974
Investment income:						
Net appreciation/(depreciation) in fair value of investments.....	3,519,882	199,182	5,142,243	(1,039)	12,623	8,872,891
Interest income.....	149,040	33,261	459,373	2,395	-	644,069
Dividend income.....	69,400	-	784,431	-	3,272	857,103
Rental and other income.....	77,060	-	241,389	-	159	318,608
Total investment activity income.....	3,815,382	232,443	6,627,436	1,356	16,054	10,692,671
Less: investment expenses						
Investment activity expense.....	(260,376)	(2,122)	(522,268)	(47)	(227)	(785,040)
Net investment earnings.....	3,555,006	230,321	6,105,168	1,309	15,827	9,907,631
Securities lending activities:						
Income.....	7,051	366	9,574	-	-	16,991
Expenses.....	(531)	(26)	(1,063)	-	-	(1,620)
Total securities lending income.....	6,520	340	8,511	-	-	15,371
Total net investment income.....	3,561,526	230,661	6,113,679	1,309	15,827	9,923,002
TOTAL ADDITIONS.....	4,163,581	376,414	7,601,057	329,097	15,827	12,485,976
DEDUCTIONS:						
Benefit payments.....	2,265,404	40,353	4,962,222	283,218	-	7,551,197
Refunds of contributions.....	7,968	-	16,720	-	-	24,688
Transfers to other plans.....	-	40,326	7,015	-	-	47,341
Administrative expenses.....	24,073	223	12,105	18,387	(9)	54,779
Other expenses.....	-	1,924	-	-	171	2,095
TOTAL DEDUCTIONS.....	2,297,445	82,826	4,998,062	301,605	162	7,680,100
CHANGE IN PLAN NET ASSETS HELD IN TRUST FOR:						
Pension benefits.....	1,866,136	-	2,602,995	-	-	4,469,131
Postemployment healthcare benefits.....	-	-	-	27,492	15,665	43,157
Employee salary deferrals.....	-	293,588	-	-	-	293,588
TOTAL CHANGE IN PLAN NET ASSETS HELD IN TRUST	1,866,136	293,588	2,602,995	27,492	15,665	4,805,876
Net assets, July 1, 2009.....	22,795,813	1,524,086	42,995,480	211,560	88,364	67,615,303
Net assets, June 30, 2010.....	\$ 24,661,949	\$ 1,817,674	\$ 45,598,475	\$ 239,052	\$ 104,029	\$ 72,421,179



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

Agency Funds

AGENCY FUNDS DESCRIPTION

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

AGENCY FUNDS

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

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

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

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

Municipal Pension Aid Fund — to collect a two percent premium tax received from foreign (out-of-state) casualty insurance companies conducting business in the Commonwealth, which are remitted to municipalities to help defray municipal police and fire pension fund costs.

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

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

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

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

There are a total of fourteen individual agency funds.

Commonwealth of Pennsylvania
Combining Statement of Fiduciary Assets and Liabilities
 Agency Funds
 June 30, 2010

(Amounts in thousands)

	Statutory Liquidator	Medical Care Availability & Reduction of Error	Allegheny Regional Asset District Sales and Use Tax	Underground Storage Tank Indemnification	Municipal Pension Aid	Fire Insurance Tax	Agency Custodial Accounts	Other	PA Life and Health Insurance Guaranty Association (December 31, 2009)	PA Property and Casualty Insurance Guaranty Association (December 31, 2009)	Total Agency Funds
ASSETS											
Cash.....	\$ -	\$ -	\$ 54	\$ -	\$ 77	\$ -	\$ 12,294	\$ 591	\$ 7,687	\$ 17,596	\$ 38,299
Cash with fiscal agents.....	38,128	-	-	-	-	-	-	-	-	-	38,128
Temporary investments.....	126,864	158,073	14,423	43,529	224,327	88,986	18,504	34,038	107,040	60,848	876,632
Long-term investments.....	2,791,136	-	-	88,341	-	-	-	-	-	-	2,879,477
Receivables, net:											
Taxes.....	-	-	14,601	-	-	-	-	23,357	-	-	37,958
Accounts.....	40,133	8,365	-	-	-	-	4,854	-	-	-	53,352
Investment income.....	1	20	2	711	54	-	-	2	-	-	790
Interest on notes and loans.....	-	-	-	-	-	-	1	-	-	-	1
Loans.....	-	-	-	45	-	-	-	-	-	-	45
Investment sale proceeds.....	-	-	-	139	-	-	-	-	-	-	139
Other.....	-	-	-	-	-	-	-	-	-	179,919	179,919
Advances to other funds.....	-	-	-	67,500	-	-	-	-	-	-	67,500
Other assets.....	3,537,322	-	-	-	-	-	890	-	-	235	3,538,447
TOTAL ASSETS.....	\$ 6,533,584	\$ 166,458	\$ 29,080	\$ 200,265	\$ 224,458	\$ 88,986	\$ 36,543	\$ 57,988	\$ 114,727	\$ 258,598	\$ 7,710,687
LIABILITIES											
Accounts payable and accrued liabilities....	\$ -	\$ 5,975	\$ 52	\$ 14,923	\$ -	\$ -	\$ 10,783	\$ 33	\$ -	\$ -	\$ 31,766
Investment purchases payable.....	-	-	-	35	-	-	-	-	-	-	35
Securities lending obligations.....	11,016	9,730	26	16,590	-	158	-	528	-	-	38,048
Due to political subdivisions.....	-	-	29,002	50	224,458	88,828	-	54,237	-	-	396,575
Due to other governments.....	-	12	-	2	-	-	-	-	-	-	14
Compensated absence liability.....	-	370	-	36	-	-	-	-	-	-	406
Self insurance liabilities.....	-	481	-	75	-	-	-	-	-	-	556
Other postemployment benefit obligations	-	532	-	85	-	-	-	-	-	-	617
Other liabilities.....	6,522,568	149,358	-	168,469	-	-	25,760	3,190	114,727	258,598	7,242,670
TOTAL LIABILITIES.....	\$ 6,533,584	\$ 166,458	\$ 29,080	\$ 200,265	\$ 224,458	\$ 88,986	\$ 36,543	\$ 57,988	\$ 114,727	\$ 258,598	\$ 7,710,687

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

Agency Funds

For the Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2010</u>
STATUTORY LIQUIDATOR FUND				
ASSETS				
Cash with fiscal agents.....	\$ 30,318	\$ 66,620	\$ 58,810	\$ 38,128
Temporary investments.....	120,928	22,780	16,844	126,864
Long-term investments.....	2,874,083	1,436,996	1,519,943	2,791,136
Receivables, net:				
Accounts.....	107,902	7,734	75,503	40,133
Investment income.....	-	1	-	1
Other assets.....	2,759,088	804,473	26,239	3,537,322
TOTAL ASSETS	<u>\$ 5,892,319</u>	<u>\$ 2,338,604</u>	<u>\$ 1,697,339</u>	<u>\$ 6,533,584</u>
LIABILITIES				
Securities lending obligations.....	\$ 12,234	\$ 11,016	\$ 12,234	\$ 11,016
Other liabilities.....	5,880,085	6,522,569	5,880,086	6,522,568
TOTAL LIABILITIES	<u>\$ 5,892,319</u>	<u>\$ 6,533,585</u>	<u>\$ 5,892,320</u>	<u>\$ 6,533,584</u>
MEDICAL CARE AVAILABILITY AND REDUCTION OF ERROR FUND				
ASSETS				
Cash.....	\$ 1,203	\$ 1,844,869	\$ 1,846,072	\$ -
Temporary investments.....	230,952	276,554	349,433	158,073
Receivables, net:				
Accounts.....	-	8,377	12	8,365
Investment income.....	41	42	63	20
TOTAL ASSETS	<u>\$ 232,196</u>	<u>\$ 2,129,842</u>	<u>\$ 2,195,580</u>	<u>\$ 166,458</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 3,565	\$ 682,737	\$ 680,327	\$ 5,975
Securities lending obligations.....	19,191	9,730	19,191	9,730
Due to other funds.....	-	23	23	-
Due to political subdivisions.....	-	27	27	-
Due to other governments.....	11	19	18	12
Compensated absence liability.....	-	370	-	370
Self insurance liabilities.....	390	481	390	481
Other postemployment benefit obligations.....	257	275	-	532
Other liabilities.....	208,782	68,825	128,249	149,358
TOTAL LIABILITIES	<u>\$ 232,196</u>	<u>\$ 762,487</u>	<u>\$ 828,225</u>	<u>\$ 166,458</u>

(continued)

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

Agency Funds (continued)

For the Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2010</u>
ALLEGHENY REGIONAL ASSET DISTRICT				
SALES AND USE TAX FUND				
ASSETS				
Cash.....	\$ 326	\$ 1,632,634	\$ 1,632,906	\$ 54
Temporary investments.....	12,701	173,121	171,399	14,423
Receivables, net:				
Taxes.....	11,694	14,601	11,694	14,601
Investment income.....	-	2	-	2
Interest on notes and loans.....	-	2	2	-
TOTAL ASSETS	\$ 24,721	\$ 1,820,360	\$ 1,816,001	\$ 29,080
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 58	\$ 115	\$ 121	\$ 52
Securities lending obligations.....	-	52	26	26
Due to political subdivisions.....	24,663	16,034	11,695	29,002
TOTAL LIABILITIES	\$ 24,721	\$ 16,201	\$ 11,842	\$ 29,080
UNDERGROUND STORAGE TANK				
INDEMNIFICATION FUND				
ASSETS				
Cash.....	\$ 1,487	\$ 3,209,482	\$ 3,210,969	\$ -
Temporary investments.....	44,554	2,249,588	2,250,613	43,529
Long-term investments.....	78,420	2,200,144	2,190,223	88,341
Receivables, net:				
Investment income.....	592	1,420	1,301	711
Loans.....	160	47	162	45
Investment sale proceeds.....	344	139	344	139
Advances to other funds.....	67,500	-	-	67,500
TOTAL ASSETS	\$ 193,057	\$ 7,660,820	\$ 7,653,612	\$ 200,265
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 24,869	\$ 218,071	\$ 228,017	\$ 14,923
Investment purchases payable.....	556	35	556	35
Securities lending obligations.....	14,336	33,377	31,123	16,590
Due to other funds.....	-	8	8	-
Due to political subdivisions.....	54	10,459	10,463	50
Due to other governments.....	198	46	242	2
Compensated absence liability.....	-	36	-	36
Self insurance liabilities.....	58	75	58	75
Other postemployment benefit obligations.....	41	44	-	85
Other liabilities.....	152,945	56,390	40,866	168,469
TOTAL LIABILITIES	\$ 193,057	\$ 318,541	\$ 311,333	\$ 200,265

(continued)

Commonwealth of Pennsylvania
Combining Statement of Changes in Fiduciary Net Assets
Agency Funds (continued)
For the Fiscal Year Ended June 30, 2010

(Amounts in thousands)	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2010</u>
MUNICIPAL PENSION AID FUND				
ASSETS				
Cash.....	\$ 2	\$ 1,933,354	\$ 1,933,279	\$ 77
Temporary investments.....	212,278	232,082	220,033	224,327
Receivables, net:				
Investment income.....	-	54	-	54
Interest on notes and loans.....	-	54	54	-
TOTAL ASSETS	<u>\$ 212,280</u>	<u>\$ 2,165,544</u>	<u>\$ 2,153,366</u>	<u>\$ 224,458</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ -	\$ 2,258	\$ 2,258	\$ -
Due to political subdivisions.....	212,280	12,178	-	224,458
TOTAL LIABILITIES	<u>\$ 212,280</u>	<u>\$ 14,436</u>	<u>\$ 2,258</u>	<u>\$ 224,458</u>
FIRE INSURANCE TAX FUND				
ASSETS				
Cash.....	\$ 1	\$ 832,944	\$ 832,945	\$ -
Temporary investments.....	78,764	90,347	80,125	88,986
TOTAL ASSETS	<u>\$ 78,765</u>	<u>\$ 923,291</u>	<u>\$ 913,070</u>	<u>\$ 88,986</u>
LIABILITIES				
Securities lending obligations.....	\$ -	\$ 158	\$ -	\$ 158
Due to political subdivisions.....	78,765	12,503	2,440	88,828
TOTAL LIABILITIES	<u>\$ 78,765</u>	<u>\$ 12,661</u>	<u>\$ 2,440</u>	<u>\$ 88,986</u>
AGENCY CUSTODIAL ACCOUNTS				
ASSETS				
Cash.....	\$ 12,193	\$ 3,778	\$ 3,677	\$ 12,294
Temporary investments.....	18,933	5,425	5,854	18,504
Receivables, net:				
Accounts.....	4,089	1,083	318	4,854
Interest on notes and loans.....	-	1	-	1
Other assets.....	1,067	236	413	890
TOTAL ASSETS	<u>\$ 36,282</u>	<u>\$ 10,523</u>	<u>\$ 10,262</u>	<u>\$ 36,543</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 10,551	\$ 836	\$ 604	\$ 10,783
Other liabilities.....	25,731	8,412	8,383	25,760
TOTAL LIABILITIES	<u>\$ 36,282</u>	<u>\$ 9,248</u>	<u>\$ 8,987</u>	<u>\$ 36,543</u>

(continued)

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

Agency Funds (continued)

For the Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2010</u>
OTHER FUNDS				
ASSETS				
Cash.....	\$ 254	\$ 5,233,136	\$ 5,232,799	\$ 591
Temporary investments.....	30,974	563,706	560,642	34,038
Receivables, net:				
Taxes.....	15,303	23,357	15,303	23,357
Investment income.....	-	2	-	2
Interest on notes and loans.....	-	6	6	-
TOTAL ASSETS	<u>\$ 46,531</u>	<u>\$ 5,820,207</u>	<u>\$ 5,808,750</u>	<u>\$ 57,988</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 123	\$ 71,695	\$ 71,785	\$ 33
Securities lending obligations.....	525	1,056	1,053	528
Due to other funds.....	-	30	30	-
Due to political subdivisions.....	43,059	82,358	71,180	54,237
Other liabilities.....	2,824	375	9	3,190
TOTAL LIABILITIES	<u>\$ 46,531</u>	<u>\$ 155,514</u>	<u>\$ 144,057</u>	<u>\$ 57,988</u>
PENNSYLVANIA LIFE AND HEALTH				
INSURANCE GUARANTY ASSOCIATION*				
ASSETS				
Cash.....	\$ 4,101	\$ 154,996	\$ 151,410	\$ 7,687
Temporary investments.....	301,604	874	195,438	107,040
TOTAL ASSETS	<u>\$ 305,705</u>	<u>\$ 155,870</u>	<u>\$ 346,848</u>	<u>\$ 114,727</u>
LIABILITIES				
Other liabilities.....	\$ 305,705	\$ -	\$ 190,978	\$ 114,727
TOTAL LIABILITIES	<u>\$ 305,705</u>	<u>\$ -</u>	<u>\$ 190,978</u>	<u>\$ 114,727</u>
PENNSYLVANIA PROPERTY AND CASUALTY				
INSURANCE GUARANTY ASSOCIATION*				
ASSETS				
Cash.....	\$ -	\$ 38,096	\$ 20,500	\$ 17,596
Temporary investments.....	99,028	-	38,180	60,848
Receivables, net:				
Other.....	206,100	9,999	36,180	179,919
Other assets.....	120	115	-	235
TOTAL ASSETS	<u>\$ 305,248</u>	<u>\$ 48,210</u>	<u>\$ 94,860</u>	<u>\$ 258,598</u>
LIABILITIES				
Other liabilities.....	\$ 305,248	\$ 11,667	\$ 58,317	\$ 258,598
TOTAL LIABILITIES	<u>\$ 305,248</u>	<u>\$ 11,667</u>	<u>\$ 58,317</u>	<u>\$ 258,598</u>

*-Amounts are presented on a calendar year basis.

(continued)

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

Agency Funds (continued)
 For the Fiscal Year Ended June 30, 2010

(Amounts in thousands)	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2010</u>
TOTAL — AGENCY FUNDS*				
ASSETS				
Cash.....	\$ 19,567	\$ 14,883,289	\$ 14,864,557	\$ 38,299
Cash with fiscal agents.....	30,318	66,620	58,810	38,128
Temporary investments.....	1,150,716	3,614,477	3,888,561	876,632
Long-term investments.....	2,952,503	3,637,140	3,710,166	2,879,477
Receivables, net:				
Taxes.....	26,997	37,958	26,997	37,958
Accounts.....	111,991	17,194	75,833	53,352
Investment income.....	633	1,521	1,364	790
Interest on notes and loans.....	-	63	62	1
Loans.....	160	47	162	45
Investment sale proceeds.....	344	139	344	139
Other.....	206,100	9,999	36,180	179,919
Advances to other funds.....	67,500	-	-	67,500
Other assets.....	2,760,275	804,824	26,652	3,538,447
TOTAL ASSETS	<u>\$ 7,327,104</u>	<u>\$ 23,073,271</u>	<u>\$ 22,689,688</u>	<u>\$ 7,710,687</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 39,166	\$ 975,712	\$ 983,112	\$ 31,766
Investment purchases payable.....	556	35	556	35
Securities lending obligations.....	46,286	55,389	63,627	38,048
Due to other funds.....	-	61	61	-
Due to political subdivisions.....	358,821	133,559	95,805	396,575
Due to other governments.....	209	65	260	14
Compensated absence liability.....	-	406	-	406
Self insurance liabilities.....	448	556	448	556
Other postemployment benefit obligations.....	298	319	-	617
Other liabilities.....	6,881,320	6,668,238	6,306,888	7,242,670
TOTAL LIABILITIES	<u>\$ 7,327,104</u>	<u>\$ 7,834,340</u>	<u>\$ 7,450,757</u>	<u>\$ 7,710,687</u>

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



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

Nonmajor Discretely Presented Component Units

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS DESCRIPTION

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

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

Philadelphia Shipyard Development Corporation (PSDC) — assists the primary government (PG) and other governmental entities in financing a shipbuilding facility at the former Philadelphia Naval Shipyard. For the purposes of this report, the PSDC has a December 31, 2009 fiscal year end.

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

Insurance Fraud Prevention Authority (IFPA) — assists in the prevention, discovery, investigation, and prosecution of insurance fraud. The IFPA is funded through assessments paid by the insurance industry and through certain criminal and civil fines, penalties, and awards.

Pennsylvania Higher Educational Facilities Authority (PHEFA) — issues limited obligation revenue bonds, the proceeds of which are used to finance the construction of facilities for public/private colleges and universities. These bonds are repaid solely from lease/loan payments from the colleges and universities.

Patient Safety Trust Authority (PSTA) — takes steps to reduce and eliminate medical errors by identifying problems and recommending solutions that promote patient safety in hospitals, ambulatory surgical facilities, and birthing centers.

Port of Pittsburgh Commission (PPC) — promotes economic development throughout waterways in southwestern Pennsylvania by constructing and/or financing transportation and recreation facilities.

Pennsylvania Industrial Development Authority (PIDA) — collaborates with local industrial development corporations to make loans that help preserve or expand the work force, assist targeted economic areas, or assist specific companies.

Philadelphia Regional Port Authority (PRPA) — operates a port facility and manages port-related activities to promote commerce and economic development in southeastern Pennsylvania.

Commonwealth Financing Authority (CFA) — administers and funds economic stimulus programs through long-term financing arrangements.

Thaddeus Stevens College of Technology (College) — presents a financial burden to the PG, as the PG appropriates monies for College operations. The College was financially reported as part of the PG through and including the fiscal year ended June 30, 2003; legislation effective July 1, 2003 made the College a legally separate entity.

There are a total of twenty-two component units; sixteen are discretely presented. The State Employees' Retirement System (SERS) and Public School Employees' Retirement System (PSERS) are reported as Pension Trust Funds in the Statement of Fiduciary Net Assets, while the Pennsylvania Life and Health Insurance Guaranty Association (PLHIGA) and Pennsylvania Property and Casualty Insurance Guaranty Association (PPCIGA) are reported as Agency Funds. The **Pennsylvania Turnpike Commission (PTC)**, **Pennsylvania Housing Finance Agency (PHFA)**, **Pennsylvania Higher Education Assistance Agency (PHEAA)**, **Pennsylvania Infrastructure Investment Authority (PENNVEST)**, and **State System of Higher Education (SSHE)** are reported as major component units. The Pennsylvania Economic Development Financing Authority (PEDFA) and Pennsylvania Energy Development Authority (PEDA) are not reported because their only activities involve conduit debt.

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Commonwealth of Pennsylvania
Combining Statement of Net Assets
 Nonmajor Discretely Presented Component Units
 June 30, 2010

(Amounts in thousands)

	State Public School Building Authority	Philadelphia Shipyard Development Corporation (December 31, 2009)	Ben Franklin Technology Development Authority	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority
ASSETS					
Current assets:					
Cash.....	\$ -	\$ 3,478	\$ 355	\$ 4,830	\$ -
Temporary investments.....	5,980	-	41,705	-	-
Receivables:					
Accounts.....	1	-	-	-	-
Investment income.....	134	4	-	-	-
Interest on notes and loans.....	36	-	-	-	-
Loans.....	3,464	-	213	-	-
Lease rentals.....	-	-	-	-	-
Other.....	-	-	-	-	-
Due from other governments.....	-	-	-	-	-
Inventory.....	-	-	-	-	-
Prepaid and deferred expenses.....	-	22	-	18	-
Other assets.....	-	-	-	3	-
Total current assets.....	<u>9,615</u>	<u>3,504</u>	<u>42,273</u>	<u>4,851</u>	<u>-</u>
Noncurrent assets:					
Long-term investments.....	15,000	-	-	-	-
Receivables (net):					
Loans.....	5,371	18,704	31,574	-	-
Non-depreciable capital assets:					
Land.....	-	161	-	-	-
Construction in progress.....	-	-	-	-	-
Depreciable or amortizable capital assets:					
Buildings and building improvements.....	-	-	-	-	-
Machinery and equipment.....	374	3	-	81	-
Library books.....	-	-	-	-	-
Other capital assets.....	-	-	-	-	-
Intangible assets.....	-	-	-	-	-
Less: accumulated depreciation and amortization.....	(324)	-	-	(57)	-
Net depreciable or amortizable capital assets.....	<u>50</u>	<u>3</u>	<u>-</u>	<u>24</u>	<u>-</u>
Other assets.....	-	-	-	-	-
Total noncurrent assets.....	<u>20,421</u>	<u>18,868</u>	<u>31,574</u>	<u>24</u>	<u>-</u>
TOTAL ASSETS.....	<u>30,036</u>	<u>22,372</u>	<u>73,847</u>	<u>4,875</u>	<u>-</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued liabilities.....	105	13	6,784	105	-
Securities lending obligations.....	-	-	4,888	-	-
Due to primary government.....	-	-	1	-	-
Due to component units—Note H.....	-	-	83	-	-
Due to political subdivisions.....	-	-	-	-	-
Due to other governments.....	-	-	845	-	-
Interest payable.....	-	-	-	-	-
Unearned revenue.....	-	-	-	-	-
Notes payable.....	-	-	-	-	-
Revenue bonds payable.....	-	-	-	-	-
Compensated absences.....	40	-	-	-	-
Other liabilities.....	66	-	-	-	-
Total current liabilities.....	<u>211</u>	<u>13</u>	<u>12,601</u>	<u>105</u>	<u>-</u>
Non-current liabilities:					
Notes payable.....	-	18,704	-	-	-
Revenue bond payable.....	-	-	-	-	-
Compensated absences.....	39	-	-	-	-
Other postemployment benefit obligations.....	76	-	-	-	-
Other liabilities.....	562	-	-	-	-
Total non-current liabilities.....	<u>677</u>	<u>18,704</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES.....	<u>888</u>	<u>18,717</u>	<u>12,601</u>	<u>105</u>	<u>-</u>
NET ASSETS					
Invested in capital assets, net of related debt.....	51	164	-	24	-
Restricted for:					
Health-related programs.....	-	-	-	-	-
Capital projects.....	-	-	-	-	-
Debt service.....	-	-	-	-	-
Economic development.....	-	3,491	61,246	-	-
Higher Education.....	-	-	-	-	-
Other purposes.....	29,097	-	-	4,746	-
Unrestricted/(Deficit).....	-	-	-	-	-
TOTAL NET ASSETS.....	<u>\$ 29,148</u>	<u>\$ 3,655</u>	<u>\$ 61,246</u>	<u>\$ 4,770</u>	<u>\$ -</u>

Patient Safety Trust Authority	Port of Pittsburgh Commission	Pennsylvania Industrial Development Authority	Philadelphia Regional Port Authority	Commonwealth Financing Authority	Thaddeus Stevens College of Technology	Total
\$ -	\$ -	\$ 402	\$ 26,077	\$ 722,767	\$ 4,447	\$ 762,356
6,450	5,340	187,870	-	-	-	247,345
-	-	-	607	-	177	785
1	-	-	-	-	-	139
-	-	477	-	995	-	1,508
-	62	47,895	-	14,553	-	66,187
-	-	1,427	828	-	-	2,255
-	-	-	16	-	458	474
-	-	-	43	-	-	43
-	-	-	-	-	479	479
-	-	-	471	-	114	625
-	-	-	-	11,908	-	11,911
6,451	5,402	238,071	28,042	750,223	5,675	1,094,107
-	-	13,500	-	-	1,211	29,711
-	47	389,743	-	287,633	-	733,072
-	-	-	66,655	-	-	66,816
-	-	-	125,855	-	-	125,855
-	-	-	164,342	-	1,036	165,378
-	2,117	-	38,903	-	3,567	45,045
-	-	-	-	-	517	517
-	-	-	-	-	337	337
-	33	-	-	-	-	33
-	(917)	-	(109,128)	-	(3,631)	(114,057)
-	1,233	-	94,117	-	1,826	97,253
-	-	2,904	12,343	-	284	15,531
-	1,280	406,147	298,970	287,633	3,321	1,068,238
6,451	6,682	644,218	327,012	1,037,856	8,996	2,162,345
770	49	150	4,840	159	2,013	14,988
127	604	-	-	-	-	5,619
43	4	-	17	599	-	664
-	-	-	-	-	-	83
-	6	-	-	-	-	6
4	1	-	-	-	-	850
-	-	9,846	-	6,842	-	16,688
-	-	-	14,253	388	108	14,749
-	-	-	182	-	-	182
-	-	23,305	2,835	34,210	-	60,350
4	-	-	128	-	307	479
-	-	-	10	-	7	83
948	664	33,301	22,265	42,198	2,435	114,741
-	-	-	581	-	-	19,285
-	2,000	353,120	35,693	1,282,705	-	1,673,518
23	64	-	670	-	1,530	2,326
-	134	-	1,167	-	-	1,377
-	-	-	266	-	66	894
23	2,198	353,120	38,377	1,282,705	1,596	1,697,400
971	2,862	386,421	60,642	1,324,903	4,031	1,812,141
-	(791)	-	259,679	-	1,826	260,953
5,480	-	-	-	-	-	5,480
-	-	-	949	-	-	949
-	-	-	4,199	-	-	4,199
-	4,611	-	1,389	-	-	70,737
-	-	-	-	-	3,139	3,139
-	-	-	154	-	-	33,997
-	-	257,797	-	(287,047)	-	(29,250)
\$ 5,480	\$ 3,820	\$ 257,797	\$ 266,370	\$ (287,047)	\$ 4,965	\$ 350,204

Commonwealth of Pennsylvania
Combining Statement of Activities
 Nonmajor Discretely Presented Component Units
 For the Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	State Public School Building Authority	Philadelphia Shipyard Development Corporation (December 31, 2009)	Ben Franklin Technology Development Authority	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority
Expenses.....	\$ 2,128	\$ 622	\$ 45,749	\$ 11,661	\$ 1,243
Program revenues:					
Charges for goods and services.....	1,401	-	226	11,683	1,243
Operating grants and contributions.....	303	60	35,826	214	-
Capital grants and contributions.....	-	-	-	-	-
Total program revenues.....	1,704	60	36,052	11,897	1,243
Net (expense) revenue.....	(424)	(562)	(9,697)	236	-
Change in net assets.....	(424)	(562)	(9,697)	236	-
Net assets, July 1, 2009.....	29,572	4,217	70,943	4,534	-
Net assets, June 30, 2010.....	\$ 29,148	\$ 3,655	\$ 61,246	\$ 4,770	\$ -

Patient Safety Trust Authority	Port of Pittsburgh Commission	Pennsylvania Industrial Development Authority	Philadelphia Regional Port Authority	Commonwealth Financing Authority	Thaddeus Stevens College of Technology	Total
\$ 5,039	\$ 1,090	\$ 20,201	\$ 31,574	\$ 296,536	\$ 18,323	\$ 434,166
6,866	7	15,437	8,949	5,805	5,816	57,433
84	842	779	9,663	84,449	13,710	145,930
-	-	-	125,278	-	-	125,278
6,950	849	16,216	143,890	90,254	19,526	328,641
1,911	(241)	(3,985)	112,316	(206,282)	1,203	(105,525)
1,911	(241)	(3,985)	112,316	(206,282)	1,203	(105,525)
3,569	4,061	261,782	154,054	(80,765)	3,762	455,729
\$ 5,480	\$ 3,820	\$ 257,797	\$ 266,370	\$ (287,047)	\$ 4,965	\$ 350,204

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

Statistical Section

Statistical Section Table of Contents

Financial Trends

These tables illustrate how the Commonwealth's financial position has changed over time by providing information on the Commonwealth's net assets, changes in net assets, fund balance, and changes in fund balance.

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These tables contain information on the factors that affect the Commonwealth's ability to generate its own-source revenues. The Commonwealth's largest source of revenues is taxes. Information for the three largest is contained within these tables. Personal income, sales, and corporation taxes account for 77% of all general revenues for the June 30, 2010 fiscal year (as disclosed in the Statement of Activities).

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Commonwealth of Pennsylvania
Financial Trends

Table 1
 Net Assets by Component
 For the Last Nine Fiscal Years As of June 30

	(Restated)				
	2002	2003	2004	2005	2006
GOVERNMENTAL ACTIVITIES (1)					
Invested in capital assets, net of related debt.....	\$ 14,806,435	\$ 16,106,064	\$ 16,944,913	\$ 18,258,125	\$ 19,068,573
Restricted for:					
Health-related programs (2).....	N/A	N/A	N/A	1,215,291	1,320,703
Transportation.....	605,606	553,212	775,900	990,743	1,578,753
Capital projects.....	3,937	301,628	245,926	173,790	196,301
Debt service.....	-	32,685	61,029	83,885	8,118
Unemployment/worker's compensation.....	141,678	48,847	-	-	29,754
Elderly programs.....	1,434	111,659	90,713	92,531	32,327
Environmental and conservation programs.....	480,182	445,350	430,071	420,600	435,976
Economic development (2)(3).....	N/A	N/A	N/A	N/A	18,171
Gaming licensing/regulation (2).....	N/A	N/A	N/A	N/A	2,128
Correctional industries and procurement (2).....	N/A	N/A	N/A	N/A	133,934
Emergency support (2).....	N/A	N/A	N/A	N/A	56,543
Higher education (2).....	N/A	N/A	N/A	N/A	N/A
Other purposes (2).....	384,027	1,003,117	1,366,072	303,409	82,770
Unrestricted (deficit).....	1,312,334	(603,472)	(228,981)	(739,160)	(372,089)
TOTAL GOVERNMENTAL ACTIVITIES NET ASSETS.....	17,735,633	17,999,090	19,685,643	20,799,214	22,591,962
BUSINESS-TYPE ACTIVITIES					
Invested in capital assets, net of related debt.....	30,426	42,421	45,927	46,567	82,694
Restricted for:					
Health-related programs (2).....	N/A	N/A	N/A	-	4,814
Transportation.....	30,336	31,742	33,227	50,433	52,960
Unemployment/worker's compensation.....	2,836,069	1,960,499	1,506,877	1,808,170	2,397,720
Elderly programs.....	180,814	142,284	158,343	291,329	325,925
Economic development (2)(3).....	N/A	N/A	N/A	N/A	212,792
Emergency support (2).....	N/A	N/A	N/A	N/A	126,505
Other purposes (2).....	422,971	361,993	403,527	450,961	152,629
Unrestricted (deficit).....	(26,005)	(71,756)	(47,849)	(43,812)	-
TOTAL BUSINESS-TYPE ACTIVITIES NET ASSETS.....	3,474,611	2,467,183	2,100,052	2,603,648	3,356,039
PRIMARY GOVERNMENT					
Invested in capital assets, net of related debt.....	14,836,861	16,148,485	16,990,840	18,304,692	19,151,267
Restricted for:					
Health-related programs (2).....	N/A	N/A	N/A	1,215,291	1,325,517
Transportation.....	635,942	584,954	809,127	1,041,176	1,631,713
Capital projects.....	3,937	301,628	245,926	173,790	196,301
Debt service.....	-	32,685	61,029	83,885	8,118
Unemployment/worker's compensation.....	2,977,747	2,009,346	1,506,877	1,808,170	2,427,474
Elderly programs.....	182,248	253,943	249,056	383,860	358,252
Environmental and conservation programs.....	480,182	445,350	430,071	420,600	435,976
Economic development (2)(3).....	N/A	N/A	N/A	N/A	230,963
Gaming licensing/regulation (2).....	N/A	N/A	N/A	N/A	2,128
Correctional industries and procurement (2).....	N/A	N/A	N/A	N/A	133,934
Emergency support (2).....	N/A	N/A	N/A	N/A	183,048
Higher education (2).....	N/A	N/A	N/A	N/A	N/A
Other purposes (2).....	806,998	1,365,110	1,769,599	754,370	235,399
Unrestricted (deficit).....	1,286,329	(675,228)	(276,830)	(782,972)	(372,089)
TOTAL PRIMARY GOVERNMENT NET ASSETS.....	\$ 21,210,244	\$ 20,466,273	\$ 21,785,695	\$ 23,402,862	\$ 25,948,001

Source: Statement of Net Assets, as presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the applicable fiscal year.

Notes:

- (1)-This schedule presents information beginning with the 2002 fiscal year, when the Commonwealth implemented GASB Statement 34.
- (2)-Since implementation of GASB Statement 34, additional restricted net asset categories have been created to provide a more refined description of the restrictions. These restrictions were not applied retroactively and are marked with N/A in the years prior to the creation of the new restricted net asset category. These new categories were created either for new funds or funds previously reported in the "Other purposes" category. The "Gaming licensing/regulation" category was created for a new fund, the Gaming Fund, a governmental fund type, in the 2006 fiscal year. The most significant fund previously reported in the "Other purposes" category that is now being reported in a new classification is the Tobacco Settlement Fund, a major governmental fund type, which beginning with the 2005 fiscal year is now being reported in the "Health-related programs" category (caption title reported in previous CAFRs as "Smoking cessation and other health-related programs"). Other notable funds being reported in new categories are the Internal Service funds-reported in the "Correctional industries and procurement" category; Machinery and Equipment Loan Fund and Small Business First Fund (both Proprietary fund types)-reported in the "Economic development" category; the Volunteer Companies Loan Fund (a Proprietary fund type)-reported in the "Emergency support" category; and the Educational Assistance Program Fund (a Special Revenue fund type)-reported in the "Higher education" category.
- (3)-In previous CAFRs, this restricted net asset category was reported as "Economic stimulus". To avoid confusion with any current or future federal economic stimulus grants, the category's name has been changed to "Economic development".
- (4)-In the June 30, 2009 CAFR, the beginning net assets balance for Governmental Activities was restated and decreased by \$273,654 as of July 1, 2008. Therefore, the ending net assets balance (for both Governmental and Total Primary Government Net Assets) shown in this table as of June 30, 2008 plus the change in net assets shown in Table 2 for the June 30, 2009 fiscal year will differ from the ending net assets balance (for both Governmental and Total Primary Government Net Assets) shown in this table as of June 30, 2009. Note B in the Notes to the Financial Statements in the June 30, 2009 CAFR provides additional details on this restatement.

2007	2008 (4)	2009 (4)	2010
\$ 20,015,677	\$ 21,482,118	\$ 22,821,832	\$ 24,102,905
1,454,502	1,410,932	1,291,318	1,048,684
1,266,928	1,520,801	1,342,189	1,318,358
213,556	-	-	11
20,474	27,458	16,834	46,853
104,579	120,181	125,515	301,372
10,808	38,264	62,183	50,213
473,210	457,726	529,274	592,672
16,217	22,530	23,576	25,312
299,396	947,145	917,466	771,616
30,348	46,541	37,701	49,467
60,917	58,063	57,324	58,209
N/A	7,023	8,985	7,715
87,077	88,580	58,842	55,616
343,162	(648,689)	(4,053,146)	(4,881,426)
<u>24,396,851</u>	<u>25,578,673</u>	<u>23,239,893</u>	<u>23,547,577</u>
56,010	72,668	78,561	74,392
2,413	1,942	1,059	2,837
58,085	103,274	103,652	110,987
2,547,726	2,378,092	342,098	-
340,836	124,351	-	-
288,246	299,924	283,012	295,502
129,546	132,837	134,685	138,884
165,168	126,799	76,573	85,177
-	(73,973)	(403,122)	(1,916,364)
<u>3,588,030</u>	<u>3,165,914</u>	<u>616,518</u>	<u>(1,208,585)</u>
20,071,687	21,554,786	22,900,393	24,177,297
1,456,915	1,412,874	1,292,377	1,051,521
1,325,013	1,624,075	1,445,841	1,429,345
213,556	-	-	11
20,474	27,458	16,834	46,853
2,652,305	2,498,273	467,613	301,372
351,644	162,615	62,183	50,213
473,210	457,726	529,274	592,672
304,463	322,454	306,588	320,814
299,396	947,145	917,466	771,616
30,348	46,541	37,701	49,467
190,463	190,900	192,009	197,093
N/A	7,023	8,985	7,715
252,245	215,379	135,415	140,793
343,162	(722,662)	(4,456,268)	(6,797,790)
<u>\$ 27,984,881</u>	<u>\$ 28,744,587</u>	<u>\$ 23,856,411</u>	<u>\$ 22,338,992</u>

Commonwealth of Pennsylvania

Financial Trends

Table 2

Changes in Net Assets

For the Last Nine Fiscal Years Ended June 30

(Accrual basis of accounting—amounts in thousands)

	(Restated) 2002	2003	2004	2005	2006	2007	2008	2009	2010
GOVERNMENTAL ACTIVITIES (1):									
Expenses:									
Direction and supportive services.....	\$ 1,262,359	\$ 1,024,071	\$ 2,034,883	\$ 2,229,850	\$ 2,162,552	\$ 1,208,409	\$ 1,479,962	\$ 1,492,541	\$ 1,950,908
Protection of persons and property	3,758,867	3,921,413	3,873,972	4,244,332	4,439,794	4,487,633	4,922,684	5,480,770	5,682,950
Public education.....	9,642,272	10,219,211	10,571,307	11,428,452	11,816,608	12,464,663	13,107,648	14,045,890	14,520,733
Health and human services.....	18,893,434	20,454,323	21,750,153	24,166,791	24,139,762	24,264,933	25,215,388	26,615,566	28,321,389
Economic development.....	1,416,557	1,455,272	1,340,015	1,314,636	1,409,506	1,738,172	1,720,992	1,614,214	1,580,654
Transportation.....	2,581,898	2,998,824	3,164,086	3,261,642	3,229,351	3,922,517	4,182,916	4,278,022	4,951,010
Recreation and cultural enrichment.....	481,948	435,864	394,273	448,585	520,330	569,510	571,009	602,365	559,311
Interest.....	344,482	370,284	341,455	296,267	337,142	344,557	371,249	382,065	395,305
Total expenses.....	38,381,817	40,879,262	43,470,144	47,390,555	48,055,045	49,000,394	51,571,848	54,511,433	57,962,260
Program revenues:									
Charges for sales and services:									
Direction and supportive services.....	393,856	347,910	1,097,730	1,377,293	991,541	143,290	143,933	74,320	216,188
Protection of persons and property	373,329	627,529	925,502	831,785	1,080,708	1,309,256	1,214,038	1,083,889	1,331,281
Public education.....	6,043	-	3,514	1,702	13,161	14,793	17,641	15,756	18,201
Health and human services.....	2,095,669	2,049,640	1,297,338	2,871,487	1,913,377	1,730,965	1,800,212	1,559,638	1,134,144
Economic development.....	145,119	142,914	1,011	11,028	16,373	12,277	11,379	15,553	12,317
Transportation.....	956,406	914,129	1,008,886	1,029,406	949,533	952,866	945,536	944,486	910,721
Recreation and cultural enrichment.....	188,829	143,221	138,750	153,641	166,750	162,168	162,013	312,287	416,053
Operating grants and contributions.....	13,122,608	14,574,283	16,556,717	16,773,012	16,532,924	17,229,000	17,936,693	20,370,216	25,620,597
Capital grants and contributions.....	125,502	136,140	30,473	14,944	55,761	23,495	4,610	47,320	57,628
Total program revenues.....	17,407,361	18,935,766	21,059,921	23,064,298	21,720,128	21,578,110	22,236,055	24,423,465	29,717,130
Total governmental activities net program revenues/(expenses).....	(20,974,456)	(21,943,496)	(22,410,223)	(24,326,257)	(26,334,917)	(27,422,284)	(29,335,793)	(30,087,968)	(28,245,130)
General revenues and other changes in net assets:									
General revenues:									
Taxes:									
Personal income.....	6,713,861	6,691,957	7,352,877	8,312,440	9,093,338	9,951,585	10,438,976	9,553,538	9,414,864
Sales and use.....	7,419,373	7,511,233	7,654,405	7,917,396	8,381,262	8,629,815	8,779,768	8,417,292	8,309,905
Corporation.....	3,160,714	3,418,599	4,004,112	4,400,995	5,074,730	4,985,031	5,157,589	4,209,705	4,146,477
Liquid fuels and motor carriers.....	1,696,418	1,666,795	1,723,816	1,863,223	2,033,227	2,072,442	2,024,045	1,975,678	2,045,505
Gaming (2).....	N/A	N/A	N/A	N/A	N/A	251,059	769,064	999,247	1,232,829
Inheritance (3).....	N/A	634,365	726,605	668,992	793,279	716,788	802,865	733,405	698,980
Cigarette (3).....	N/A	N/A	933,973	811,578	1,033,099	983,580	1,026,125	1,000,987	1,088,405
Realty transfer (3).....	N/A	N/A	N/A	N/A	646,870	583,991	500,786	348,003	346,094
Other (3).....	1,642,731	1,616,368	893,589	992,343	418,110	475,197	592,744	492,420	1,035,935
Total taxes.....	20,633,097	21,539,317	23,289,377	24,966,967	27,473,915	28,649,488	30,091,962	27,730,275	28,318,994
Investment income.....	15,394	115,829	199,151	131,629	188,750	320,342	128,722	(137,831)	15,099
Total general revenues.....	20,648,491	21,655,146	23,488,528	25,098,596	27,662,665	28,969,830	30,220,684	27,592,444	28,334,093
Special item-revenues from component unit.....	256,206	-	-	-	-	-	-	-	-
Transfers from business-type activities.....	481,022	551,807	422,786	341,232	465,000	257,343	296,931	430,398	218,721
Net general revenues, special items and transfers.....	21,385,719	22,206,953	23,911,314	25,439,828	28,127,665	29,227,173	30,517,615	28,022,842	28,552,814
Total governmental activities change in net assets.....	\$ 411,263	\$ 263,457	\$ 1,501,091	\$ 1,113,571	\$ 1,792,748	\$ 1,804,889	\$ 1,181,822	\$ (2,065,126)	\$ 307,684

Commonwealth of Pennsylvania

Financial Trends

Table 2

Changes in Net Assets

For the Last Nine Fiscal Years Ended June 30

(Accrual basis of accounting—amounts in thousands)

	(Restated) 2002	2003	2004	2005	2006	2007	2008	2009	2010
BUSINESS-TYPE ACTIVITIES									
Expenses									
State lottery.....	\$ 1,682,675	\$ 1,827,306	\$ 2,051,646	\$ 2,298,417	\$ 2,704,265	\$ 3,100,523	\$ 3,157,593	\$ 3,173,322	\$ 3,079,381
State workers' insurance.....	174,929	225,483	435,429	449,880	412,104	553,512	616,256	388,424	338,229
Tuition payment.....	191,188	288,118	293,737	192,802	138,275	267,941	224,791	100,028	235,876
Unemployment compensation.....	2,819,878	3,470,257	2,563,318	1,774,676	1,998,613	2,074,382	2,289,977	6,250,213	11,750,605
Liquor control.....	907,261	954,763	1,024,365	1,088,875	1,178,434	1,277,871	1,318,503	1,437,168	1,478,971
Economic development and other.....	16,820	12,663	13,980	16,456	18,433	14,470	3,148	14,171	13,706
Total expenses.....	5,792,751	6,778,590	6,382,475	5,821,106	6,450,124	7,288,699	7,610,268	11,363,326	16,896,768
Program revenues									
Charges for sales and services:									
State lottery.....	1,955,820	2,103,644	2,349,644	2,644,407	3,047,978	3,076,013	3,100,962	3,088,231	3,052,097
State workers' insurance.....	149,688	180,664	266,551	355,883	427,970	374,088	384,301	291,677	223,458
Tuition payment.....	151,149	234,460	206,739	141,817	113,831	151,121	138,361	153,892	157,336
Unemployment compensation.....	1,862,530	1,532,213	1,628,215	1,961,085	2,373,163	2,172,900	2,061,780	2,423,125	5,336,714
Liquor control.....	975,300	1,025,813	1,121,853	1,183,667	1,272,101	1,364,524	1,428,638	1,507,512	1,527,998
Economic development and other.....	24,031	15,878	21,467	17,201	17,585	20,068	20,149	19,067	22,254
Operating grants and contributions.....	463,554	1,223,591	840,763	361,874	414,887	619,319	350,892	1,760,824	4,970,529
Capital grants and contributions.....	-	6,706	1,121	-	-	-	-	-	-
Total program revenues.....	5,582,072	6,322,969	6,436,353	6,665,934	7,667,515	7,778,033	7,485,083	9,244,328	15,290,386
Total business-type activities net program revenues/(expenses).....	(210,679)	(455,621)	53,878	844,828	1,217,391	489,334	(125,185)	(2,118,998)	(1,606,382)
Other changes in net assets									
Transfers to governmental activities.....	(481,022)	(551,807)	(422,786)	(341,232)	(465,000)	(257,343)	(296,931)	(430,398)	(218,721)
Total business-type activities change in net assets.....	(691,701)	(1,007,428)	(368,908)	503,596	752,391	231,991	(422,116)	(2,549,396)	(1,825,103)
Total primary government change in net assets.....	\$ (280,438)	\$ (743,971)	\$ 1,132,183	\$ 1,617,167	\$ 2,545,139	\$ 2,036,880	\$ 759,706	\$ (4,614,522)	\$ (1,517,419)

Source: Statement of Activities, as presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the applicable fiscal year.**Notes:**

(1)-This schedule presents information beginning with the 2002 fiscal year, when the Commonwealth implemented GASB Statement 34.

(2)-During the 2007 fiscal year, the first licensed gaming facilities opened and the resulting taxes from their activities were reported in the Gaming Fund, a special revenue fund.

(3)-Since implementation of GASB Statement 34, additional captions were created in the Statement of Activities to provide a more refined description of the Commonwealth's taxes. With the original implementation, inheritance, cigarette and realty transfer taxes were reported within the "Other" taxes category. Beginning with the 2003 fiscal year, inheritance taxes were reported separately; in the 2004 fiscal year, cigarette taxes were reported separately; and in the 2006 fiscal year, realty transfer taxes were reported separately. These captions are marked with N/A in the fiscal years prior to when the particular tax was reported separate from the "Other" taxes category. Beginning with the June 30, 2010 CAFR, the "Real estate" taxes caption reported in previous CAFRS has been changed to "Realty transfer" to better reflect the nature of the tax.

Commonwealth of Pennsylvania

Financial Trends

Table 3
Governmental Fund Type Fund Balances
For the Last Ten Fiscal Years As of June 30

(Modified accrual basis of accounting-amounts in thousands)	2001	(Restated) 2002 (1)	2003	2004	2005	2006	2007	2008 (3)	2009 (3)	2010
GENERAL FUND										
Reserved for:										
Encumbrances.....	\$ 426,956	\$ 479,314	\$ 341,881	\$ 259,178	\$ 617,861	\$ 709,115	\$ 570,027	\$ 568,678	\$ 785,864	\$ 806,181
Advances.....	52,808	29,111	114,108	114,108	114,108	114,108	114,108	114,108	139,108	139,108
Loans receivable.....	-	-	9,470	6,283	4,496	10,953	11,113	8,358	9,924	9,989
Tax Stabilization/Budget Stabilization Reserve (2).....	1,093,213	-	-	-	70,303	171,362	538,764	745,949	745,949	-
Other.....	308,125	286,711	307,974	501,901	621,004	454,639	844,229	1,148,218	1,375,432	764,206
Unreserved:										
Designated for:										
Budget Stabilization Reserve Fund.....	-	300,000	-	70,303	-	-	-	-	-	-
Other.....	1,079,047	323,884	269,775	421,415	514,174	719,414	923,966	379,169	-	-
Undesignated.....	1,524,846	1,603,822	1,314,505	1,633,326	927,163	789,958	368,659	9,621	(2,541,099)	(1,434,681)
TOTAL GENERAL FUND.....	4,484,995	3,022,842	2,357,713	3,006,514	2,869,109	2,969,549	3,370,866	2,974,101	515,178	284,803
ALL OTHER GOVERNMENTAL FUNDS										
Reserved for:										
Encumbrances.....	1,220,710	1,336,227	1,168,535	1,444,875	1,454,129	1,630,382	1,927,151	2,057,615	2,085,395	2,329,299
Advances.....	3,000	3,000	3,000	223,000	210,000	3,000	3,000	3,000	3,000	3,000
Loans receivable.....	56,264	39,963	38,186	39,804	32,065	32,684	39,859	73,628	83,100	79,315
Other.....	38,050	407,029	445,411	560,284	817,668	857,253	1,329,707	940,263	916,713	907,005
Unreserved:										
Designated for, reported in:										
Highways.....	182,670	175,249	215,946	209,647	218,885	203,118	235,730	689,288	700,018	768,710
Special Revenue funds.....	264	12	-	-	4,355	4,528	11,268	9,341	8,666	2,218
Debt Service funds.....	152,085	21,887	32,685	61,029	83,885	8,118	20,474	27,458	16,834	46,853
Capital Projects funds.....	79,867	79,286	54,026	96,787	133,024	131,026	65,455	54,631	33,527	32,879
Unreserved: Undesignated, reported in:										
Special Revenue funds.....	970,427	1,791,400	1,703,534	1,520,236	1,631,980	2,412,047	1,971,829	2,630,277	2,448,383	2,421,257
Debt Service funds (deficit).....	(8)	(3,782)	-	-	-	-	-	-	-	-
Capital Projects funds (deficit).....	(668,091)	(494,795)	(398,644)	(368,295)	(473,110)	(601,823)	(449,622)	(629,686)	(721,365)	(524,465)
TOTAL ALL OTHER GOVERNMENTAL FUNDS.....	\$ 2,035,238	\$ 3,355,476	\$ 3,262,679	\$ 3,787,367	\$ 4,112,881	\$ 4,680,333	\$ 5,154,851	\$ 5,855,815	\$5,574,271	\$ 6,066,071

Source: The Commonwealth's Comprehensive Annual Financial Report, as presented for the applicable fiscal year. For the 2001 fiscal year, the information can be found in the Combined Balance Sheet-All Fund Types, Account Groups and Discretely Presented Component Units statement. Beginning with the 2002 fiscal year, the information can be found in the Balance Sheet-Governmental Funds statement.

Notes:

(1)-Beginning with the 2002 fiscal year, the Commonwealth implemented GASB Statement 34. As a result, two funds (State Lottery Fund and Historical Preservation Fund) were reclassified from the Special Revenue governmental fund type classification to a Proprietary fund type classification. Two additional funds (Workmen's Compensation Security Trust Fund and Catastrophic Loss Trust Fund) were reclassified from an Expendable Trust fund type classification to a Special Revenue governmental fund type classification.

(2)-The Tax Stabilization Fund was abolished and its last year of existence was the 2001 fiscal year. In the 2002 fiscal year, the new Budget Stabilization Reserve Fund was created by Act 91 of 2002. The reservations for both funds are reported on the same line because they are considered to be the Commonwealth's Rainy Day Fund within the General Fund. Note A in the Notes to the Financial Statements provides additional details.

(3)-In the June 30, 2009 CAFR, the beginning fund balance for the Motor License fund (a governmental fund type) was restated and increased by \$30,059 as of July 1, 2008. Therefore, the combined ending fund balance (for the General Fund and all other governmental fund types) shown in this table as of June 30, 2008 plus the change in net assets shown in Table 4 for the June 30, 2009 fiscal year will differ from the combined ending fund balance (for the General Fund and all other governmental fund types) shown in this table as of June 30, 2009. Note B in the Notes to the Financial Statements in the June 30, 2009 CAFR provides additional details on this restatement.

Commonwealth of Pennsylvania

Financial Trends

Table 4

Revenues by Source and Expenditures by Function-All Governmental Fund Types
For the Last Ten Fiscal Years Ended June 30

(Modified accrual basis of accounting-amounts in thousands)

	2001	(Restated) 2002 (1)	2003	2004	2005	2006	2007	2008	2009	2010
REVENUES BY SOURCE										
Taxes, net of refunds.....	\$ 21,232,196	\$ 20,636,762	\$ 21,469,170	\$ 23,237,117	\$ 24,973,125	\$ 27,117,823	\$ 28,548,280	\$ 29,909,880	\$ 27,773,110	\$ 28,229,235
Licenses and fees.....	1,172,372	1,246,232	1,350,016	1,475,948	1,568,659	1,611,868	1,954,788	1,913,154	1,674,804	1,951,683
Intergovernmental.....	12,086,372	13,259,463	14,575,716	16,379,096	16,585,336	16,347,975	16,891,212	17,911,839	20,619,848	25,256,164
Charges for sales and services.....	2,388,536	2,535,775	2,019,842	2,068,019	4,027,745	2,970,585	1,598,564	1,641,937	1,597,751	1,501,109
Investment income.....	307,202	29,615	249,791	402,132	322,199	425,356	769,820	166,522	(306,524)	344,936
Lottery receipts (2).....	1,788,333	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other (3).....	539,830	755,226	837,918	957,494	552,422	576,180	607,201	752,308	715,425	686,069
TOTAL REVENUES	39,514,841	38,463,073	40,502,453	44,519,806	48,029,486	49,049,787	50,369,865	52,295,640	52,074,414	57,969,196
EXPENDITURES BY FUNCTION										
Direction and supportive services	3,292,188	968,563	914,794	1,538,729	2,134,421	2,337,112	1,104,793	1,385,760	1,375,399	1,779,748
Protection of persons and property.....	3,044,074	3,876,449	3,882,843	3,886,666	3,892,572	4,410,969	4,621,119	4,861,363	5,169,377	5,359,792
Health and human services.....	17,483,315	18,990,802	20,510,849	21,689,392	24,118,288	24,103,077	24,293,011	25,141,836	26,549,790	28,340,751
Public education.....	8,677,284	8,814,273	10,198,076	10,529,504	11,400,985	11,731,884	12,439,920	13,076,308	14,019,470	14,492,845
Recreation and cultural enrichment.....	568,757	480,245	471,920	382,179	442,783	447,264	544,117	557,387	570,177	506,737
Economic development.....	745,143	1,245,292	1,507,584	1,334,071	1,310,093	1,413,995	1,736,388	1,721,634	1,605,513	1,582,097
Transportation.....	4,065,124	4,003,291	3,935,785	2,310,434	2,607,793	2,448,165	3,089,544	3,292,279	3,321,647	3,833,745
Capital outlay.....	655,248	694,219	407,080	2,008,141	1,805,913	2,082,644	2,121,632	2,273,290	2,812,788	3,144,349
Debt service:										
Principal retirement.....	477,001	479,395	998,396	455,890	478,112	492,355	521,773	555,337	598,850	626,090
Interest and fiscal charges.....	281,590	278,428	313,681	311,686	320,887	348,418	361,088	388,772	402,653	406,414
TOTAL EXPENDITURES	39,289,724	39,830,957	43,141,008	44,446,692	48,511,847	49,815,883	50,833,385	53,253,916	56,425,664	60,072,568
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	225,117	(1,367,884)	(2,638,555)	73,114	(482,361)	(766,096)	(463,520)	(958,276)	(4,351,250)	(2,103,372)
OTHER FINANCING SOURCES/(USES)										
Bonds issued.....	663,919	1,042,813	1,324,167	625,247	401,816	914,000	1,008,104	913,119	1,064,103	1,900,401
Refunding bonds issued.....	-	376,854	837,991	459,223	1,468,439	-	250,557	194,471	155,642	695,945
Premium on bonds/refunding bonds issued.....	-	-	-	88,006	197,291	54,420	58,166	61,277	88,921	203,601
Discount on bonds issued.....	-	-	-	-	-	-	(157)	-	-	(2,924)
Transfers in.....	1,097,698	2,272,414	1,729,539	1,337,090	1,276,443	1,408,351	1,463,620	1,614,938	1,693,343	2,251,986
Transfers out.....	(1,056,533)	(1,791,392)	(1,177,733)	(914,304)	(1,035,211)	(943,351)	(1,188,779)	(1,318,226)	(1,257,945)	(1,888,368)
Transfers from component units (4).....	-	256,206	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Transfers to component units (4).....	(877,609)	(1,079,197)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Payment to refunded bond escrow agent.....	-	(376,854)	(837,991)	(511,884)	(1,639,510)	-	(253,892)	(203,633)	(166,978)	(795,844)
Capital lease and installment purchase obligations.....	6,607	5,767	4,656	1,535	1,202	568	1,736	529	3,638	-
TOTAL OTHER FINANCING SOURCES/(USES)	(165,918)	706,611	1,880,629	1,084,913	670,470	1,433,988	1,339,355	1,262,475	1,580,724	2,364,797
NET CHANGE IN FUND BALANCES	\$ 59,199	\$ (661,273)	\$ (757,926)	\$ 1,158,027	\$ 188,109	\$ 667,892	\$ 875,835	\$ 304,199	\$ (2,770,526)	\$ 261,425
Debt Service as a Percentage of Noncapital Expenditures (5).....	1.96%	1.94%	3.07%	1.81%	1.71%	1.76%	1.81%	1.85%	1.87%	1.81%

Source: The Commonwealth's Comprehensive Annual Financial Report, as presented for the applicable fiscal year. For the 2001 fiscal year, the information can be found in the Combined Statement of Revenues, Expenditures and Changes in Fund Balance statement. Beginning with the 2002 fiscal year, the information can be found in the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds statement.

Notes:

(1)-Beginning with the 2002 fiscal year, the Commonwealth implemented GASB Statement 34. As a result, two funds (State Lottery Fund and Historical Preservation Fund) were reclassified from the Special Revenue governmental fund type classification to a Proprietary fund type classification. Two additional funds (Workmen's Compensation Security Trust Fund and Catastrophic Loss Trust Fund) were reclassified from an Expendable Trust fund type classification to a Special Revenue governmental fund type classification.

(2)-The change in the State Lottery fund type classification was not retroactively applied, thus the lottery receipts are reported in the Governmental Fund Types through the 2001 fiscal year. Subsequent years after the reclassification are marked with an N/A.

(3)-Other revenues include immaterial amounts of lease rentals revenues and interest on notes and loans.

(4)-With the implementation of GASB Statement 34, the Commonwealth was required to begin reporting transfers from and to component units as ordinary revenues and expenditures. These changes were made to the Commonwealth's accounting system beginning with the 2003 fiscal year and were not retroactively applied. Subsequent fiscal years are marked with a N/A.

(5)-Ratio is calculated as Principal Retirement plus Interest and Fiscal Charges divided by Total Expenditures less Capital Outlay. There are no expenditures for capitalized assets contained within the functional expenditure categories.

Commonwealth of Pennsylvania
Revenue Capacity-Personal Income Tax

Table 5
 Personal Income by Industry
 For the Last Ten Calendar Years

(Amounts in millions)	2000(1)	2001(1)	2002(1)	2003(1)	2004(1)	2005(1)	2006(1)	2007(1)	2008(1)	2009
TOTAL PERSONAL INCOME BY INDUSTRY (2)										
Workplace Earnings:										
Farm Earnings	\$ 1,097	\$ 997	\$ 622	\$ 1,213	\$ 1,484	\$ 1,342	\$ 1,053	\$ 1,234	\$ 1,088	\$ 773
Nonfarm Earnings:										
Private earnings:										
Forestry, fishing/hunting, agriculture.....	424	461	415	394	403	414	438	439	441	453
Mining.....	1,275	1,530	1,342	1,455	1,714	1,911	2,250	2,156	3,010	2,868
Utilities.....	2,816	3,019	3,138	2,972	2,853	2,750	2,901	2,953	3,236	3,160
Construction.....	16,989	18,231	18,604	19,788	21,040	22,044	23,206	22,919	22,214	19,580
Manufacturing.....	45,273	43,431	42,928	41,835	42,107	42,627	44,190	43,776	44,213	40,821
Wholesale trade.....	12,966	13,378	13,739	14,448	15,683	16,645	17,850	19,011	19,205	18,235
Retail trade.....	18,775	19,555	19,927	20,904	21,068	21,624	21,908	22,197	21,746	21,120
Transportation and warehousing.....	10,246	10,903	10,917	11,223	12,023	12,408	12,777	13,226	13,436	13,042
Broadcasting/publishing/internet technology.....	8,189	8,500	8,124	8,619	8,754	8,942	9,356	9,691	10,277	9,909
Finance and insurance.....	18,344	18,929	19,772	20,558	21,890	22,793	24,440	25,036	25,551	24,840
Real estate and rental and leasing.....	6,382	5,751	5,815	6,173	6,405	6,219	6,082	5,161	5,244	5,003
Professional and technical services.....	23,676	24,643	24,927	25,565	27,621	29,437	31,852	34,067	36,545	36,281
Management of companies and enterprises.....	4,295	5,044	5,445	7,098	8,034	9,355	10,590	13,157	13,438	13,538
Administrative services.....	8,623	9,009	9,307	9,221	9,954	10,399	10,958	11,605	11,685	10,795
Educational services.....	6,477	6,871	7,959	8,546	8,546	8,876	9,425	9,899	10,474	10,911
Health care and social assistance.....	30,880	31,972	34,514	36,633	39,563	40,772	43,386	45,636	48,581	50,383
Arts, entertainment, and recreation.....	2,486	2,486	2,658	2,924	3,021	3,071	3,288	3,549	3,584	3,612
Accommodation and food services.....	6,605	6,806	7,143	7,311	7,658	7,883	8,065	8,317	8,618	8,406
Other services, except public administration.....	12,331	10,720	11,954	11,780	12,279	13,124	13,544	13,961	13,887	13,734
Total private earnings	237,052	241,239	248,244	256,860	270,616	281,294	296,506	307,276	315,385	306,691
Government:										
Federal, civilian.....	7,463	7,641	7,973	8,198	8,810	9,164	9,545	9,846	10,083	10,472
Military.....	884	966	1,189	1,595	1,677	1,855	1,822	1,809	1,919	2,092
State government.....	7,134	7,508	7,939	8,413	8,555	8,690	9,033	9,446	9,867	10,218
Local government.....	18,705	19,527	20,537	21,655	22,677	23,389	24,007	25,013	26,133	27,200
Total government earnings	34,186	35,642	37,638	39,861	41,719	43,098	44,407	46,314	48,002	49,982
Total nonfarm earnings	271,238	276,881	285,882	296,721	312,335	324,392	340,913	353,590	363,387	356,673
Total workplace earnings	272,335	277,878	286,504	297,934	313,819	325,734	341,966	354,824	364,475	357,446
Other earnings/deductions (3)	97,584	99,497	101,159	101,613	103,972	106,514	120,738	134,688	143,433	148,769
Total personal income	\$ 369,919	\$ 377,375	\$ 387,663	\$ 399,547	\$ 417,791	\$ 432,248	\$ 462,704	\$ 489,512	\$ 507,908	\$ 506,215
Total personal income subject to the direct personal income tax rate (4)(5)	\$ 237,070	\$ 230,926	\$ 229,685	\$ 237,961	\$ 250,921	266,800	288,043	317,393	N/A	N/A
Direct personal income tax rate	2.80%	2.80%	2.80%	2.80%	3.07%	3.07%	3.07%	3.07%	3.07%	3.07%

Sources:

Personal income by industry is provided by the Regional Economic Information System, Bureau of Economic Analysis, US Department of Commerce (www.bea.gov/index.htm) through estimates released September 2010. Total personal income subject to the direct tax rate was obtained from the Pennsylvania Department of Revenue. The information for the 2007 calendar year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium for 2008-09 (revised March 3, 2010). The direct personal income tax rate was obtained from the Pennsylvania Tax Compendium for December 2008. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at www.revenue.state.pa.us.

Notes:

- (1)-Calendar years 2000-2008 differ from the totals shown in the Commonwealth's Comprehensive Annual Financial Report for June 30, 2009. The amounts shown in the prior year were based on estimates released by the Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce in October 2009. These estimates have subsequently been revised (as provided in the September 2010 release).
- (2)-Personal income by industry is reported under the North American Industry Classification System.
- (3)-Other earnings/deductions include dividends, interest and miscellaneous employee/employer contributions/deductions.
- (4)-Total personal income subject to the direct personal income tax rate consists of taxable compensation, interest, dividends, net profits and other income, prior to the application of various tax credits. This amount is self-assessed by the taxpayer on their tax returns for the tax year. Due to the complexity and length of the tax return filing and review process, the total compilation is not yet available for release by the Pennsylvania Department of Revenue for the 2008 and 2009 tax years.
- (5)-This information is presented by tax year, rather than by calendar year, as the personal income by industry is presented. An individual filer's tax year is defined as that period for which that person must file a tax return. Generally, many filers have the last day of their filing year fall on December 31st; however, for various reasons, other filers have a filing year that falls on a different date (e.g. March 31st). The information presented is based on those returns of the filers whose tax year ended during the the applicable calendar year.

Commonwealth of Pennsylvania
Revenue Capacity-Personal Income Tax

Table 6

Personal Income Tax Filers and Liability by Income Level
 1998 and 2007 Tax Years

Liability amounts in thousands					Liability amounts in thousands				
1998 Tax Year (1)(2)(3)					2007 Tax Year (1)(2)(3)				
Taxable Income Level	Number of Filers	Percentage of Total (5)	Personal Income Tax Liability(4)	Percentage of Total	Taxable Income Level	Number of Filers	Percentage of Total (5)	Personal Income Tax Liability(4)	Percentage of Total
\$0	58,241	1.04%	\$ -	0.00%	\$0	118,721	1.96%	\$ -	0.00%
\$1-999	375,843	6.69%	4,579	0.08%	\$1-999	352,977	5.83%	4,289	0.04%
\$1,000-2,999	470,754	8.39%	25,584	0.42%	\$1,000-2,999	405,209	6.69%	24,231	0.25%
\$3,000-4,999	353,701	6.30%	39,184	0.65%	\$3,000-4,999	321,631	5.31%	39,106	0.40%
\$5,000-6,999	281,899	5.02%	47,042	0.78%	\$5,000-6,999	264,811	4.37%	48,472	0.50%
\$7,000-8,999	229,982	4.10%	51,326	0.85%	\$7,000-8,999	222,100	3.67%	54,365	0.56%
\$9,000-10,999	202,567	3.61%	56,620	0.94%	\$9,000-10,999	193,598	3.20%	59,299	0.61%
\$11,000-12,999	185,789	3.31%	62,386	1.04%	\$11,000-12,999	176,970	2.92%	65,158	0.67%
\$13,000-14,999	174,929	3.12%	68,534	1.14%	\$13,000-14,999	164,822	2.72%	70,763	0.73%
\$15,000-16,999	166,040	2.96%	74,342	1.23%	\$15,000-16,999	155,213	2.56%	76,192	0.78%
\$17,000-18,999	158,869	2.83%	80,046	1.33%	\$17,000-18,999	149,123	2.46%	82,373	0.85%
\$19,000-21,999	225,590	4.02%	129,377	2.15%	\$19,000-21,999	216,172	3.57%	135,987	1.40%
\$22,000-24,999	209,572	3.73%	137,805	2.29%	\$22,000-24,999	206,537	3.41%	148,943	1.53%
\$25,000-29,999	315,072	5.61%	242,033	4.02%	\$25,000-29,999	318,224	5.25%	268,143	2.75%
\$30,000-34,999	275,125	4.90%	249,913	4.15%	\$30,000-34,999	285,765	4.72%	284,616	2.92%
\$35,000-39,999	246,569	4.39%	258,611	4.30%	\$35,000-39,999	251,102	4.15%	288,642	2.96%
\$40,000-49,999	412,996	7.36%	517,887	8.60%	\$40,000-49,999	415,446	6.86%	571,337	5.86%
\$50,000-74,999	654,040	11.65%	1,116,385	18.54%	\$50,000-74,999	723,670	11.95%	1,365,504	14.01%
\$75,000-99,999	286,602	5.11%	687,766	11.42%	\$75,000-99,999	430,686	7.11%	1,141,817	11.72%
\$100,000-149,999	188,177	3.35%	628,632	10.44%	\$100,000-149,999	378,024	6.24%	1,396,560	14.33%
\$150,000 or more	141,750	2.52%	1,542,708	25.62%	\$150,000 or more	306,710	5.06%	3,618,183	37.13%
Total (5)	<u>5,614,107</u>	100.00%	<u>\$ 6,020,759</u>	100.00%	Total	<u>6,057,511</u>	100.00%	<u>\$ 9,743,978</u>	100.00%

Sources:

For the 1998 tax year, all of the information was provided directly by the Pennsylvania Department of Revenue. For the 2007 tax year, the number of filers per taxable income level and the personal income subject to the direct personal income tax rate per income level (used in the Personal Income Tax Liability estimation) were obtained from the Statistical Supplement for the Pennsylvania Tax Compendium for 2008-09 (revised March 3, 2010). The direct personal income tax rate was obtained from the Pennsylvania Tax Compendium for December 2008. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at www.revenue.state.pa.us.

Notes:

- (1)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest personal income tax filers. Therefore, this schedule is presented as an alternative comparison regarding the sources of the Commonwealth's personal income tax revenue.
- (2)-An individual filer's tax year is defined as that period for which that person must file a tax return. Generally, many filers have the last day of their filing year fall on December 31st; however, for various reasons, other filers have a filing year that falls on a different date (e.g. March 31st). This table presents information based on all filers whose tax year ended during the the 1998 or 2007 calendar years.
- (3)-Due to the complexity and length of the tax return filing and review process, the total compilation of personal income subject to the direct tax rate per income level was not yet available for release by the Pennsylvania Department of Revenue for the 2008 and 2009 tax years. This compilation is used in the calculation of the estimated personal income tax liability. Therefore, the 1998 and 2007 tax years are presented as an alternative comparison.
- (4)-The estimated total personal income tax liability is calculated by multiplying the total personal income (as self-assessed by the individual tax filer) for the income level by the tax rate applicable during the tax year. The estimated liability is presented before any applicable tax credits were applied. For the 1998 tax year, the direct tax rate in effect was 2.80% for all income levels. Beginning with the 2004 tax year, the rate increased to 3.07%. This rate has been in effect for all subsequent tax years.
- (5)-Totals may not foot due to rounding.

Commonwealth of Pennsylvania

Revenue Capacity-Sales Tax

Table 7

Estimated Taxable Sales by Industry Classification of the Vendor
For the Last Ten Fiscal Years Ended June 30

(Amounts in thousands)	2000	2001	2002 (3)	2003	2004	2005	2006	2007	2008	2009(4)
Estimated Taxable Sales by Industry (1)(2)										
Manufacturing.....	\$ 6,812,867	\$ 6,241,417	\$ 5,712,633	\$ 6,222,633	\$ 6,386,100	\$ 6,858,033	\$ 7,107,483	\$ 7,083,150	\$ 7,199,717	\$ 6,952,853
Public utilities.....	9,736,283	3,991,083	3,920,667	3,981,383	4,229,717	4,473,817	4,667,117	4,816,533	4,763,633	4,832,233
Wholesale trade.....	4,037,633	10,142,600	9,687,583	7,625,950	7,987,583	9,112,350	11,407,750	12,320,033	12,239,917	10,215,170
Building materials.....	6,741,133	6,654,533	6,969,217	7,216,967	8,209,967	8,719,850	9,607,267	9,263,467	8,908,483	8,422,183
General merchandise.....	8,262,033	9,039,983	16,724,483	17,595,700	18,383,833	18,243,083	18,766,300	19,275,267	18,959,267	19,171,045
Food and beverage stores.....	13,337,550	12,875,267	5,353,500	5,602,267	5,770,967	5,764,533	5,859,017	6,090,033	6,023,083	6,197,422
Automotive dealers.....	3,418,567	4,994,600	3,163,400	3,329,383	3,487,217	3,691,150	3,761,500	3,865,533	3,834,950	3,709,158
Furniture and appliances.....	4,021,383	2,544,383	5,231,483	5,553,117	5,844,450	6,338,250	6,148,383	6,334,000	6,018,133	5,572,460
Other retail stores.....	15,571,467	13,929,117	5,054,200	5,022,117	5,212,517	5,376,183	5,529,683	5,802,417	5,764,733	5,598,740
Agriculture and mining.....	18,881,667	22,357,250	509,467	484,717	559,400	644,983	717,950	726,367	666,967	685,577
Construction.....	N/A	N/A	2,076,850	2,171,750	2,342,833	2,742,150	3,010,383	3,077,033	3,050,933	2,880,480
Service.....	N/A	N/A	34,221,217	35,405,917	35,164,650	37,378,583	39,336,950	41,230,817	41,914,783	40,875,482
Transportation, delivery, and warehousing..	N/A	N/A	272,833	275,150	312,250	330,783	420,617	363,450	374,133	356,542
Other.....	3,160,300	6,484,767	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Government.....	105,650	298,483	264,517	280,250	278,833	296,717	294,600	289,767	211,100	285,217
Unclassified.....	4,481,200	1,457,483	1,911,367	2,538,850	2,228,010	1,472,017	1,442,950	1,532,250	1,627,583	2,036,060
Motor vehicle.....	17,495,383	18,000,200	19,362,581	20,764,773	21,144,925	20,506,470	19,484,594	19,481,964	18,346,914	15,992,425
Liquor sales.....	1,005,367	1,051,300	1,105,526	1,254,926	1,265,798	1,383,587	1,341,449	1,627,333	1,704,846	1,808,735
Total sales tax estimated base (5).....	\$ 117,068,483	\$ 120,062,467	\$ 121,541,524	\$ 125,325,849	\$ 128,809,049	\$ 133,332,540	\$ 138,903,993	\$ 143,179,414	\$ 141,609,177	\$ 135,591,782
Total direct sales tax rate.....	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%

Sources:

Sales tax remittances by industry and total direct sales tax rate (both used in the calculation of estimated taxable sales by industry) are provided by the Pennsylvania Department of Revenue. Sales tax remittances by industry for the 2009 fiscal year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium for 2008-09 (revised March 3, 2010). The total direct sales tax rate was obtained from the Pennsylvania Tax Compendium for December 2008. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at www.revenue.state.pa.us.

Notes:

- (1)-Estimated taxable sales are calculated based on sales tax remittances (made by vendors with their tax returns processed during the fiscal year) divided by the direct sales tax rate of 6%.
- (2)-Estimated taxable sales are organized by major industrial activity of the vendor and do not represent sales by product type. These are presented based on the North American Industry Classification System.
- (3)-Beginning with the 2002 fiscal year, the Pennsylvania Department of Revenue reclassified various subcategories within major industrial activity into either a different major industrial activity or a new major industrial activity. New major industrial activities are "Construction", "Service", and "Transportation, delivery, and warehousing". The "Other" category was eliminated. This reclassification had the most effect on the "General merchandise", "Food and beverage stores", "Other retail stores", and "Agriculture and mining" major industrial activity categories.
- (4)-Due to the complexity and length of the tax return filing and review process, the total compilation of sales tax remittances was not yet available for release by the Pennsylvania Department of Revenue for the 2010 fiscal year. Therefore, fiscal years 2000 through 2009 are presented as an alternative comparison.
- (5)-Totals may not foot due to rounding.

Commonwealth of Pennsylvania

Revenue Capacity-Sales Tax

Table 8

Sales Tax Remittances by Major Industry Classification

Fiscal Years Ended June 30, 2000 and June 30, 2009

(Amounts in thousands)

June 30, 2000 (1)(2)			June 30, 2009 (1)(2)		
Industry (4)	Sales(3) Tax Liability	Percentage of Total	Industry (4)	Sales(3) Tax Liability	Percentage of Total
Manufacturing.....	\$ 408,772	5.82%	Manufacturing.....	\$ 417,171	5.13%
Public utilities.....	584,177	8.32%	Public utilities.....	289,934	3.56%
Wholesale trade.....	242,258	3.45%	Wholesale trade.....	612,910	7.53%
Building materials.....	404,468	5.76%	Building materials.....	505,331	6.21%
General merchandise.....	495,722	7.06%	General merchandise.....	1,150,263	14.14%
Food and beverage stores.....	800,253	11.39%	Food and beverage stores.....	371,845	4.57%
Automotive dealers.....	205,114	2.92%	Automotive dealers.....	222,550	2.74%
Furniture and appliances.....	241,283	3.44%	Furniture and appliances.....	334,348	4.11%
Other retail stores.....	934,288	13.30%	Other retail stores.....	335,924	4.13%
Agriculture and mining.....	1,132,900	16.13%	Agriculture and mining.....	41,135	0.51%
Construction.....	N/A	N/A	Construction.....	172,829	2.12%
Service.....	N/A	N/A	Service.....	2,452,529	30.15%
Transportation, delivery, and warehousing.....	N/A	N/A	Transportation, delivery, and warehousing.....	21,393	0.26%
Other.....	189,618	2.70%	Other.....	N/A	N/A
Government.....	6,339	0.09%	Government.....	17,113	0.21%
Unclassified.....	268,872	3.83%	Unclassified.....	122,164	1.50%
Motor vehicle.....	1,049,723	14.94%	Motor vehicle.....	959,545	11.79%
Liquor sales.....	60,322	0.86%	Liquor sales.....	108,524	1.33%
Total (5).....	<u>\$ 7,024,109</u>	100.00%	Total (5).....	<u>\$ 8,135,507</u>	100.00%
Sales Tax Licenses (6).....	263,484		Sales Tax Licenses (6).....	232,614	

Sources:

Sales tax remittances by industry and the number of sales tax licenses are provided by the Pennsylvania Department of Revenue. Sales tax remittances by industry for the 2009 fiscal year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium for 2008-09 (revised March 3, 2010). This publication was obtained from the Pennsylvania Department of Revenue's website which is located at www.revenue.state.pa.us.

Notes:

- (1)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest sales tax filers. Therefore, this schedule is presented as an alternative comparison regarding the sources of the Commonwealth's sales tax revenue.
- (2)-Due to the complexity and length of the tax return filing and review process, the total compilation of sales tax remittances was not yet available for release by the Pennsylvania Department of Revenue for the 2010 fiscal year. Therefore, fiscal years 2000 and 2009 are presented as an alternative comparison.
- (3)-Sales tax liability is based on sales tax remittances made with tax returns processed during the fiscal year. The direct sales tax rate applicable to both years is 6%.
- (4)-Sales tax remittances are organized by major industrial activity of the vendor and does not represent sales by product type. Both years are presented using the North American Industry Classification System (N.A.I.C.S.) Group.
- (5)-Totals may not foot due to rounding.
- (6)-The Commonwealth does not maintain a list of sales tax filers by the N.A.I.C.S. standard industry grouping, and as noted in Note (1), can not disclose the names of the largest filers. Therefore, the number of sales tax licenses are presented to indicate the potential number of filers during the applicable fiscal year.

**Commonwealth of Pennsylvania
Revenue Capacity-Corporate Tax**

Table 9
Corporate Net Income Tax
For the Last Ten Tax Years

	1998	1999	2000	2001	2002	2003	2004	2005 (6)	2006 (6)	2007 (6)
ESTIMATED CORPORATE NET INCOME TAXABLE BASE (1)(2)										
Corporate Tax Report Compilation (amounts in thousands).....	\$ 15,667,338	\$ 15,304,130	\$ 14,164,465	\$ 12,367,911	\$ 13,280,711	\$ 13,446,684	\$ 17,648,755	\$ 20,312,660	\$ 22,911,927	\$ 20,386,980
NUMBER OF FILERS BY CORPORATE NET INCOME TAX LIABILITY RANGE (3)										
\$0.....	83,935	89,482	98,121	96,637	102,333	97,391	95,306	94,827	92,127	91,302
\$1-300.....	13,125	12,364	11,746	11,128	10,832	10,625	10,096	9,830	8,511	7,680
\$301-500.....	3,529	3,319	3,038	2,900	2,875	2,694	2,660	2,662	2,277	2,069
\$501-1,000.....	6,410	6,297	5,808	4,768	4,345	4,279	4,119	3,981	3,367	3,167
\$1,001-5,000.....	14,080	13,136	12,354	11,060	10,665	10,173	10,355	10,277	8,471	7,966
\$5,001-10,000.....	4,807	4,532	4,058	3,741	3,456	3,301	3,596	3,600	3,312	3,030
\$10,001-25,000.....	3,646	3,485	3,116	2,751	2,760	2,695	2,863	3,022	2,845	2,784
\$25,001-50,000.....	1,780	1,653	1,480	1,413	1,319	1,384	1,489	1,550	1,588	1,469
\$50,001-100,000.....	1,238	1,172	1,053	903	945	943	1,086	1,208	1,245	1,141
\$100,001-250,000.....	990	916	880	756	763	797	954	1,005	1,060	1,007
\$250,001-500,000.....	398	370	332	313	309	395	443	475	509	475
\$500,001-1,000,000.....	209	195	201	162	178	177	264	294	339	299
>\$1,000,000.....	190	191	201	184	192	220	262	307	339	316
Total corporate net income tax filers (4) (5).....	134,337	137,112	142,388	136,716	140,972	135,074	133,493	133,038	125,990	122,705
Total direct corporate net income tax rate.....	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%

Sources:
Information provided by the Pennsylvania Department of Revenue. The number of filers by corporate net income tax liability range for the 2005-2007 tax years can be found in the Statistical Supplement for the Pennsylvania Tax Compendium for 2008-09 (revised March 3, 2010). The direct corporate net income tax rate was obtained from the Pennsylvania Tax Compendium for December 2008. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at www.revenue.state.pa.us.

Notes:
(1)-Pennsylvania is one of only a few states that levy a tax on corporate net income (corporate net income tax - CNIT) as well as capital stock (capital stock/foreign franchise tax - CSFT). The capital stock tax is being phased out so that the last year for which a tax will apply will be the 2013 tax year. This table presents the positive corporate net income tax base, as well as the number of filers associated with this tax by liability range. It also presents the statutory corporate net income tax rate.
(2)-The CNIT is based on separate company Federal taxable income and includes a number of additions to/subtractions from that base. This table shows the compilation of all reported taxable income (Federal income adjusted to the PA base and then apportioned). Many corporations report negative federal taxable income. In addition, the net operating loss deductions that Pennsylvania allows reduce otherwise profitable corporations' incomes below \$0.
(3)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest corporate net income tax filers. Therefore, the schedule of the number of filers by corporate net income tax liability range is presented as an alternative comparison regarding the sources of the Commonwealth's corporate net income tax revenue. Those filers that report negative state taxable income are reported in the tax liability range of \$0, which accounts for the large number of filers within that range.
(4)-Due to the complexity and length of the tax return filing and review process, the total compilation of corporate net income subject to the direct corporate tax rate was not yet available for release by the Pennsylvania Department of Revenue for the 2008 and 2009 tax years. Therefore, tax years 1998 through 2007 are presented as an alternative comparison.
(5)-The corporate filer's tax year is defined as that period for which it must file a tax return. Though some filers have the last day of their filing year fall on December 31st, many filers have a filing year that falls on a different date (e.g. March 31st). This table presents information based on all filers whose tax year began during the associated calendar years.
(6)-For tax years 1998 through 2005, the amounts presented are actual. The amounts presented for the 2005 tax year may differ from the amounts presented in the same table in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2009 fiscal year, since that was an estimate. For the 2006 tax year, the amounts presented are a revised estimate from what was presented in the June 30, 2009 CAFR. And for the 2007 tax year, the amounts presented are an estimate.

Commonwealth of Pennsylvania
Revenue Capacity-Corporate Tax
Table 10
Capital Stock/Foreign Franchise Tax
For the Last Ten Tax Years

	1998	1999	2000	2001	2002	2003	2004	2005 (6)	2006 (6)	2007 (6)
CAPITAL STOCK AND FRANCHISE TAXABLE BASE (1)(2)										
Apportioned Capital Stock Value Compilation (expressed in thousands).....	\$ 98,094,135	\$ 108,450,000	\$ 123,400,000	\$ 128,540,000	\$ 137,650,000	\$ 147,450,000	\$ 157,310,000	\$167,566,590	\$ 186,843,804	\$ 201,498,187
NUMBER OF FILERS BY CAPITAL STOCK/ FOREIGN FRANCHISE TAX LIABILITY RANGE (3)										
\$0-300.....	177,957	187,654	199,147	212,381	224,961	237,922	250,253	262,888	273,425	284,510
\$301-500.....	7,166	5,815	6,294	7,234	7,282	7,482	7,973	8,853	10,013	9,926
\$501-1,000.....	10,262	11,494	12,337	12,523	12,580	12,911	13,730	14,778	15,579	14,922
\$1,001-5,000.....	24,645	25,983	26,701	26,440	28,484	29,532	30,487	30,883	29,885	27,672
\$5,001-10,000.....	7,506	7,804	7,152	6,883	7,139	7,440	7,519	7,435	7,223	6,401
\$10,001-25,000.....	6,017	6,190	5,783	5,219	5,348	5,603	5,876	5,708	5,329	4,836
\$25,001-50,000.....	2,506	2,601	2,369	2,112	2,171	2,244	2,402	2,284	2,150	1,961
\$50,001-100,000.....	1,416	1,353	1,222	1,103	1,140	1,205	1,305	1,264	1,214	1,068
\$100,001-250,000.....	902	897	814	686	711	793	838	816	761	646
\$250,001-500,000.....	287	303	275	253	274	263	312	282	264	218
\$500,001-1,000,000.....	145	140	114	100	112	147	144	142	120	113
> \$1,000,000.....	104	109	117	103	97	98	106	101	91	70
Total capital stock and franchise tax filers (4)(5).....	238,913	250,343	262,325	275,037	290,299	305,640	320,945	335,434	346,054	352,343
Total direct capital stock and franchise tax rate.....	11.99 mills	10.99 mills	8.99 mills	7.49 mills	7.24 mills	7.24 mills	6.99 mills	5.99 mills	4.89 mills	3.89 mills

Sources:
Information provided by the Pennsylvania Department of Revenue. The number of filers by capital stock/foreign franchise tax liability range for the 2005-2007 tax years can be found in the Statistical Supplement for the Pennsylvania Tax Compendium for 2008-09 (revised March 3, 2010). The direct corporate net income tax rate was obtained from the Pennsylvania Tax Compendium for December 2008. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at www.revenue.state.pa.us.

Notes:
(1)-Pennsylvania is one of only a few states that levy a tax on corporate net income (corporate net income tax - CNIT) as well as capital stock (capital stock/foreign franchise tax - CSFT). The capital stock tax is being phased out so that the last year for which a tax will apply will be the 2013 tax year. This table presents the capital stock/foreign franchise apportioned tax base, as well as the number of filers associated with this tax by filing class. It also presents the statutory capital stock/foreign franchise tax rate.
(2)-The CSFT is based on a fixed formula involving net worth and average book income. This schedule shows the compilation of all reported taxable capital stock value, as reported by corporate taxpayers required to file a tax return with the Commonwealth.
(3)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest capital stock/foreign franchise tax filers. Therefore, the schedule of the number of filers by capital stock/foreign franchise tax liability range is presented as an alternative comparison regarding the sources of the Commonwealth's capital stock/foreign franchise tax revenue. All corporate filers were required to pay a statutory minimum tax of \$300 through 1998 and \$200 in 1999, which accounts for the large number of filers within the range of \$0-\$300. This minimum does not apply to tax years 2000 and after.
(4)-Due to the complexity and length of the tax return filing and review process, the total compilation of all reported taxable capital stock value subject to the statutory capital stock/foreign franchise tax rate was not yet available for release by the Pennsylvania Department of Revenue for the 2008 and 2009 tax years. Therefore, tax years 1998 through 2007 are presented as an alternative comparison.
(5)-The corporate filer's tax year is defined as that period for which it must file a tax return. Though some filers have the last day of their filing year fall on December 31st, many filers have a filing year that falls on a different date (e.g. March 31st). This table presents information based on all filers whose tax year began during the the associated calendar years.
(6)-For tax years 1998 through 2005, the amounts presented are actual. The amounts presented for the 2005 tax year may differ from the amounts presented in the same table in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2009 fiscal year, since that was an estimate. For the 2006 tax year, the amounts presented are a revised estimate from what was presented in the June 30, 2009 CAFR. And for the 2007 tax year, the amounts presented are an estimate.

Commonwealth of Pennsylvania**Debt Capacity**

Table 11

Outstanding Debt and Outstanding Debt Ratios

For the Last Nine Fiscal Years Ended June 30

(Expressed in Thousands, Except Debt per Capita)

PRIMARY GOVERNMENT (1)(2)(3)	(Restated)								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Governmental activities:									
General obligation bonds.....	\$ 6,134,761	\$ 7,030,618	\$ 7,225,165	\$ 7,150,667	\$ 7,657,674	\$ 8,245,673	\$ 8,632,609	\$ 9,150,362	\$ 10,498,794
Capital leases/installment purchase obligations.....	629,437	62,131	53,951	47,276	42,059	40,649	37,646	36,730	31,958
Other financing obligations.....	-	-	100,000	90,000	82,500	76,500	70,500	67,500	67,500
Total governmental	6,764,198	7,092,749	7,379,116	7,287,943	7,782,233	8,362,822	8,740,755	9,254,592	10,598,252
Business-type activities:									
Capital leases/installment purchase obligations.....	-	-	-	-	28,259	17,375	5,939	-	-
TOTAL PRIMARY GOVERNMENT.....	\$ 6,764,198	\$ 7,092,749	\$ 7,379,116	\$ 7,287,943	\$ 7,810,492	\$ 8,380,197	\$ 8,746,694	\$ 9,254,592	\$ 10,598,252
Debt as a Percentage of Personal Income (4)(5)..	1.79%	1.83%	1.85%	1.74%	1.81%	1.81%	1.79%	1.82%	2.09%
Amount of Debt per Capita (4)(5).....	\$ 550	\$ 575	\$ 597	\$ 588	\$ 629	\$ 672	\$ 698	\$ 736	\$ 841

Source: Statement of Net Assets, as presented in the Commonwealth's Comprehensive Annual Financial Report for the applicable fiscal year.

Notes:

(1)-This schedule presents information beginning with the 2002 fiscal year, when the Commonwealth implemented GASB Statement 34.

(2)-Each caption includes the reported current and noncurrent amounts of the outstanding debt.

(3)-Details on the Commonwealth's total outstanding debt for June 30, 2010 can be found in Note K.

(4)-See Table 15 for summarized totals for personal income and population data that were used in the calculations of these ratios. Personal income detail is presented in Table 5. As detailed in Table 5 or 15 (as appropriate), the personal income and population data have changed in several calendar years from what was presented in those tables in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2009 fiscal year. As a result, the calculated ratios based on the data from those calendar years may differ from what was presented in this table in the June 30, 2009 CAFR.

(5)-Debt ratios use total outstanding debt which is presented by fiscal year ended June 30, while the personal income and population data used in the calculations are presented by calendar year.

Commonwealth of Pennsylvania
Debt Capacity

Table 12

Ratios of Net General Bonded Debt Outstanding
 For the Last Nine Fiscal Years Ended June 30

(Amounts in thousands)

(1) Fiscal Year	(2) General Obligation Bonds	(3) Less: Amounts Restricted to Paying Principal	Total Net General Bonded Debt Outstanding	(4) Percentage of Actual Tax Revenues	(5) Per Capita
2002	\$ 6,134,761	\$ -	\$ 6,134,761	29.73%	\$ 499
2003	7,030,618	(32,685)	6,997,933	32.49%	568
2004	7,225,165	(61,029)	7,164,136	30.76%	580
2005	7,150,667	(83,885)	7,066,782	28.30%	570
2006	7,657,674	(8,118)	7,649,556	27.84%	616
2007	8,245,673	(20,474)	8,225,199	28.71%	660
2008	8,632,609	(27,458)	8,605,151	28.60%	687
2009	9,150,362	(16,834)	9,133,528	32.94%	727
2010	10,498,794	(46,853)	10,451,941	36.91%	829

Sources:

Information was obtained from the Commonwealth's Comprehensive Annual Financial Report for the applicable fiscal year. General obligation bonds can be found in the Statement of Net Assets, and the tax revenues used in the percentage of actual tax revenues can be found in the Statement of Activities.

Notes:

(1)-This schedule presents information beginning with the 2002 fiscal year, when the Commonwealth implemented GASB Statement 34.

(2)-General obligation bonds include the reported current and noncurrent amounts.

(3)-Amounts restricted to paying principal equal the amount restricted for debt service in the Statement of Net Assets.

(4)-The Commonwealth's general obligation bonds are expected to be repaid with general tax revenue. Therefore, the total taxes shown in the Governmental Activities section of the Statement of Activities is used in this calculation.

(5)-Total net general bonded debt outstanding used in the per capita calculation is presented as of the fiscal year. The population data used in the calculation is shown in Table 15, and is as of July 1 of the applicable fiscal year. As detailed in Table 15, the population data has changed in several calendar years from what was presented in Table 15 in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2009 fiscal year. As a result, the per capita calculation based on the data from those calendar years may differ from what was presented in this table in the June 30, 2009 CAFR.

Commonwealth of Pennsylvania

Debt Capacity

Table 13

Computation of Legal Debt Margin

As of August 31 for the Last Ten Years

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Average annual tax revenues deposited in the previous five fiscal years.....	\$ 23,008,382,095	\$ 23,661,031,603	\$ 24,285,747,191	\$ 25,091,013,830	\$ 26,141,233,164	\$ 27,536,515,720	\$ 29,300,406,649	\$ 31,088,316,012	\$ 32,044,066,363	\$ 32,604,981,495
Constitutional factor..... x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75
Constitutional debt limit for debt incurred without the approval of the electors (A)...	40,264,668,666	41,406,805,305	42,500,057,585	43,909,274,203	45,747,158,037	48,188,902,510	51,275,711,636	54,404,553,021	56,077,116,135	57,058,717,616
Less outstanding net debt (non-electorate approved).....	4,554,304,562	5,257,508,994	6,021,247,141	6,230,365,064	6,146,947,312	6,399,655,454	6,839,080,189	7,068,178,522	7,497,271,800	8,553,447,438
Legal debt margin (B).....	\$ 35,710,364,104	\$ 36,149,296,311	\$ 36,478,810,444	\$ 37,678,909,139	\$ 39,600,210,725	\$ 41,789,247,056	\$ 44,436,631,447	\$ 47,336,374,499	\$ 48,579,844,335	\$ 48,505,270,178
Total outstanding net debt applicable to the constitutional limit as a percentage of the constitutional limit.....	11.31%	12.70%	14.17%	14.19%	13.44%	13.28%	13.34%	12.99%	13.37%	14.99%

Source: The Governor's Office of the Budget

Notes:

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

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

(1) Debt may be incurred without limit to suppress insurrection, rehabilitate areas affected by man-made or natural disaster, or to implement unissued authority by the electors prior to the adoption of this article.

(2) The Governor, State Treasurer and Auditor General, acting jointly, may (i) issue tax anticipation notes having a maturity within the fiscal year of issue and payable exclusively from revenues received in the same fiscal year, and (ii) incur debt for the purpose of refunding other debt, if such refunding debt matures within the term of the original debt.

(3) Debt may be incurred without limit for purposes specifically itemized in the law authorizing such debt, if the question whether the debt shall be incurred has been submitted to the electors and approved by a majority of those voting on the question.

(4) Debt may be incurred without the approval of the electors for capital projects specifically itemized in a capital budget if such debt will not cause the amount of all net debt outstanding to exceed one and three-quarters times the average of the annual tax revenues deposited in the previous five fiscal years as certified by the Auditor General. For the purposes of this subsection, debt outstanding shall not include debt incurred under clauses (1) and (2)(i), or debt incurred under clause (2)(ii) if the original debt would not be so considered, or debt incurred under subsection (3) unless the General Assembly shall so provide in the law authorizing such debt.

(B)-Each of the above figures used in the calculation of the legal debt margin are abstracted from a certification of the Auditor General dated August 31 of the subsequent fiscal year.

Commonwealth of Pennsylvania

Demographic and Economic

Table 14

Employment by Nonfarm Related Industry
For the Last Ten Calendar Years

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Employment by nonfarm related industry (1)(2):										
Total nonfarm:										
Private earnings:										
Goods producing:										
Natural resources and mining.....	19,400	19,500	18,800	17,900	18,700	19,700	20,400	21,100	22,200	22,200
Construction.....	247,700	250,300	248,500	246,000	250,200	255,700	261,000	262,300	254,600	225,300
Manufacturing.....	864,000	821,900	759,800	712,400	690,600	679,400	670,300	659,000	643,800	573,600
Total goods producing.....	1,131,100	1,091,700	1,027,100	976,300	959,500	954,800	951,700	942,400	920,600	821,100
Service providing:										
Trade.....	1,129,600	1,123,200	1,112,900	1,108,200	1,113,600	1,120,300	1,125,800	1,133,900	1,125,900	1,078,900
Information.....	135,900	135,600	128,400	120,600	112,200	109,500	108,200	107,500	105,900	99,900
Financial activities.....	338,700	338,900	336,800	338,500	336,200	335,700	335,000	332,800	329,800	318,900
Professional and business services.....	612,300	613,400	605,700	610,500	638,100	660,500	685,300	705,700	709,400	670,500
Education and health services.....	918,600	940,700	965,000	980,500	999,200	1,030,000	1,054,400	1,075,100	1,101,000	1,119,900
Leisure and hospitality.....	449,600	455,500	466,700	471,000	477,300	484,800	491,800	499,900	503,300	493,800
Other services.....	250,400	255,200	259,300	260,100	263,700	261,500	258,300	255,800	254,200	249,600
Total service providing.....	3,835,100	3,862,500	3,874,800	3,889,400	3,940,300	4,002,300	4,058,800	4,110,700	4,129,500	4,031,500
Total private earnings.....	4,966,200	4,954,200	4,901,900	4,865,700	4,899,800	4,957,100	5,010,500	5,053,100	5,050,100	4,852,600
Government.....	725,100	728,300	738,900	745,600	744,400	745,100	745,600	744,800	749,300	755,900
Total nonfarm.....	5,691,300	5,682,500	5,640,800	5,611,300	5,644,200	5,702,200	5,756,100	5,797,900	5,799,400	5,608,500

Source: Information provided by the Pennsylvania Department of Labor and Industry-Center for Workforce Information & Analysis. The information for the 2007 and 2008 calendar years was obtained from the Center for Workforce Information & Analysis website which is located at www.paworkstats.state.pa.us.

Notes:

(1)-Due to statutory requirements (confidentiality provisions), the Commonwealth can not disclose the number employed by the ten largest employers. As an alternative comparison, this schedule presents the number employed by nonfarm related industries. The ten largest employers are nonfarm related; therefore, the number employed by those employers could be expected to fall within this schedule. Farming related employment is not included on this schedule because most farms are not large enough to be required to provide the necessary data to the Pennsylvania Department of Labor and Industry.

(2)-Data presented for calendar years 2000-2008 are estimates that were benchmarked to universe counts derived from administrative files of employees covered by unemployment insurance. As a result of this benchmarking, the data provided for the 2004-2008 calendar years have changed from what was presented in this table in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2009 fiscal year. The amount presented in the 2009 calendar year is a sample-based estimate that has not been benchmarked.

Commonwealth of Pennsylvania

Demographic and Economic

Table 15

Population and Per Capita Personal Income

For the Last Ten Calendar Years

Calendar Year	Population (1) (Expressed in thousands)			Personal Income (2) (Expressed in millions)			Per Capita (3) Personal Income		
	Pennsylvania	United States	Pennsylvania as % of U.S.	Pennsylvania	United States	Pennsylvania as % of U.S.	Pennsylvania	United States	Pennsylvania percentage above/(below) U.S.
2000	12,286	282,172	4.35%	\$ 369,919	\$ 8,554,866	4.32%	\$ 30,110	\$ 30,318	-0.69%
2001	12,300	285,082	4.31%	377,374	8,878,830	4.25%	30,682	31,145	-1.49%
2002	12,326	287,804	4.28%	387,664	9,054,702	4.28%	31,450	31,461	-0.03%
2003	12,358	290,326	4.26%	399,547	9,369,072	4.26%	32,332	32,271	0.19%
2004	12,388	293,046	4.23%	417,790	9,928,790	4.21%	33,724	33,881	-0.46%
2005	12,418	295,753	4.20%	432,248	10,476,669	4.13%	34,808	35,424	-1.74%
2006	12,471	298,593	4.18%	462,704	11,256,516	4.11%	37,102	37,698	-1.58%
2007	12,523	301,580	4.15%	489,512	11,899,853	4.11%	39,090	39,458	-0.93%
2008	12,566	304,375	4.13%	507,908	12,379,745	4.10%	40,418	40,673	-0.63%
2009	12,605	307,007	4.11%	506,215	12,165,474	4.16%	40,161	39,626	1.35%

Sources: Population data is obtained from the Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce website at <http://www.bea.gov/index.htm>, whose source is the U.S. Bureau of Census' mid-year population estimate. Personal income details can be found in Table 5.

Notes:

(1)-Population data is presented as of July 1 of the calendar year. The U.S. Bureau of Census' mid-year population estimate include revisions to the annual population estimate back to the 2000 calendar year. Therefore, the totals shown may differ from what was presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2009 fiscal year.

(2)-Personal income data is provided as of the calendar year. Calendar years 2000-2008 differ from the totals presented in the June 30, 2009 CAFR. See Table 5 for details.

(3)-As a result of changes noted in Notes (1) and (2), the Per Capita Personal Income may differ from what was presented in the June 30, 2009 CAFR.

Commonwealth of Pennsylvania

Demographic and Economic

Table 16

Employment Information

For the Last Ten Calendar Years

(Expressed in thousands)

Calendar Year	Pennsylvania (1)				United States				PA rate percentage above/(below) U.S. Rate
	Civilian Labor Force	Employed	Unemployed	Unemployment Rate	Civilian Labor Force	Employed	Unemployed	Unemployment Rate	
2000	6,086	5,831	255	4.2	142,583	136,891	5,692	4.0	5.00%
2001	6,168	5,874	293	4.8	143,734	136,933	6,801	4.7	2.13%
2002	6,218	5,869	349	5.6	144,863	136,485	8,378	5.8	-3.45%
2003	6,145	5,796	349	5.7	146,510	137,736	8,774	6.0	-5.00%
2004	6,197	5,860	337	5.4	147,401	139,252	8,149	5.5	-1.82%
2005	6,270	5,958	312	5.0	149,320	141,730	7,591	5.1	-1.96%
2006	6,309	6,022	286	4.5	151,428	144,427	7,001	4.6	-2.17%
2007	6,330	6,055	275	4.3	153,124	146,047	7,078	4.6	-6.52%
2008	6,441	6,099	342	5.3	154,287	145,362	8,924	5.8	-8.62%
2009	6,414	5,895	519	8.1	154,142	139,877	14,265	9.3	-12.90%

Sources: Information was obtained from the Center for Workforce Information & Analysis, Pennsylvania Department of Labor and Industry website at www.paworkstats.state.pa.us/.

Notes:

(1)-Beginning with the 2005 Calendar Year, the amounts presented for Pennsylvania may differ from the amounts presented in the same table in the June 30, 2009 CAFR, as a result of revised data provided on the Center for Workforce Information & Analysis website.

Commonwealth of Pennsylvania

Operating Information

Table 17

Commonwealth Employees by Function and Agency
For the Last Ten Fiscal Years Ended June 30

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Direction and supportive services										
Legislative.....	3,040	3,095	3,161	3,206	3,268	3,336	3,339	3,346	3,327	3,133
Revenue.....	2,519	2,421	2,382	2,272	2,322	2,377	2,385	2,374	2,254	2,058
Executive Offices.....	2,569	2,611	2,513	1,986	1,962	1,990	1,966	2,012	2,004	1,906
General Services.....	1,338	1,319	1,313	1,242	1,255	1,295	1,305	1,251	1,244	1,145
Auditor General.....	799	785	770	768	736	740	711	730	708	670
Treasurer.....	543	537	524	511	497	534	565	552	492	420
Other.....	602	643	361	425	379	376	327	327	281	274
Total direction and supportive services.....	11,410	11,411	11,024	10,410	10,419	10,648	10,598	10,592	10,310	9,606
Protection of persons and property										
Corrections.....	14,421	14,612	14,323	14,384	14,826	15,301	15,441	15,722	16,139	16,232
State Police.....	5,648	5,673	5,705	5,790	6,039	6,191	6,272	6,249	6,193	5,989
Liquor Control Board.....	4,032	4,146	4,205	4,407	4,580	4,772	4,704	4,835	5,031	5,082
Environmental Protection.....	3,022	3,016	2,938	2,836	2,831	2,890	2,799	2,793	2,786	2,590
Judiciary.....	1,962	2,048	2,031	2,100	2,102	2,140	2,130	2,136	2,141	2,197
Transportation.....	-	-	-	1,208	1,253	1,251	1,253	1,235	1,185	1,125
Agriculture.....	903	973	950	997	968	1,032	1,056	1,187	1,112	995
Probation and Parole Board.....	951	975	966	972	1,001	1,008	967	1,084	1,141	1,114
Attorney General.....	1,017	990	952	944	886	919	935	985	955	897
Public Utility Commission.....	509	503	494	467	469	529	485	519	535	547
Military and Veterans Affairs.....	-	-	-	459	489	529	517	538	529	478
Other.....	1,139	1,170	1,310	2,012	2,025	2,106	2,088	2,085	2,014	1,955
Total protection of persons and property.....	33,604	34,106	33,874	36,576	37,469	38,668	38,647	39,368	39,761	39,201
Public education										
Education.....	908	873	852	624	672	674	665	693	578	544
Other.....	22	21	20	20	18	18	18	18	16	15
Total public education.....	930	894	872	644	690	692	683	711	594	559
Health and human services										
Public Welfare.....	21,480	21,115	20,189	19,773	19,769	19,655	18,786	19,082	18,399	18,300
Labor and Industry.....	5,557	5,841	5,821	4,431	4,370	4,462	4,277	3,960	4,740	4,887
Military and Veterans Affairs.....	2,053	2,106	2,262	1,939	2,015	2,060	2,095	2,128	1,965	2,033
Health.....	1,347	1,399	1,444	1,404	1,429	1,524	1,465	1,511	1,490	1,384
Other.....	107	108	104	99	109	112	107	102	98	193
Total health and human services.....	30,544	30,569	29,820	27,646	27,692	27,813	26,730	26,783	26,692	26,797
Economic development										
Labor and Industry.....	-	-	-	923	911	960	927	911	930	934
Community and Economic Development.....	325	327	296	298	324	336	346	349	352	334
Total economic development.....	325	327	296	1,221	1,235	1,296	1,273	1,260	1,282	1,268
Transportation										
Transportation.....	12,360	12,393	12,086	10,645	10,578	10,810	10,509	10,770	10,655	10,626
Total transportation.....	12,360	12,393	12,086	10,645	10,578	10,810	10,509	10,770	10,655	10,626
Recreation and cultural enrichment										
Conservation and Natural Resources.....	2,775	2,768	2,707	2,632	2,608	2,639	2,573	2,632	2,493	2,279
Game Commission.....	810	769	754	758	734	732	734	725	706	734
Fish and Boat Commission.....	537	514	468	482	492	497	514	508	485	486
Historical and Museum Commission.....	494	504	503	488	444	435	419	399	347	228
Other.....	20	20	20	116	111	114	113	111	92	56
Total recreation and cultural enrichment.....	4,636	4,575	4,452	4,476	4,389	4,417	4,353	4,375	4,123	3,783
Total Commonwealth Employees.....	93,809	94,275	92,424	91,618	92,472	94,344	92,793	93,859	93,417	91,840

Source: Employees for the Legislature, Judiciary, Auditor General, Treasury and Attorney General were provided by the individual agency. All other agencies fall within the Governor's jurisdiction and were provided by the Office of Administration.

Notes: Beginning with the 2004 fiscal year, employee data was available both by function and agency and is shown appropriately in the table. For the fiscal years prior to 2004 employee data was only available by agency. For purposes of this table, the complement for fiscal years 2001 through 2003 is reported by function based on the agency's most prevalent functional activity.

Commonwealth of Pennsylvania

Operating Information

Table 18

Operating Indicators by Function and Agency

For the Last Ten Fiscal Years Ended June 30

	2001	2002	2003	2004	2005	2006	2007	2008	2009(7)	2010(7)
GOVERNMENTAL ACTIVITIES										
Direction and supportive services:										
Executive Offices										
Office of the Budget										
Number of invoices processed.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,471,951	1,500,134	1,450,000
Office of Inspector General-Welfare Fraud										
Fraud prevention - investigations.....	N/A	N/A	N/A	N/A	21,073	22,051	20,582	21,392	25,802	26,000
Fraud prevention - ineligibility determinations.....	N/A	N/A	N/A	N/A	10,898	11,500	10,793	10,762	10,897	10,500
Legislature										
General and appropriation acts (1).....	N/A	433	N/A	385	N/A	364	N/A	294	N/A	323
House/Senate bills introduced (1).....	N/A	4,613	N/A	4,242	N/A	4,450	N/A	4,445	N/A	2,640
Protection of persons and property:										
Corrections										
Inmates (2).....	36,810	37,995	40,090	40,817	40,965	42,446	44,365	46,028	49,307	51,487
Inmates enrolled in academic educational programs (2).....	10,357	10,600	11,286	11,749	11,680	13,457	14,453	15,017	14,551	14,694
Environmental Protection										
Permits applications or request for authorizations processed.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	46,584	50,000
Revenue										
Personal Income Tax:										
Total - electronic.....	N/A	N/A	N/A	2,272,861	2,520,663	2,813,228	3,040,325	3,347,123	3,544,248	3,275,000
Total - paper.....	N/A	N/A	N/A	3,494,305	3,288,166	3,994,634	2,076,124	3,239,502	2,842,447	2,675,000
Total personal income tax returns processed.....	5,895,045	5,901,402	5,862,231	5,767,166	5,808,829	6,807,862	5,116,449	6,586,625	6,386,695	5,950,000
State Police										
Traffic citations issued.....	484,749	503,352	484,602	438,328	451,160	479,086	506,844	500,820	564,582	573,050
Background Checks:										
Firearms checks conducted for the purchase of a firearm.....	N/A	N/A	N/A	10,406	514,287	512,686	503,013	505,500	681,516	691,060
Judiciary										
Caseload (cases filed/reopened/appeals) (2).....	3,709,824	3,813,843	3,789,239	3,598,042	3,790,068	3,783,987	3,816,270	3,768,167	3,884,107	3,662,608
Public education:										
Education										
PreK-12 EDUCATION (BASIC EDUCATION):										
Public school enrollment (preK-12) (3).....	1,814,311	1,821,627	1,816,747	1,821,146	1,828,089	1,830,684	1,810,430	1,797,520	1,800,314	1,783,000
HIGHER EDUCATION:										
Full-Time Equivalent Enrollments at State-Supported Institutions of Higher Education:										
State System of Higher Education.....	89,924	93,520	96,235	95,523	98,657	100,392	102,445	103,356	105,566	107,720
Community Colleges.....	67,030	75,088	80,874	86,935	88,494	88,150	91,161	92,526	98,988	103,727
State-Related Universities.....	133,200	136,581	140,375	140,806	140,697	139,894	144,993	148,272	152,678	153,476
Non-State Related Universities and Colleges.....	38,199	39,399	39,741	41,678	43,106	43,662	48,078	48,607	49,532	50,048
Health and human services:										
Aging and Long Term Living										
Comprehensive PACE/PACENET Program:										
Older Pennsylvanians enrolled (average).....	232,372	230,949	223,119	242,755	290,482	306,138	390,207	313,643	312,916	313,149
Total prescriptions per year.....	9,744,249	10,228,661	10,672,686	10,888,090	12,794,090	13,253,256	13,025,489	11,173,934	11,605,980	11,188,952
PACE Needs Enhancement Tier (PACENET):										
Older Pennsylvanians enrolled (average).....										
Total prescriptions per year.....										
Health										
Vital events (births, deaths, fetal deaths) registered and processed (4).....	390,134	328,033	272,860	274,664	273,432	274,105	275,261	280,928	273,381	270,000
Total number of encounters by State Health Care Centers.....	N/A	N/A	N/A	N/A	N/A	375,240	511,736	550,083	555,584	561,140
Public Welfare										
MEDICAL ASSISTANCE										
Persons participating in Medical Assistance (monthly average).....	1,433,228	1,476,708	1,533,024	1,621,901	1,747,615	1,833,760	1,883,235	1,907,396	1,972,559	2,068,699
Persons receiving cash assistance (monthly average).....	242,214	229,660	225,396	250,581	278,474	278,496	250,687	225,846	221,744	244,371
Children participating in subsidized child care (unduplicated).....	N/A	N/A	182,102	185,971	195,211	200,650	212,112	239,550	234,899	231,085
Total persons provided mental health services (5).....	203,812	207,269	202,460	208,345	398,590	418,749	517,440	525,991	525,136	529,775
Persons receiving Mental Retardation services during fiscal year (6).....	76,988	82,220	85,000	89,985	72,538	45,414	50,139	51,375	53,284	54,080
Economic development:										
Community and Economic Development										

Commonwealth of Pennsylvania

Operating Information

Table 18

Operating Indicators by Function and Agency
For the Last Ten Fiscal Years Ended June 30

	2001	2002	2003	2004	2005	2006	2007	2008	2009(7)	2010(7)
Jobs pledged to be created in Business and Technology Development.....	N/A	N/A	N/A	63,870	78,500	154,951	155,912	77,002	65,659	49,302
Jobs retained in Business and Technology Development.....	N/A	N/A	N/A	54,209	108,864	92,768	126,479	105,582	119,496	89,995
Businesses assisted in Business and Technology Development.....	2,739	8,243	9,113	22,305	19,781	16,215	18,454	15,805	16,484	13,360
Persons participating in Community Services Block Grant.....	243,497	272,983	270,006	324,436	339,564	339,564	339,564	348,829	325,322	309,000
Labor and Industry										
Total public health and safety inspections performed.....	135,590	135,567	134,352	122,584	117,056	82,123	80,408	75,223	76,253	73,150
Vocational Rehabilitation-Eligible participants with active plans.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	41,316	45,000
Transportation:										
Transportation										
Miles of State maintained highways.....	40,051	39,935	39,906	39,893	39,890	39,890	39,843	39,872	39,861	39,840
Passengers carried by State-assisted operators (millions annually).....	310	302	302	304	310	401	390	427	434	444
Safety and Emissions inspections.....	13,603,449	13,589,000	13,617,103	15,000,000	17,100,000	17,388,858	17,470,970	17,470,125	17,972,890	18,000,000
Registrations:										
Registrations-Total New and Renewed.....	10,052,000	9,825,000	10,099,000	9,978,000	10,017,000	9,864,461	9,708,974	9,724,462	9,550,413	9,941,000
Licensed drivers-Total New and Renewed.....	2,320,900	2,130,859	2,302,100	2,476,213	2,377,057	2,345,311	2,274,866	2,432,976	2,402,935	2,410,000
Recreation and cultural enrichment:										
Conservation and Natural Resources										
State park attendance (visitor days per calendar year).....	36,438,000	36,627,000	36,031,000	34,692,000	35,095,476	36,295,873	35,800,000	33,200,000	37,000,000	36,000,000
Fish and Boat Commission										
Fishing licenses sold.....	953,032	935,845	907,313	909,053	834,877	843,302	864,416	905,806	839,172	900,000
Game Commission										
Hunting licenses sold.....	1,038,846	1,047,820	1,017,154	1,018,248	1,007,613	964,158	945,892	924,448	926,892	925,000
Historical and Museum Commission										
Records maintained by the State Records Center (in thousands).....	N/A	N/A	N/A	709,821	726,747	753,354	791,553	812,175	811,000	811,000
Annual visits to commission historical sites and museums (in thousands)..	1,295	1,406	1,517	1,528	1,477	1,516	1,420	1,450	1,425	1,405
BUSINESS-TYPE ACTIVITIES										
Labor and Industry										
Number of new unemployment compensation claims.....	983,951	1,309,511	1,314,267	1,341,118	1,177,499	1,148,256	1,176,669	1,250,506	1,445,344	2,026,055

Sources: Governor's Office of the Budget, Comptroller Offices, various agencies**Notes:**

(1)-Legislation acts and bills are presented per the Legislature's two-year session. Amounts presented for the 2009-2010 session are not final, since the session has yet to be completed.

(2)-Amounts are presented as of December 31.

(3)-PreK enrollment is not included through the 2003 fiscal year.

(4)-The decrease in Vital Events from 2001 to 2002 is due to Act 82 of 2001, which eliminated some requirements for the processing of marriage and divorce records.

(5)-Beginning with the 2005 fiscal year, this amount was revised to include individuals receiving services from community mental health funds, Medical Assistance expenditures, and BHSI funds.

(6)-Beginning with the 2005 fiscal year, this amount was revised to remove those receiving Early Intervention services.

(7)-For the 2010 fiscal year, a majority of the indicators presented are estimates. For the 2009 fiscal year, the amounts that were presented as estimates in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2009 fiscal year have been revised. Therefore, the amounts shown may differ from what was presented in the June 30, 2009 CAFR.

Commonwealth of Pennsylvania

Operating Information

Table 19

Capital Asset Information by Function and Agency
For the Last Ten Fiscal Years Ended June 30

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GOVERNMENTAL ACTIVITIES										
Direction and Supportive Services										
Department of General Services										
Number of buildings (1).....	33	33	36	36	36	85	85	87	85	119
Total pieces of machinery and equipment (2).....	80	48	164	137	137	137	139	133	148	394
Capital and Agency projects in design and/or construction (3).....	426	367	389	375	500	409	440	385	425	638
Vehicles in fleet.....	N/A	N/A	N/A	N/A	16,544	16,337	16,384	16,307	16,307	15,808
Protection of persons and property										
Department of Corrections										
State Correctional Institutions (4).....	25	26	26	26	27	26	26	27	27	27
State Police										
Patrol vehicles.....	2,199	2,215	2,207	2,188	2,282	2,316	2,173	2,189	2,189	2,182
Police stations and/or troop headquarters (4).....	20	20	20	21	23	23	23	23	24	25
Department of Military and Veterans Affairs										
Number of National Guard readiness centers.....	97	97	97	96	117	117	117	117	117	117
Public education										
State System of Higher Education (SSHE)-Component Unit (5)										
Number of SSHE universities using Commonwealth owned buildings and land	14	14	14	14	14	14	14	14	14	14
Health and human services										
Department of Public Welfare										
Total number of hospital or treatment center complexes (1)(4).....	22	22	22	22	21	19	19	19	18	19
Transportation										
Department of Transportation										
Total pieces of equipment.....	25,211	20,434	21,281	21,256	20,858	20,434	22,000	25,000	23,041	22,216
Total lane miles of highways (state or locally maintained).....	115,939	116,282	116,570	115,402	116,055	116,100	116,716	116,998	117,187	117,436
Recreational and cultural enrichment										
Department of Conservation and Natural Resources										
Acres of land in state parks and forests (in millions).....	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Game Commission										
Acres of game lands (in millions).....	1.36	1.41	1.41	1.40	1.40	1.40	1.40	1.40	1.40	1.40
Fish Commission										
Public boat launches.....	N/A	N/A	N/A	N/A	N/A	178	153	153	271	271
Total number of fish hatcheries.....	15	15	15	15	15	15	15	15	15	15
Historical and Museum Commission										
Museums and historic sites.....	26	26	26	26	26	25	25	25	25	23
Economic Development										
Department of Labor and Industry										
Square footage of rehabilitation centers owned by the Commonwealth.....	444,035	444,035	444,035	444,035	444,035	444,035	444,035	444,035	444,035	444,035

Sources: Governor's Office of the Budget, Comptroller Offices and various agencies.

Notes:

(1)-Beginning with the 2006 fiscal year, the control of the Harrisburg State Hospital was transferred from the Department of Public Welfare (reducing the reported number of hospital complexes) to the Department of General Services (increasing the reported number of buildings). Also, the 2010 fiscal year includes buildings that were leased to non-Primary Government entities but owned by the Commonwealth. These were not reported in the amounts for the other fiscal years.

(2)-Beginning with the 2003 fiscal year, the reported machinery and equipment includes assets that were depreciated in full.

(3)-For the 2009 fiscal year, the amount presented is an estimate. For the 2008 fiscal year, the estimated amount has been revised. Therefore, the amount shown may differ from what was presented in the June 30, 2008 CAFR.

(4)-State Correctional Institutions, police station/troop headquarters and hospital/treatment center complexes include nondepreciable capital assets (e.g. land) and depreciable assets (e.g. machinery and equipment, buildings, improvements, etc.).

(5)-The State System of Higher Education (SSHE) is a discretely presented component unit. However, each of its universities uses land, buildings, and improvements which were purchased by the Commonwealth and are still reported as governmental activities capital assets in the Commonwealth's Statement of Net Assets. See Note A in the Notes to the Financial Statements for a detailed description of this relationship.