



COMMONWEALTH OF PENNSYLVANIA

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2012

Tom Corbett  
Governor

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# *Commonwealth of Pennsylvania*

## **Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2012**

*Tom Corbett, Governor*



**Prepared By:**

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**Commonwealth of Pennsylvania  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2012**

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COMMONWEALTH OF PENNSYLVANIA  
GOVERNOR'S OFFICE  
HARRISBURG

CHARLES B. ZOGBY  
SECRETARY  
OFFICE OF THE BUDGET

December 19, 2012

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, 2012. The Office of the Budget, Office of Comptroller Operations, prepared this report, which includes the Basic Financial Statements, pursuant to the power vested in the Governor under Section 701 of the Administrative Code and delegated to the Secretary of the Budget by Executive Order No. 1984-3, dated October 11, 1984.

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

The Commonwealth's June 30, 2012 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' unqualified 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 that is included in the Basic Financial Statements.

Management's Discussion and Analysis (MD&A), which precedes the June 30, 2012 Basic Financial Statements, provides an overview of the Commonwealth's financial position and activities thus helping readers to understand the basic financial statements. This section immediately follows the auditors' opinion. In addition to the MD&A and Basic Financial Statements, this CAFR includes: budgetary comparison schedules; combining fund financial statements; other supporting schedules; narrative information describing individual funds; and statistical tables presenting financial trends, revenue capacity, debt capacity, demographic and economic information, and operating information as reported over the last ten fiscal years.

#### PROFILE OF THE GOVERNMENT

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

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

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

Pennsylvania government has three distinct branches: the legislative branch, the judicial branch, and the executive branch. The legislative branch, comprised of the Senate and House of Representatives, develops and passes the Commonwealth's laws. The judicial branch, made up of the Pennsylvania Supreme Court as well as other specialized courts, serves the Commonwealth by interpreting the laws put in place by the legislative branch. The executive branch, consisting of the elected Governor, Auditor General, Attorney General, State Treasurer, and other appointed entities, works to enforce the laws established by the legislative branch. With these three branches of the Pennsylvania state government, an effective system of checks and balances is created. The Commonwealth's principal leadership and organization charts at June 30, 2012 are incorporated immediately following this letter.

#### **GENERAL FUND BUDGETARY BASIS**

The General Fund, the Commonwealth's largest operating fund, may be used to assess Pennsylvania's financial position and activities for the fiscal year ended June 30, 2012. 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 92.0 percent of the non-Federal General Fund budgetary basis revenues.

#### **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, 2012.

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

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



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

<u>Fiscal Year</u>	<u>Balance/(Deficit)</u>	<u>Increase/(Decrease)</u>
2012	\$ 659.1	\$ (433.5)
2011 (revised)	1,092.6	1,386.5
2010 (revised)	(293.9)	1,731.5
2009 (revised)	(2,025.4)	(2,610.7)
2008 (revised)	585.3	54.4

During the fiscal year ended June 30, 2012, total General Fund expenditures and other uses exceeded General fund revenues and other sources and along with a prior year surplus, at June 30, 2012, the Commonwealth reported an unreserved/undesignated surplus (budgetary basis) in the General Fund. The budgetary basis results for the fiscal year ended June 30, 2012 include revenue collections totaling \$49,412, less appropriation authorizations totaling \$50,040, plus other net financing sources totaling \$194. Included in the \$50,040 appropriation authorizations are \$20 of state supplemental appropriation and \$128 in Federal supplemental appropriation additions authorized during the fiscal year ended June 30, 2012 (amounts in millions).

**ECONOMIC CONDITION**

The Commonwealth's economic performance is largely dependent upon job growth. During 2011, approximately 60,000 jobs were created. Employment growth is expected to accelerate in the Commonwealth during 2012 as total growth in employment is forecast to be nearly 80,000 new jobs by December 2012. During the most recent recession, job losses in Pennsylvania were less than the national average and the Commonwealth's unemployment level was consistently at or below the national average. Nationally, Pennsylvania ranked 23<sup>rd</sup> best in terms of fewest job losses during the most recent recession – placing it just above the middle of the 50-state ranking. The Commonwealth saw gains across all sectors, with the lone exception of government employment. Total non-farm employment rose nearly 1.0 percent during 2011. Employment in the mining and logging sector, paced by the rapid expansion of natural gas drilling, grew 17.4 percent in 2011. Pennsylvania's unemployment rate was 7.6 percent in December 2011, while the U.S. unemployment rate was 8.5 percent. The Commonwealth's unemployment rate is forecast to remain relatively constant at around 8 percent for 2012 and 2013, before declining to 7.3 percent in 2014 and 6.4 percent in 2015.

The short-term outlook for Pennsylvania is that its economy remains heavily dependent on the national economy. During 2011, the Pennsylvania and the national economies expanded at roughly the same rate of 1.7 percent annual growth. As the economy gains strength, Pennsylvania's economic gains are expected to outperform the national economy beginning in 2012 and continuing through at least 2015.

**LONG TERM FINANCIAL PLANNING**

Each year, the Governor's Executive Budget includes estimates of total revenues, available balances carried forward and expenditures for all Commonwealth funds for one budget year and four subsequent fiscal years. These multi-year projections illustrate expected revenue and spending changes, which inform the state's policy makers about the status of the Commonwealth's budget. Based on the enacted budget for the 2012-2013 fiscal year, the Commonwealth expects to receive General Fund revenues and transfers of \$27,153 million and to spend \$27,138 million from the Commonwealth's General Fund. The chart on the next page presents a five year summary of projected revenue and expenditures for the General Fund.

**GENERAL FUND**  
(Amounts in thousands)

	2012-13	2013-14	2014-15	2015-16	2016-17
Beginning balance .....	\$ 93,114	\$ 10,657	\$ 7,171	\$ 3,032	\$ 3,297
Revenues .....	28,395,066	29,156,816	30,024,535	30,982,341	31,831,697
Adjustments* .....	<u>(1,335,000)</u>	<u>(1,350,000)</u>	<u>(1,380,000)</u>	<u>(1,410,000)</u>	<u>(1,440,000)</u>
Funds available.....	27,153,180	27,817,473	28,651,706	29,575,373	30,394,994
Total state expenditures.....	<u>(27,138,970)</u>	<u>(27,807,912)</u>	<u>(28,647,663)</u>	<u>(29,570,977)</u>	<u>(30,390,277)</u>
Preliminary balance.....	14,210	9,561	4,043	4,396	4,717
Less transfer to Budget Stabilization Reserve Fund...	<u>(3,553)</u>	<u>(2,390)</u>	<u>(1,011)</u>	<u>(1,099)</u>	<u>(1,179)</u>
Ending balance.....	<u>\$ 10,657</u>	<u>\$ 7,171</u>	<u>\$ 3,032</u>	<u>\$ 3,297</u>	<u>\$ 3,538</u>

\*Includes refunds, lapses and adjustments to beginning balances.

**CERTIFICATE OF ACHIEVEMENT**

The CAFR will be submitted to the Government Finance Officers Association of the United States and Canada (GFOA) to determine its eligibility for the GFOA's Certificate of Achievement for Excellence in Financial Reporting. The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth of Pennsylvania for its Comprehensive Annual Financial Report as of and for the fiscal year ended June 30, 2011. This represents the twenty-sixth 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, 2012 conforms to the GFOA's award criteria.

**ACKNOWLEDGMENTS**

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

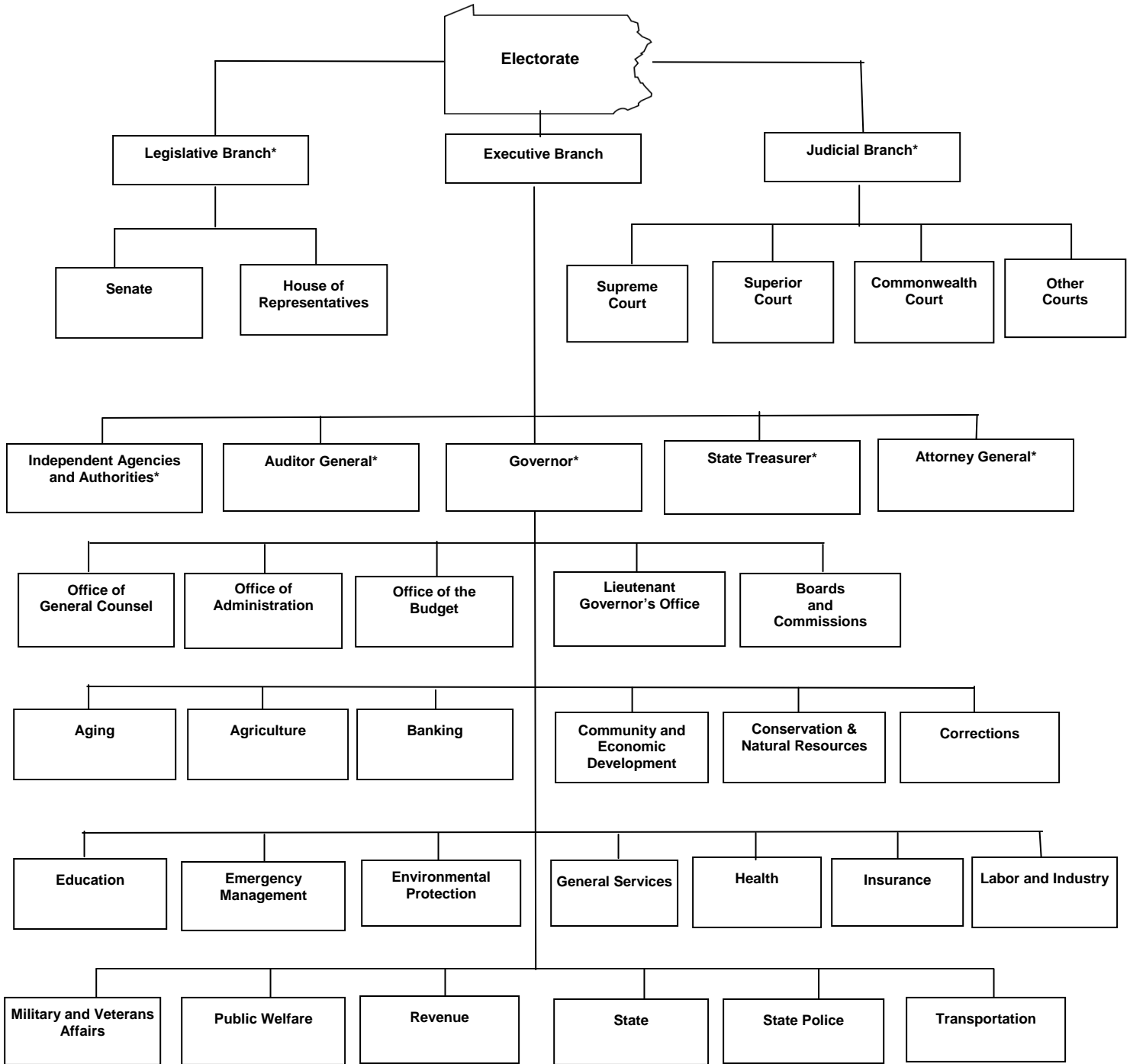
Sincerely,

Charles B. Zogby  
Secretary  
Office of the Budget

Peter J. Tartline  
Executive Deputy Secretary  
Office of the Budget

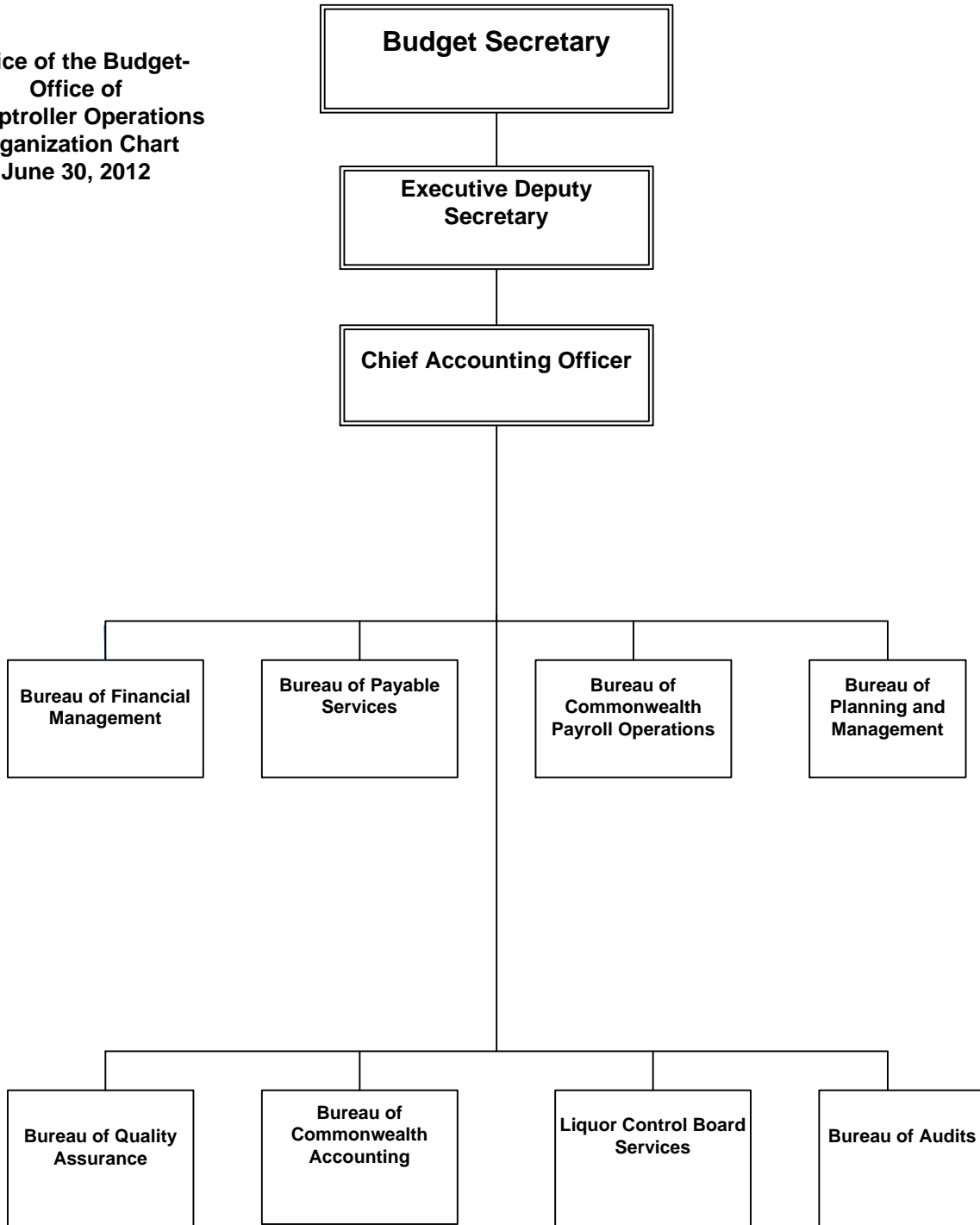
Anna Maria Kiehl, CPA  
Chief Accounting Officer  
Office of the Budget

# COMMONWEALTH OF PENNSYLVANIA ORGANIZATION CHART June 30, 2012



\* Independently Elected

**Office of the Budget-  
Office of  
Comptroller Operations  
Organization Chart  
June 30, 2012**



Principal Leadership

Commonwealth Elected and Selected Appointed Officials as of June 30, 2012

Tom Corbett, Governor

Jim Cawley, Lieutenant Governor

Rob McCord, Treasurer

Jack Wagner, Auditor General

Linda Kelly, Attorney General

Charles Zogby, Secretary of the Budget

Kelly Powell Logan, Secretary of Administration

Joseph Scarnati, President pro Tempore, Senate

Samuel Smith, Speaker of the House

Ronald Castille, Chief Justice State Supreme Court



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Commonwealth of Pennsylvania

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

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



*Linda C. Davison*

President

*Jeffrey R. Emer*

Executive Director



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2012

# Financial Section



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



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

## Report of Independent Auditors

The Honorable Tom Corbett, Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania

We have jointly audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania (the Commonwealth), as of and for the year ended June 30, 2012, 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 non-major Special Revenue Fund, which represents 1 percent of total assets, 2 percent of total net assets, and 1 percent of total revenues of the governmental activities and 1 percent of total assets, 1 percent of total net assets, and 4 percent of total revenues of the aggregate remaining fund information, the Tuition Payment Fund, which is both a major Enterprise Fund, and represents 25 percent of total assets, 4 percent of total net assets, and 2 percent of total revenues of the business-type activities, and certain discretely presented component units, which represent 99 percent of total assets, 99 percent of total net assets and 99 percent of total revenues of the aggregate discretely presented component units. We also did not jointly audit 99 percent of the total assets, 99 percent of total net assets and 88 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 Investment and Private Purpose Trust Funds, which, in total, comprise 85 percent of total assets, 95 percent of total net assets and 43 percent of total additions/revenues of the aggregate remaining fund information opinion unit. The financial statements of the Tobacco Settlement Fund, the Tuition Payment Fund, the discretely presented component units, and the Pension and Other Employee Benefit, the Investment, and the 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, the Tuition Payment Fund, the discretely presented component units, and the Pension and Other Employee Benefit, the Investment, and the 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

U.S. generally accepted accounting principles require that the 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 35 and 148 through 153 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing

The Honorable Tom Corbett

standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare 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 certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described previously, and the reports of the other auditors, the combining non-major fund and component unit financial statements and budgetary comparison schedules for budgeted non-major special revenue funds are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has 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 do not express an opinion or provide any assurance on them.



December 19, 2012





Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2012

# 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, 2012 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 5 of this report, and with the Commonwealth's financial statements, which follow.

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**Section A: Understanding Government Financial Statements**

**Three questions are the focal points of the financial data in this report:**

- 1) Near-term financing: Will the government be able to pay its bills (both expected and unexpected) on time?
- 2) Financial position: Is the government's financial health improving or deteriorating?
- 3) Economic condition: Is it likely that today's financial position will improve or deteriorate?

**Government-wide Financial Statements** are designed to provide a broad overview of the Commonwealth's finances, in a manner similar to a private-sector business. All of the Commonwealth's activities are reported in the government-wide statements except for activities accounted for in the fiduciary funds.

**Fund Financial Statements** focus on accountability of resources versus the government-wide financials focus on the ability to meet financial obligations.

To assist the reader in answering these questions and others, the Commonwealth presents both government-wide financial statements and fund financial statements.

	Government-wide Statements			Fund Financial Statements		
	Governmental Activities	Business-Type Activities	Discretely Presented Components Units	Governmental Funds (see note 1)	Proprietary Funds (see note 2)	Fiduciary Funds (see note 3)
<b>Scope of report and Fund Types</b>	Activities generally financed through taxes, intergovernmental revenues, and other nonexchange revenues	Activities financed in whole or part by fees charged to external parties for goods and services	Legally separate organizations for which the elected officials of the primary government are financially accountable or it would be misleading to exclude them	<ul style="list-style-type: none"> <li>• General Fund</li> <li>• Special Revenue Funds</li> <li>• Debt Service Funds</li> <li>• Capital Projects Funds</li> </ul> *Generally used to account for tax-supported activities	<ul style="list-style-type: none"> <li>• Enterprise Funds</li> <li>• Internal Service Funds</li> </ul> *Activities that focus on the determination of operating income, changes in net position (cost recovery), financial position and cash flow	<ul style="list-style-type: none"> <li>• Agency Funds</li> <li>• Pension Trust Funds</li> <li>• Investment Trust Funds</li> <li>• Private-purpose Trust Funds</li> </ul> *Activities held in a trustee or agency capacity for others and which therefore cannot be used to support the government's own programs
<b>Required Financial statements</b>	-Statement (Stmt.) of Net assets (1) -Stmt of Activities (2)			<ul style="list-style-type: none"> <li>• Balance Sheet (3)</li> <li>• Stmt of Revenues, Expenditures and Changes in Fund Balances (4)</li> </ul>	<ul style="list-style-type: none"> <li>• Stmt of Net Assets (1)</li> <li>• Stmt of Revenues, Expenses and Changes in Net Assets (8)</li> <li>• Stmt of Cash Flow (5)</li> </ul>	<ul style="list-style-type: none"> <li>• Stmt Fiduciary Net Assets (6)</li> <li>• Stmt of Changes in Fiduciary Net Assets (7)</li> </ul>
<b>Accounting Methods</b> ** see below	Accrual and economic resource measurement focus			Modified accrual and current financial resource measurement focus	Accrual and economic resource measurement focus	Accrual

- (1) **Statement of Net Assets** is a government-wide financial statement that reports the difference between assets and liabilities as net assets, not fund balances or equity.
- (2) **Statement of Activities** is a government-wide financial statement that reports the net (expense) revenue of its individual functions.
- (3) **Balance Sheet** presents a comprehensive statement of the assets, liabilities, and fund balances of the government at a point in time.
- (4) **Statement of Revenues, Expenses, and Changes in Fund Balances** presents the inflows, outflows, and balances of current financial resources as well as fund balance at the beginning and end of the financial period.
- (5) **Statement of Cash flows** provides relevant information about the cash receipts and cash payments during a period.
- (6) **Statement of Fiduciary Net Assets** presents information about the assets, liabilities, and net assets for each fiduciary fund type.
- (7) **Statement of Changes in Fiduciary Net Assets** presents additions and deductions in net assets held, as well as net assets held at the beginning and end of the financial period.
- (8) **Statement of Revenues, Expenses, and Changes in Net Assets** presents the inflows, outflows, and balances of current financial resources as well as net assets at the beginning and end of the financial period.

**Note 1: Governmental Funds** focus primarily on the sources, uses and balances of current financial resources and often have a budgetary focus. Thus, the governmental fund statements provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the Commonwealth's programs.

**Note 2: Proprietary funds** focus on the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise and internal service funds. Enterprise funds are used in situations where a fund provides services primarily to external customers. Internal service funds are designed to function on a cost-reimbursement basis primarily providing benefits to other funds, departments or agencies of the government.

**Note 3: Fiduciary funds** account for resources held for the benefit of parties outside the government. These activities have been excluded from the Commonwealth's government-wide financial statements because the assets are not available to finance its operations.

For further accounting policy explanations see Note A in the "Notes to Financial Statements" section of the CAFR.

## Section B: Condensed Financial Information

**Government-wide Statement of Net Assets as of June 30, 2012 and 2011**  
(amounts in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
<b>Assets:</b>						
Cash and investments.....	\$ 9,966	\$ 10,095	\$ 4,159	\$ 5,187	\$ 14,125	\$ 15,282
Capital assets (net).....	31,872	30,282	77	84	31,949	30,366
All other assets.....	7,383	6,888	1,596	1,496	8,979	8,384
<b>Total assets.....</b>	<b>49,221</b>	<b>47,265</b>	<b>5,832</b>	<b>6,767</b>	<b>55,053</b>	<b>54,032</b>
<b>Liabilities</b>						
Accounts payable.....	5,999	5,500	858	865	6,857	6,365
All other current liabilities.....	3,696	3,522	3,504	4,889	7,200	8,411
Bonds payable.....	10,771	9,741	-	-	10,771	9,741
All other long-term liabilities.....	5,072	4,249	2,628	2,577	7,700	6,826
<b>Total liabilities.....</b>	<b>25,538</b>	<b>23,012</b>	<b>6,990</b>	<b>8,331</b>	<b>32,528</b>	<b>31,343</b>
<b>Net assets</b>						
Invested in capital assets net of related debt.....	26,581	25,353	77	84	26,658	25,437
Restricted.....	2,562	3,308	679	666	3,241	3,974
Deficit.....	(5,460)	(4,408)	(1,914)	(2,314)	(7,374)	(6,722)
<b>Total net assets.....</b>	<b>\$ 23,683</b>	<b>\$ 24,253</b>	<b>\$ (1,158)</b>	<b>\$ (1,564)</b>	<b>\$ 22,525</b>	<b>\$ 22,689</b>

### Statement of Net Asset Variance Analysis Year Over Year

**Cash and investments** declined by 7.6% year over year for the primary government (PG) (for definition of the PG see Note A). The decline is due to the drop in total fiscal year program revenue and the use of prior year fund balance. Significant impacts on cash and investment activity include:

- Governmental Activities temporary and long term investments decreased by \$197 million. In addition to less revenue available for investing, the investment activity reflects a smaller Treasury Department securities lending program.
- Business-Type Activities total cash and investments decreased by \$1,028 million due entirely to the Federal Government recouping Unemployment Compensation (UC) Fund cash toward the repayment of a federal loan. This recovery was carried out under the authority of Title XII of the Social Security Act.

**Capital assets** increased by 5.2% year over year for the PG. Highway and bridge infrastructure increased primarily as a result of capitalizing improvements to the Commonwealth's roadway system as well as non-highway infrastructure.

**All other assets** increased by 7.1% year over year for the PG. Items reported in this category include taxes receivable, due from other governments, accounts receivable, inventory and supplies. The material activity in all other asset include:

- Governmental Activities accounts receivable (A/R) includes \$202 million for gas well drilling fees being collected for the first time from gas well mining drillers in the Marcellus Shale corridor. A/R also includes a \$153 million increase resulting from a return to the standard federally guided timeframe for processing the Department of Public Welfare Managed Care Third Party reimbursements. The reimbursement cycle had been accelerated in the prior fiscal year.
- Business-Type Activities include a \$39 million increase in accounts receivable, a \$143 million increase in UC assessments due from employers and an \$89 million decrease in inventory and supplies reported by the State Stores Fund.

**Accounts payable (A/P)** increased by 7.7% year over year for the PG. A/P reports the outstanding short term debt to creditors incurred during the normal course of business. Significant activity include:

- Governmental Activities A/P includes a \$501 million increase which is primarily the result of a year over year timing difference due to the Department of Public Welfare's option to delay the monthly managed care capitation payments in accordance with their managed care agreements. The Department elected not to implement this delay in the prior fiscal year.
- Business-Type Activities A/P decreased by a modest \$7 million. The State Stores Fund decreased due to lower inventory level and the UC Fund decreased due to a decrease in unemployment claims.

**All other current liabilities** decreased by 14.4% for the PG. Items reported in this category include tax refunds payable, due to other governments and political subdivisions, and bonds payable. Significant impacts on other current liability activity include:

- Business-Type Activities declined by \$1,385 million primarily as the result of the repayment of the UC Fund loan from the Federal Government and a smaller participation in the Treasury Department securities lending program.

**Bonds payable** increased by 10.6% year over year for the PG. Bonds Payable reports debt instruments that have been issued as payment for long term debt. Significant activity include:

- Governmental Activities Bonds Payable increased by \$1,030 million primarily due to a fiscal year 2011-12 general obligation bond issuance for capital facilities.

**All other long-term liabilities** increased by 12.8% year over year for the PG. Liabilities reported in this category are due in periods beyond twelve months from the close of the fiscal year and will be repaid with future resources. Reported items include compensated absences, self-insurance, and other postemployment benefit obligations. Significant impacts on all other long-term liability activity include:

- Governmental Activities increased by \$823 million as the result of a \$366 million increase in Other Post Employment Benefits expense, \$379 million of increased financing obligations related to the Pennsylvania Convention Center, \$103 million increase in capital lease obligations and a net \$25 million decrease in all other long-term liabilities.
- Business-Type Activities increased by \$51 million as a result of the a \$27 million increase in tuition benefits payable in the Tuition Payment Fund

because of an increase in new accounts; a \$9 million increase in the State Workers' Insurance Fund insurance loss liability; and a \$14 million increase in other post employment benefit liability for all Business-Type Activities funds.

**Net assets** is one way of measuring the health of the Commonwealth's finances. An overall surplus of \$23.7 million is reported for Governmental Activities, however, the majority of the surplus is related to investment in capital assets which are unavailable to utilize in satisfying the Commonwealth's day-to-day expenses. Other

significant items to consider relative to net assets include:

- The increase in the Invested in capital assets, net of related debt, reflects the Commonwealth's investment in highway and bridge infrastructure, as well as investment in the land, building, right-of-way and waterway improvements.
- Decreases in the restricted net asset balances and the increase in the unrestricted net asset deficit are attributable to the decline in program revenues and increased commitments for social service programs, education support programs and pension contributions.

**Statement of Activities for the Fiscal Years Ended June 30, 2012 and 2011**  
(amounts in millions)

Revenues	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
<b>Revenues</b>						
Program Revenues						
Charges for sales and services	\$ 4,466	\$ 4,070	\$ 8,959	\$ 7,736	\$ 13,425	\$ 11,806
Operating grants and contributions	22,818	26,071	3,212	4,858	26,030	30,929
Capital grants and contributions	68	221	-	-	68	221
Total program revenues	27,352	30,362	12,171	12,594	39,523	42,956
General revenues: taxes & investment income	30,637	29,790	-	-	30,637	29,790
<b>Total revenues</b>	<b>57,989</b>	<b>60,152</b>	<b>12,171</b>	<b>12,594</b>	<b>70,160</b>	<b>72,746</b>
<b>Expenses</b>						
Governmental Activities						
Direction & supportive services	2,243	2,053	-	-	2,243	2,053
Protection of persons & property	5,541	5,385	-	-	5,541	5,385
Public education	13,394	14,864	-	-	13,394	14,864
Health & human services	30,681	30,389	-	-	30,681	30,389
Economic development	1,537	1,599	-	-	1,537	1,599
Transportation	4,383	4,466	-	-	4,383	4,466
Recreation and cultural enrichment	514	491	-	-	514	491
Interest	476	440	-	-	476	440
Business Type Activities						
State lottery	-	-	3,432	3,156	3,432	3,156
Unemployment compensation	-	-	6,032	7,461	6,032	7,461
Liquor control	-	-	1,570	1,505	1,570	1,505
State worker's insurance	-	-	268	306	268	306
Tuition payment and Economic development	-	-	253	282	253	282
<b>Total expenses</b>	<b>58,769</b>	<b>59,687</b>	<b>11,555</b>	<b>12,710</b>	<b>70,324</b>	<b>72,397</b>
Excess/(deficiency) before transfers	(780)	465	616	(116)	(164)	349
Transfers	210	240	(210)	(240)	-	-
<b>Increase (decreases) in net assets</b>	<b>(570)</b>	<b>705</b>	<b>406</b>	<b>(356)</b>	<b>(164)</b>	<b>349</b>
<b>Net assets-beginning</b>	<b>24,253</b>	<b>23,548</b>	<b>(1,564)</b>	<b>(1,208)</b>	<b>22,689</b>	<b>22,340</b>
<b>Net assets-ending</b>	<b>\$ 23,683</b>	<b>\$ 24,253</b>	<b>\$ (1,158)</b>	<b>\$ (1,564)</b>	<b>\$ 22,525</b>	<b>\$ 22,689</b>



### Statement of Activities Revenue Variance Analysis Year Over Year

**Charges for sales and services** for the PG experienced increases for the fiscal year ended June 30, 2012. A noteworthy contributing factor includes increases primarily related to gas well royalties and the first year collection of gas well drilling fees imposed on the drillers operating in the Marcellus Shale corridor.

**Operating grants and contributions** experienced a significant decrease for the PG. These decreases are attributable to the phase out of grant programs that were funded by the Federal ARRA grants. Last year \$2.7 billion in federal stimulus funds supported medical assistance, education and corrections programs.

**Capital grants and contributions** also incurred a PG decline related, in large part, to the phase-out of Federal ARRA grants. The impact of phasing out ARRA hit in the

2011-12 fiscal year. The decline was also due to a reduction in funding for the transportation and military affairs construction projects.

**Taxes and investment income** reflects the better than average economic climate in Pennsylvania, as a net increase of \$847 million was reported for the PG. The largest tax increases were reported in the Sales and Use (\$366 million) and the personal income tax (\$251 million) due to an improvement in the Commonwealth's unemployment rate over the prior year. Gaming Taxes reported an increase (\$78 million) as a result of the expansion to table games and additional gaming facilities. All other tax types and investment income reported a net increase of \$152 million over the prior year.

### Statement of Activities Expense Variance Analysis Year Over Year

#### Governmental Activities

During the fiscal year ended June 30, 2012, expenses for Governmental Activities experienced a net decrease of \$911 million. The decrease in expenses follows the decrease in revenues and is primarily attributable to the phase-out of the Federal ARRA grants and budget reductions.

**Direction and supportive services** increased by \$192 million as a result of expenses reported for the Commonwealth's commitment to the repayment of debt associated with the Pennsylvania Convention Center.

**Protection of persons and property** reported a net increase of \$158 million in expenses reflecting increased funding for the Penn State Agricultural Research Programs. Due to a reporting change the Motor License Fund expenses for State Police salaries and benefits are now reported in the protection of person and property line item.

**Public education** decreased by \$1,470 million, the largest decline of all the Governmental Activity programs. The most significant program changes were the discontinuation of Federal ARRA grants funding for Basic Education and the Education Jobs Fund.

**Health and human services** increased by \$293 million primarily as a result of spending for social service programs which was less than 1%.

**Economic development** programs decreased by \$61 million as Federal ARRA grants for employment and training programs were phased out.

**Transportation** expenses decreased by \$82 million primarily as a result of the phase-out of Federal ARRA grants.

**Recreation and cultural enrichment** increased by \$23 million as the result of more spending on conservation and natural resource programs.

**Interest** expenses increased by \$36 million due to increased debt service costs.

#### Business-Type Activities

**State Lottery** program expenses increased by \$275 million over the prior year as a result of record ticket sales during the fiscal year ended June 30, 2012.

**Unemployment Compensation (UC)** program expenditures declined by \$1,429 million as state and federally funded UC programs expired. The largest program expenditure cuts were in the Federal Emergency UC program and the Federal ARRA grant program.

**Statement of Activities Expense Variance Analysis Year Over Year**

(continued)

**Liquor Control Board (LCB)** cost of goods sold increased by \$65 million as a result of increased sales.

**State workers'** insurance decreased by \$38 million as claims settled decreased and a successful loss management initiative decreased total operating expenses.

**Tuition payment and economic development** expenses decreased by \$29 million primarily as the Tuition Payment Fund program usage resulted in lower amount of tuition credits being utilized in the fiscal year.

**Section C: Commonwealth's Overall Financial Activity**

**Government-wide Revenue Total By Categories**

(amounts in millions)

**The revenue** for all Governmental and Business-Type Funds contributing toward the Commonwealth's operating programs is displayed on this statement. The Commonwealth reported an overall increase in tax revenue; sales and use tax, personal income tax and gaming taxes. This gain over prior year is attributable to the Commonwealth showing a modest improvement in unemployment rates.

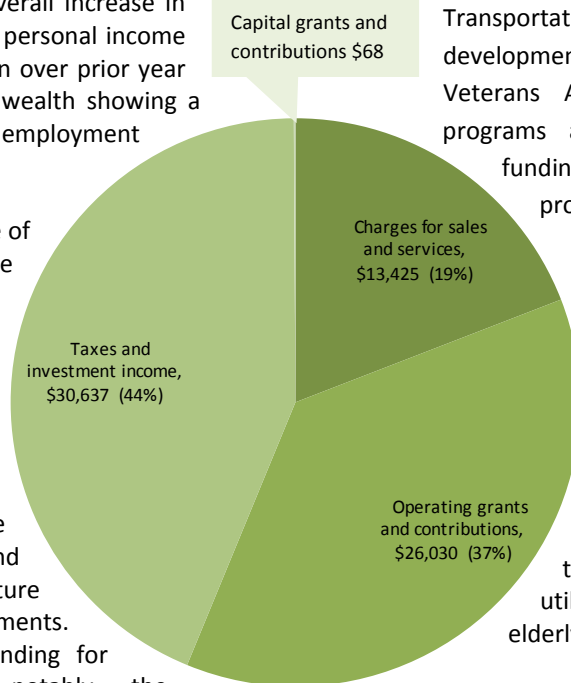
**Tax revenue** is the largest share of revenue reported by the Commonwealth. The majority of the tax revenue is deposited into the General Fund, the Commonwealth's largest operating fund. Significant tax revenue is also reported in the Motor License Fund and is utilized to fund the Commonwealth's highway and bridge infrastructure improvements and enhancements. The gaming taxes provide funding for several initiatives, most notably the Commonwealth's property tax relief program.

**Operating grants and contributions** include the revenue from the Federal Government in the form of grants. The Department of Public Welfare receives the most federal

funds. Other agencies that receive significant federal funds include the Department of Labor and Industry supporting the UC program, Department of Transportation supporting infrastructure development, Department of Military and Veterans Affairs supporting national defense programs and the Department of Education funding basic and higher education programs.

**Charges for sales and services** report the sales, fees and assessments charged for lottery tickets, licenses, permits and various registration requirements that support many of the Commonwealth's services and programs. The largest portion of charges for sales and services is reported by the State Lottery Fund; the profits from lottery ticket sales are utilized to support programs for the elderly.

**Capital grants and contributions** makes up a small percentage of the Commonwealth's total revenue. The grant revenue reported here is received from the Federal Government and supports construction projects for transportation and military affairs.



**Government-wide Expense Total By Categories**  
(amounts in millions)

The expense for all Governmental and Business-Type Funds is shown on this statement. Year over year the biggest change in program expense is the result of declining or discontinued grant programs supported by the ARRA. In order to meet the growing demands of health and human service and education programs along with the rising cost of the employers contribution to the pension system, the Commonwealth instituted some government reforms to streamline state government operations and achieve efficiencies.

**Health and human services** programs are the responsibility of the Departments of Public Welfare, Health and Aging. These programs ensure access to medical care for all citizens, support people seeking self sufficiency and maximize opportunities for individuals and families to participate in society.

**Public education** programs are managed primarily by the Department of Education. The Commonwealth strives to provide a system of learning experiences and opportunities through quality basic, special, technical and higher education programs.

**Protection of persons and property** addresses the substantive areas of consumer and environmental protection, certain regulatory activities, the criminal

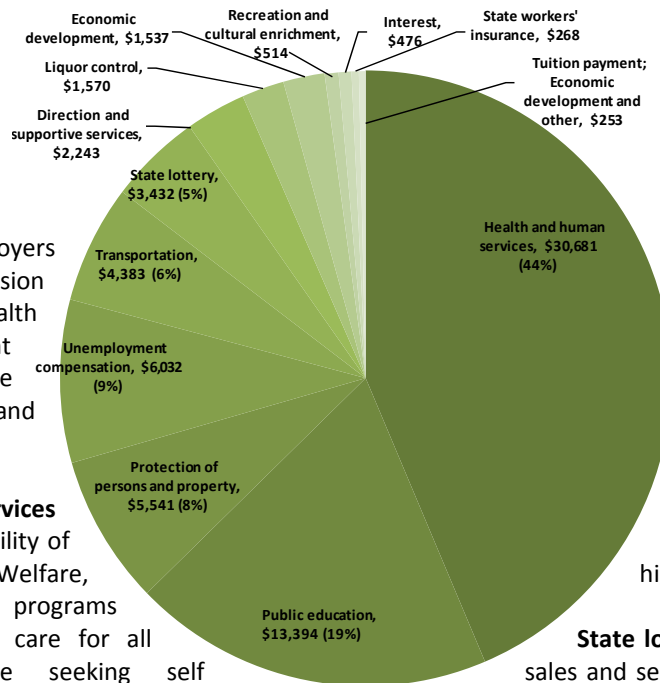
justice system and the mitigation of the effects of disasters. The State Police, Attorney General, Department of Corrections, Department of Military and Veterans Affairs and the Pennsylvania Emergency Management Agency are some of the agencies that support these programs.

**Unemployment compensation** reports the expenses for payments made to unemployed individuals.

**Transportation** reports the expenses in support of the Commonwealth's road and bridge infrastructure improvements and enhancements as well as the costs to provide licensing and highway safety programs.

**State lottery expenses** report the cost of sales and service to manage and maintain the Commonwealth's lottery program. All profits from the lottery program benefit the elderly population through the funding of programs ensuring reduced costs on prescriptions, access to public transportation, and property tax and rent rebate programs.

**Other expenses** reported include those for economic development, recreation and cultural enrichment, interest, liquor control, worker's compensation and the tuition payment fund program.



Section D: Individual Funds Analysis

**General Fund Assets and Liabilities and Fund Balance**  
 Condensed, comparative, financial information (amounts in millions)

The **General Fund**, the Commonwealth's largest fund, accounts for over 84% of the total governmental fund type revenues and other financial sources and nearly 79% of the total governmental fund type expenditures

and other financing uses. The General Fund collects over 86% of the total tax revenues and is the primary funding source for most Commonwealth agencies.

	2012	2011
<b>Assets:</b>		
Cash and investments.....	\$ 4,730	\$ 4,841
Receivables, net.....	3,998	3,770
Due from other funds/governments/advances/other.....	2,372	2,228
<b>Total assets.....</b>	<b>\$ 11,100</b>	<b>\$ 10,839</b>
<b>Liabilities:</b>		
Accounts payable and tax refunds payable.....	\$ 5,754	\$ 4,956
Securities lending obligations.....	4	10
Due to other funds/governments/advances/other.....	1,953	1,973
Unearned revenue.....	2,129	2,279
<b>Total liabilities.....</b>	<b>9,840</b>	<b>9,218</b>
<b>Fund Balance:</b>		
<b>Total fund balance.....</b>	<b>1,260</b>	<b>1,621</b>
<b>Total liabilities and fund balance.....</b>	<b>\$ 11,100</b>	<b>\$ 10,839</b>

**Cash and investments** declined by \$111 million primarily as a result of decreased program funding and the use of prior year fund balance.

**Receivables** increased by \$228 million as a result of a \$32 million increase in taxes receivable, a \$185 million increase in accounts receivable, and a net \$11 million increase in all other receivables.

**Due from other funds/governments/advances/other** increased by \$144 million mainly due to a reporting change in recording the funds owed the PG for debt service payments from Pennsylvania Infrastructure Investment Authority (PENNVEST).

**Accounts payable and tax refunds payable** increased by \$798 million. A significant increase in accounts payable of \$601 million is almost entirely the result of a timing change in the processing of the managed care payments. The increase in tax refunds payable of \$198 million is the result of several large court awards impacting sales tax refunds and several companies obtaining large corporate tax refunds due to overpayment of their corporate tax liability. As corporate returns were filed, the companies'

tax liabilities were less than the payments made to Department of Revenue, resulting in a request for refunds. While this occurs every year, there were some unusually large refunds during the fiscal year ended June 30, 2012.

**Securities lending obligations** decreased by \$6 million as a result the program's current investment allocation strategy to hold fewer eligible securities available to lend. Management decided it was in the best interest of the Commonwealth to decrease their participation in the program.

**Unearned revenue** decreased by \$150 million due to a 31% increase in employer personal income taxes and a 40% increase in corporation taxes filed between July and August of 2012. This increase has an opposing effect on the year over year trend on taxes filed beyond August 31 that are appropriately reported as unearned revenue.

**Fund balance** declined overall by \$361 million reflecting the decline in program revenue as well as increases in expenditures for social service programs.

**General Fund**

Condensed, comparative, financial information (amounts in millions)

Revenues:	2012	2011
<b>Taxes, net of refunds</b>		
Personal income.....	\$ 10,108	\$ 9,802
Sales and use.....	8,611	8,248
Corporation.....	4,474	4,628
Inheritance.....	805	777
Cigarette.....	1,061	1,084
Realty transfer.....	292	280
Gaming.....	95	69
Other.....	1,131	996
<b>Total taxes, net of refunds.....</b>	<b>26,577</b>	<b>25,884</b>
Intergovernmental.....	20,276	23,598
Charges for sales and services.....	1,450	1,438
Licenses/fees/investment and other income.....	880	694
<b>Total revenues.....</b>	<b>49,183</b>	<b>51,614</b>
<b>Expenditures:</b>		
Direction and supportive services.....	943	837
Protection of persons and property.....	4,035	4,162
Health and human services.....	30,031	29,861
Public education.....	12,734	14,198
Recreation and cultural enrichment.....	242	244
Economic development.....	744	962
Transportation.....	43	48
Capital outlay.....	233	286
Other expenditures.....	27	-
<b>Total expenditures.....</b>	<b>49,032</b>	<b>50,598</b>
<b>Revenues over expenditures.....</b>	<b>151</b>	<b>1,016</b>
<b>Other financing sources (uses):</b>		
Other financing sources.....	52	-
Transfers in.....	425	1,063
Transfers out.....	(1,097)	(1,023)
Capital lease and installment purchase obligations.....	108	-
<b>Net other financing sources (uses).....</b>	<b>(512)</b>	<b>40</b>
<b>Net change in fund balance.....</b>	<b>(361)</b>	<b>1,056</b>
<b>Fund balance, beginning.....</b>	<b>1,621</b>	<b>285</b>
<b>Net effect of newer fund type definitions.....</b>	<b>-</b>	<b>280</b>
<b>Fund balance, ending.....</b>	<b>\$ 1,260</b>	<b>\$ 1,621</b>

**Total revenues** decreased by \$2,431 million reflecting the phase-out of the Federal ARRA grants. On the positive side, tax revenues increased by \$693 million, without a tax rate increase, primarily in personal income tax and sales and use tax, as the economy in the Commonwealth showed improvement and has outperformed the national economy. Another key indicator impacting the increase in personal income and sales and use taxes is the improvement in the Commonwealth's unemployment rate, dropping to 7.6 percent reported as of December 2011.

**Total expenditures** decreased by \$1,566 million reflecting the phase-out of the Federal ARRA grants. The largest decline of Federal support was education and economic development programs.

**Other financing sources (uses)** decreased by \$552 million primarily due to a discontinuation of transfers from certain special revenue funds.

**Fund balance** decreased by \$361 million primarily as a result of decreased program revenue, increased program expenditures and the use of prior year fund balance.



**Motor License Fund**

Condensed, comparative, financial information (amounts in millions)

Description	2012	2011
Cash and investments.....	\$ 1,440	\$ 1,830
Other assets.....	505	482
<b>Total assets.....</b>	<b>\$ 1,945</b>	<b>\$ 2,312</b>
Accounts payable.....	\$ 595	\$ 596
Securities lending obligations.....	22	68
Other liabilities.....	135	145
Total liabilities.....	752	809
Total fund balance.....	1,193	1,503
<b>Total liabilities and fund balance.....</b>	<b>\$ 1,945</b>	<b>\$ 2,312</b>
Tax revenues.....	\$ 2,096	\$ 2,093
Licenses and fees.....	914	899
Intergovernmental.....	1,917	1,791
Other revenues.....	145	235
Total revenues.....	5,072	5,018
Direction and supportive services.....	59	51
Protection of persons and property.....	707	669
Transportation.....	2,001	1,840
Capital outlay.....	2,543	2,549
Other expenditures.....	4	4
Total expenditures.....	5,314	5,113
Net transfers out.....	(68)	(63)
Net other financing (uses).....	(68)	(63)
<b>Net change in fund balances.....</b>	<b>\$ (310)</b>	<b>\$ (158)</b>

**Cash and investments** decreased by \$390 million due to expenditures exceeding revenue, on a cash basis, by \$335 million. With the decrease in overall investments, the securities lending obligation and market value adjustment were reduced a total of \$53 million.

**Securities lending obligations** decreased by \$46 million due to the decrease in cash and investments.

**Intergovernmental revenue** increased by \$126 million due largely to the increase in federally-billable Highway

Bridge expenditures which yielded \$108 million over last year.

**Other revenues** decreased by \$90 million due to less earned income from investments.

**Transportation** expenditures increased by \$161 million due primarily to the \$68 million increase to the Highway Maintenance budget and a new appropriation created \$58 million for Disaster Recovery.

**Unemployment Compensation Fund**

Condensed, comparative, financial information (amounts in millions)

Description	2012	2011
Cash and investments.....	\$ 119	\$ 1,178
Unemployment assessments receivable.....	730	587
Other assets.....	296	232
<b>Total assets.....</b>	<b>1,145</b>	<b>1,997</b>
Accounts payable.....	155	169
Other liabilities.....	2,701	3,848
<b>Total liabilities.....</b>	<b>2,856</b>	<b>4,017</b>
<b>Total net assets.....</b>	<b>\$ (1,711)</b>	<b>\$ (2,020)</b>
Sales and services.....	\$ 3,447	\$ 2,569
Other revenues.....	1	10
<b>Total operating revenues.....</b>	<b>3,448</b>	<b>2,579</b>
Total operating expenses: Cost of sales and services.....	6,032	7,461
<b>Operating loss.....</b>	<b>(2,584)</b>	<b>(4,882)</b>
Nonoperating revenues.....	2,896	4,351
<b>Income (Loss) before transfers.....</b>	<b>312</b>	<b>(531)</b>
Transfers.....	(3)	(6)
<b>Increase (decrease) in net assets.....</b>	<b>\$ 309</b>	<b>\$ (537)</b>

**Cash and investments** decreased by \$1,059 million primarily due to repayment of a loan to the federal government for advances on UC. In the last month of the fiscal year, the federal government, under Title XII of the Social Security Act, recouped over \$1.4 billion towards repayment of a federal loan. These Title XII advances were disbursed to fund UC benefits that were in excess of Pennsylvania’s UC Fund receipts. The Commonwealth is one of 35 states that exhausted its UC Fund balances during the recent economic downturn.

**Unemployment assessment receivables** increased by \$143 million due to an escalation in the amount of services billed, but unpaid, at the end of the tax year. Solvency measures were established as a result of the depleted UC Fund.

**Other assets** increased by \$64 million primarily due to a delay in the implementation of UC Management System (UCMS) billings. Other assets consist principally of amounts due from unemployment contributions of employers, overpayments of claimants, and monies due from other governments and political subdivisions. Under UC law, employers may be charged interest and penalty fees if proper payment is not submitted timely.

**Other liabilities** decreased by \$1,147 million as a result of repayments on loans from the federal government. In fiscal year 2011, additional funds of \$1.49 billion were borrowed from the Federal Government to cover the

deficiency in Pennsylvania’s UC Trust Fund. The Commonwealth subsequently began repayment of these Title XII advances using specified contributions, including Federal Unemployment Tax Act (FUTA) payments. Repayment of the federal obligation amounted to \$2.66 billion, which equaled a net decrease during the year of \$1.17 billion on the loan. Interest on these advances continued to accrue and will be paid per the agreement.

**Sales and services** represents several components of Unemployment Compensation, including revenues from employer contributions and various fees. The total of this activity amounted to a net increase year-over-year of \$878 million. This increase is attributable to the Commonwealth showing a modest improvement in unemployment rates.

**Cost of sales and services** decrease from 2011 to 2012 amounted to \$1,429 million. This is a result of state and federally funded UC programs expiring, thus reducing expenses. Pennsylvania-funded UC benefits decreased \$276 million. Federal program expenses decreased \$5 million, Federal TRA/ATAA expenses increased by \$6 million, Federal Emergency UC benefits decreased \$663 million, Federal ARRA expenses decreased \$754 million, and Federal UC related to disaster relief increased just below \$1 million. The net effect of other accrued expenses increased \$262 million, which included interest expense related to the Federal UC loan.

**Non-operating revenue** decreased by \$1,455 million due to several Federal programs phasing out or ending completely during fiscal year 2011. The Federal Additional UC program under the American Recovery and Reinvestment Act expired in the middle of last fiscal year.

No new claims were allowed during the current fiscal year, reducing Federal grants by over \$230 million in this program alone. Further, Extended Benefits were reduced by \$255 million and Emergency unemployment grant monies were reduced by \$953 million.

**State Workers Insurance Fund (SWIF)**

Condensed, comparative, financial information (amounts in millions)

Description	2011	2010
Cash and short-term investments.....	\$ 146	\$ 287
Long-term investments.....	1,452	1,440
Other assets.....	66	69
<b>Total assets.....</b>	<b>1,664</b>	<b>1,796</b>
Securities lending obligations.....	69	193
Unearned revenue.....	68	68
Insurance loss liability.....	1,490	1,510
Other liabilities.....	43	60
<b>Total liabilities.....</b>	<b>1,670</b>	<b>1,831</b>
<b>Net assets.....</b>	<b>\$ (6)</b>	<b>\$ (35)</b>
Sales and services.....	\$ 157	\$ 174
Provision for uncollectible accounts.....	(10)	(10)
<b>Total operating revenues.....</b>	<b>147</b>	<b>164</b>
Total operating expenses: Cost of sales and services.....	255	285
<b>Operating loss.....</b>	<b>(108)</b>	<b>(121)</b>
Investment income.....	141	131
(Investment expense).....	(4)	(12)
<b>Net nonoperating revenue.....</b>	<b>137</b>	<b>119</b>
<b>Increase (Decrease) in net assets.....</b>	<b>\$ 29</b>	<b>\$ (2)</b>

**Cash and short-term investments** decreased by \$141 million as a result of a decrease in the security lending program and the private insurance carriers continuing to increase their share of the workers compensation market.

**Securities lending obligations** decreased by \$124 million because of a decline in securities eligible for the program.

**Sales and services** decreased from \$174 million to \$157 million, primarily due to market influences and decreases in policies written. Application statistics show that new

applications increased by 12 percent from 2010 (7,717 vs. 6,885) and renewal applications decreased 9 percent (20,874 vs. 22,927).

**Cost of sales and services** decreased by \$30 million as a result of successful loss management initiatives. Claims settled by SWIF through a Compromise and Release Initiative decreased from 1,129 in 2010 to 881 in 2011.

**State Lottery Fund**

Condensed, comparative, financial information (amounts in millions)

Description	2012	2011
Cash and short-term investments.....	\$ 294	\$ 251
Long-term investments.....	53	12
Other assets.....	57	48
<b>Total assets.....</b>	<b>404</b>	<b>311</b>
Accounts payable.....	442	398
Securities lending obligations.....	1	3
Other liabilities.....	29	28
<b>Total liabilities.....</b>	<b>472</b>	<b>429</b>
<b>Net assets.....</b>	<b>\$ (68)</b>	<b>\$ (118)</b>
Total operating revenues: Sales and services.....	\$ 3,479	\$ 3,207
Cost of sales and services.....	3,316	3,037
Other expenses.....	115	119
<b>Total operating expenses.....</b>	<b>3,431</b>	<b>3,156</b>
Operating income .....	48	51
Nonoperating revenues.....	128	119
<b>Income before transfers.....</b>	<b>176</b>	<b>170</b>
Transfers in.....	164	166
Transfers out.....	(290)	(288)
<b>Transfers, net.....</b>	<b>(126)</b>	<b>(122)</b>
<b>Increase in net assets.....</b>	<b>\$ 50</b>	<b>\$ 48</b>

**Cash and short term investments** increased by \$43 million due to an increase in net sales attributable to the growth of Lottery sales activity.

**Long term investments** increased by \$41 million as a result of a change in investment strategy. In prior fiscal year 2010-11, the State Lottery Fund held investments in Commonwealth Investment Pool (CIP) 98 which maintained temporary investments. During the fiscal year 2011-12, the Treasury Department liquidated Pool 98 and created pool 198 which maintain investments with a long-term nature.

**Sales and services** increased by \$272 million as a result of a record sales year during fiscal year 2011-12. This is attributable to \$213 million increase in instant game sales versus the prior year. instant game sales account for approximately 60% of overall game sales. Different factors contribute to this increase: continued growth of

the retailer base as well as increases to retailer vending equipment. Not only have the number of Lottery outlets grown but the Lottery presence within the outlets has grown as well. The increase in instant vending equipment, in particular, addresses the growing consumer preference for instant ticket products. Also, increases were experienced in Powerball and Mega Millions sales. Sales for both games are driven by the size of jackpots. The top 10 jackpots for both games in fiscal year 2011-12 were significantly higher than the top 10 jackpots for the prior fiscal year.

**Cost of sales and services** increased by \$279 million due to the increase in sales activity. With increased sales, State Lottery Fund experienced increases to the direct costs associated with sales. A total of \$1.1 billion was used to fund programs benefitting older Pennsylvanians during fiscal year 2011-12.

**Tuition Payment Fund**

Condensed, comparative, financial information (amounts in millions)

Description	2012	2011
Cash and short-term investments.....	\$ 330	\$ 294
Long-term investments.....	1,132	1,224
Other assets.....	13	15
<b>Total assets.....</b>	<b>1,475</b>	<b>1,533</b>
Securities lending obligations.....	61	136
Tuition benefits payable.....	1,440	1,401
Other liabilities.....	16	27
<b>Total liabilities.....</b>	<b>1,517</b>	<b>1,564</b>
<b>Net assets.....</b>	<b>\$ (42)</b>	<b>\$ (31)</b>
Total operating revenues: Sales and services.....	\$ 186	\$ 165
Total operating expenses: Cost of sales and services.....	230	252
<b>Operating loss.....</b>	<b>(44)</b>	<b>(87)</b>
Nonoperating revenues.....	33	215
<b>Increase (decrease) in net assets.....</b>	<b>\$ (11)</b>	<b>\$ 128</b>

**Total assets** decreased by \$58 million during the fiscal year. A significant portion of this reduction is attributable to the decreased participation in the securities lending program of \$75 million. This decrease was offset by the results of a marketing plan which brought in over 8,435 new accounts in this fiscal year. In anticipation of an asset allocation change, there was a decrease in long-term investments and an increase to cash and cash equivalents.

**Total liabilities** decreased by \$47 million during the fiscal year. The primary source of this decrease is the reduction in the securities lending program of \$75 million. The program's current investment allocation strategy holds fewer eligible securities available to lend. Increased participation in the program resulted in a greater long

term actuarial liability of \$28 million for future benefit payments.

**Operating revenues** increased by \$21 million due to greater enrollment which produced increases in tuition credit purchases and generated more program fees.

**Operating expenses** decreased by \$22 million in alignment with the decrease in tuition benefit expenses.

**Nonoperating revenue** decreased by \$182 million due to the decrease in investment income. This decrease reflected the shift out of fixed income investments to short term cash and cash equivalents combined with the decrease in overall return from 19% in fiscal year 2010-11 to 2.7% in 2011-12.

**Section E: Budget Analysis Overview**

**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, 2012 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 2011-

12 supplemental appropriations passed on June 30, 2012 by Act 9-A.

Final budgeted Tax Revenues were \$698 million (2.6%) lower than the original budget, primarily due to projected decreases of \$440 million in corporation taxes and \$226 million in other taxes (including an almost \$185 million decrease in personal income taxes).

### General Fund Budgetary Basis Comparison between final budgeted and actual results

Actual Total State Program revenues were \$1,082 million (3.8%) higher than the final budgeted State Program revenues primarily due to increases of \$479 million in corporation taxes and \$526 million in departmental services. The increase in departmental services is mainly attributable to authorized transfers of \$544 million in augmenting revenue from the Motor License Fund for State Police protection of Commonwealth highways offset by minor reductions in other agencies.

Actual Federal revenues and corresponding expenditures were \$947 million (4.8%) less than budgeted due to the expiration of \$426 million in ARRA funds in excess of awarded funds for all agencies along with additional agency reductions of \$418 million in Public Welfare, \$55 million in Health and \$42 million in Transportation.

## Section F: Capital Asset And Long-term Debt Activity

### Capital Asset Overview and Explanation

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.

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. 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 A** to the financial statements discusses capital assets significant accounting policies .

**Note E** to the financial statements provides more information on capital asset activities during the fiscal year ended June 30, 2012.

**Long-term Debt Graph and Explanations**

(Amounts in millions)

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, 2012 was \$59.0 billion. Outstanding capital project debt at August 31, 2012 amounted to \$9.2 billion, for a remaining legal debt margin of \$49.8 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 principal indebtedness outstanding at June 30, 2012 was \$10,760. During the fiscal year ended June 30, 2012 total debt service fund transfers were paid from General Fund (\$1,040), Motor License Fund (\$65.4), Gaming Economic Development and Tourism Fund (\$45.8) and Environmental Stewardship Fund (\$38) to make principal and interest payments to bondholders (amounts in millions).

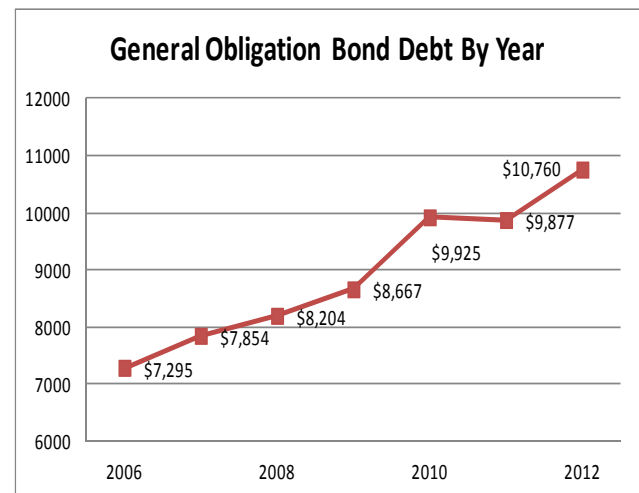
**Debt Overview – fiscal year ending June 30, 2012**

At June 30, 2012, the PG had total General Obligation Bonds principal outstanding of \$10,760 million for the following purposes:

- \$6,803 Capital Facility Bonds
- 2,894 Refunding Bonds
- 1,063 Electorate Approved Debt (various)

Over the ten year period ended June 30, 2012, total net outstanding general obligation debt increased at an annual rate of 4.4% as reflected in the graph to the right.

**Note K** in the Notes to the financial statements provides more details on long-term debt balances and activity.



**Debt Administration – fiscal year ending June 30, 2013**

During the fiscal year ending June 30, 2013, the Office of the Budget currently plans general obligation bond issuances, excluding refundings, amounting to \$1,848 million, an increase of \$86 million when compared to actual bond issuances of \$1,762 million, which included refunding issuance of \$162 million, during the fiscal year ended June 30, 2012. This plan reflects the need to make continued investments in the Commonwealth's capital infrastructure, local capital projects and mass transportation infrastructure. Debt principal retirements of \$767 million are currently planned for the fiscal year ending June 30, 2013. As disclosed in Note R to the financial statements, the Commonwealth issued \$362 million of general obligation bonds during July 2012.

The Commonwealth continues to evaluate refunding opportunities for its outstanding bonds to reduce interest costs. The aforementioned July 2012 bond issuance refunded \$362 million of outstanding bonds and will produce \$65 million of interest savings over the remaining life of those bonds. As market conditions provide additional opportunities, the Commonwealth may pursue additional refundings.

In addition to general obligation bonds, the Commonwealth may issue tax anticipation notes to meet operating cash needs during certain months of the fiscal year. Tax anticipation notes may be issued only for the General Fund and the Motor License Fund. They may not exceed 20 percent of the funds' estimated revenues for



the fiscal year and must mature during the fiscal year in which they were issued. Cash shortages may occur during the fiscal year because tax receipts, unlike cash disbursements, are concentrated in the last four months of the fiscal year. The Commonwealth has not issued any such notes through November 2012 and does not intend to issue any such notes for the General Fund during the fiscal year ending June 30, 2013.

On July 24, 2012, in connection with the Commonwealth's issuance of First Refunding Series of 2012 General Obligation Bonds, Moody's Investors Service affirmed the Commonwealth's bond rating of Aa2 with a 'stable' outlook. At the same time, Fitch Ratings

affirmed the Commonwealth's bond rating of AA+ with a 'negative' outlook and Standard and Poors also affirmed the Commonwealth's bond rating of AA with a 'negative' outlook. There were no debt limitations, restrictions or commitments during the fiscal year ended June 30, 2012 that may affect the Commonwealth's plans during the fiscal year ending June 30, 2013.

The Commonwealth issued \$3.3 billion of bonds related to its unemployment insurance program. The Wall Street Journal reported the bonds were "met with strong demand undiminished by similar deals from other states".

## Section G: Currently Known Facts

### Job Creation

The Commonwealth is focusing on economic development efforts and tax policy changes that will foster an improved climate for job growth. During 2011-12, a reform of the UC system was implemented to ensure that employers will no longer face increased costs when hiring. The Commonwealth continued its phase out of the capital stock and franchise tax through annual rate reductions, this tax will be completely phased out through 2014. New programs, such as Keystone Works, were created to ensure job training and placement programs for unemployed Pennsylvanians.

### Marcellus Shale Impact

On February 24, 2012, legislation establishing the Marcellus Shale impact fee was signed into law. The law provides for the imposition of an unconventional gas well impact fee, and the expenditure of the funds generated by that impact fee is specifically outlined in the law.

The Marcellus Shale natural gas field could be the second-largest natural gas field in the world, and producers are spending billions of dollars in the Commonwealth to increase production. Over 2,000 drilling permits have been issued in Pennsylvania from January to October 2012. 209,094 were employed in ancillary industries as of the fourth quarter 2011 and 150,616 new jobs were created from fourth quarter 2009 to second quarter 2012 tied to the expanded natural gas industry. Companies engaged in and related to natural gas drilling have paid more than \$1.6 billion in state taxes since 2006.

### Potential Lottery Private Management Agreement

The Commonwealth began exploring a Private

Management Agreement (PMA) for the Pennsylvania Lottery as a way to maximize Lottery revenue and ensure secure, predictable funding for programs benefitting a dramatically growing senior population.

After months of due diligence, during which Commonwealth representatives interacted with potential bidders to inform them of Pennsylvania Lottery operations and learn industry ideas for growing Lottery profits, the Governor's administration has determined key terms for a potential PMA for the Pennsylvania Lottery.

A decision whether or not to execute a Lottery PMA will be made after further reviews of bidders' business plans determines if priced bids provide significant value to the Commonwealth and justify executing a PMA with the highest bidder and evaluates any alternate plan the union may propose.

### Pension Accounting and Financial Reporting Standard

On June 25, 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, "Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27". The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. The statement is effective for fiscal year ending June 30, 2015. The statement requires all governments that participate in a defined benefit pension plan to report their asset or liability associated with that plan. The current reporting requirements require governments to report a liability for their participation in a defined benefit pension plan if they have not met their required contribution to the plan on



an annual basis. The Commonwealth participates in two defined benefit plans, the State Employees' Retirement System and the Public School Employees' Retirement System, as disclosed in Note I immediately following the Basic Financial Statements. This GASB statement will require the Commonwealth to report a pension liability in its Statement of Net Assets. Through issuance of this report, the Commonwealth has not prepared an estimate in accordance with GASB Statement No. 68 of the impact that reporting a pension liability will have on its financial statements.

**Pennsylvania Turnpike Commission Lease and Funding Agreement Obligations**

As further described in Note N to the Basic Financial Statements, the Pennsylvania Turnpike Commission (PTC), a discretely presented component unit, is required to remit specified amounts to the PA Department of Transportation (DOT) based on the terms of a 2007 Lease and Funding Agreement between the PTC and certain Commonwealth agencies, including DOT. The PTC has remitted all indicated payments to DOT; such payments are deposited in the Motor License Fund and the Public Transportation Trust Fund. Through June 30, 2012, the PTC has remitted payments amounting to \$3.4 billion to the DOT. Scheduled annual PTC payments to DOT amount to \$450 through 2057, when the Lease and Funding Agreement terminates.

In its separately-issued and publically-available financial statements as of and for the fiscal year ended May 31, 2012, the PTC's Management's Discussion and Analysis provides that it has made all indicated Lease and Funding Agreement payments and plans to continue to do so for

the foreseeable future. The PTC has financed its payments to date through a combination of increased toll rates and increased borrowing, in accordance with the Lease and Funding Agreement. The PTC's Note 6 to its financial statements (Debt) provides extensive disclosure of its borrowings, including borrowings made to finance PTC remittances to DOT. The PTC's audited financial statements as of May 31, 2012 are available within the PTC Comprehensive Annual Financial Report at: <http://www.paturndpike.com>. The PTC uses May 31 as its fiscal year end.

**Bond Ratings**

On July 16, 2012, Moody's Investors Service (Moody's) lowered its ratings on Commonwealth General Obligation bonds from Aa1 with a negative outlook to Aa2 with a stable outlook. Standard and Poor's Ratings Services (S&P) has assigned its municipal bond rating of AA to the bonds and S&P changed its rating outlook on the Commonwealth General Obligation Bonds from stable to negative. Fitch Ratings (Fitch) has assigned its municipal bond rating of AA+ to the bonds and maintained its negative outlook on the Commonwealth's General Obligation Bonds. The ratings reflect only the views of the respective rating agencies.

The ratings are based upon current information furnished by the Commonwealth or obtained from other sources considered reliable by the rating agencies, which do not perform any audit in connection with any rating and may, on occasion, rely on unaudited financial information.

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2012

# Basic Financial Statements



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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2012

# Government-Wide Financial Statements



Commonwealth of Pennsylvania

Statement of Net Assets

June 30, 2012

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Current assets:				
Cash—Note D.....	\$ 223,914	\$ 131,561	\$ 355,475	\$ 1,767,790
Cash with fiscal agents.....	-	25,939	25,939	-
Temporary investments—Note D.....	7,044,572	1,093,263	8,137,835	2,530,674
Receivables (net):				
Taxes—Note G.....	1,955,093	-	1,955,093	-
Unemployment assessments.....	-	730,142	730,142	-
Accounts.....	1,345,104	182,741	1,527,845	201,737
Investment income.....	5,850	13,648	19,498	7,774
Interest on notes and loans.....	-	91,396	91,396	116,689
Loans—Note G.....	5,472	48,258	53,730	1,323,983
Lease rentals—Note G.....	427	-	427	694
Investment sale proceeds.....	14,366	9,839	24,205	-
Other.....	122,759	-	122,759	71,446
Due from pension trust funds—Note H.....	4,820	7	4,827	-
Due from primary government—Note H.....	-	-	-	12,276
Due from component units—Note H.....	18,357	571	18,928	91
Due from Federal government.....	2,381,589	69,254	2,450,843	66,733
Due from political subdivisions.....	11,745	14,511	26,256	-
Due from other governments.....	611	29,759	30,370	32
Inventory.....	127,147	176,600	303,747	33,357
Prepaid and deferred expenses.....	-	2,452	2,452	22,280
Other assets.....	9,018	19,006	28,024	171,418
Total current assets.....	<u>13,270,844</u>	<u>2,638,947</u>	<u>15,909,791</u>	<u>6,326,974</u>
Noncurrent assets:				
Long-term investments—Note D.....	2,697,515	2,908,677	5,606,192	2,421,947
Receivables (net):				
Taxes—Note G.....	1,194,984	-	1,194,984	-
Loans—Note G.....	65,662	207,930	273,592	13,794,230
Due from primary government—Note H.....	-	-	-	137,000
Due from component units—Note H.....	119,546	-	119,546	-
Non-depreciable capital assets—Note E:				
Land.....	2,612,623	323	2,612,946	431,448
Construction in progress.....	3,427,582	-	3,427,582	1,061,541
Depreciable or amortizable capital assets—Note E:				
Land improvements.....	698,460	-	698,460	376,598
Buildings and building improvements.....	6,928,444	48,186	6,976,630	4,806,612
Machinery and equipment.....	1,128,285	149,731	1,278,016	1,263,219
Turnpike infrastructure.....	-	-	-	6,704,803
Highway infrastructure.....	24,096,370	-	24,096,370	-
Bridge infrastructure.....	11,180,587	-	11,180,587	-
Waterway infrastructure.....	25,926	-	25,926	-
Infrastructure-other.....	185,531	-	185,531	-
Library books.....	-	-	-	84,485
Intangible assets.....	148,960	14,034	162,994	43,862
Less: accumulated depreciation and amortization.....	(18,561,106)	(135,015)	(18,696,121)	(6,271,878)
Net depreciable or amortizable capital assets.....	<u>25,831,457</u>	<u>76,936</u>	<u>25,908,393</u>	<u>7,007,701</u>
Other assets.....	-	-	-	606,843
Total non-current assets.....	<u>35,949,369</u>	<u>3,193,866</u>	<u>39,143,235</u>	<u>25,460,710</u>
<b>TOTAL ASSETS.....</b>	<b><u>\$ 49,220,213</u></b>	<b><u>\$ 5,832,813</u></b>	<b><u>\$ 55,053,026</u></b>	<b><u>\$ 31,787,684</u></b>

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

**Commonwealth of Pennsylvania**

**Statement of Net Assets**

June 30, 2012

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities.....	\$ 5,930,369	\$ 844,834	\$ 6,775,203	\$ 581,566
Investment purchases payable.....	69,127	12,710	81,837	-
Tax refunds payable.....	823,141	-	823,141	-
Tuition benefits payable—Note F.....	-	201,058	201,058	-
Securities lending obligations.....	88,172	136,593	224,765	10,915
Internal balances—Note H.....	(121,715)	122,899	1,184	-
Due to pension trust funds—Note H.....	30,938	1,043	31,981	-
Due to primary government—Note H.....	-	-	-	17,927
Due to component units—Note H.....	12,216	4	12,220	91
Due to political subdivisions.....	1,226,545	7,310	1,233,855	-
Due to other governments.....	29,791	2,692,736	2,722,527	346
Interest payable.....	167,873	-	167,873	220,235
Unearned revenue.....	149,451	80,537	229,988	102,971
Notes payable—Note J.....	-	-	-	166,394
General obligation bonds payable—Note K.....	767,395	-	767,395	-
Bonds payable—Note K.....	-	-	-	41,913
Revenue bonds payable—Note K.....	-	-	-	287,599
Capital lease/installment purchase obligations—Note K.....	-	-	-	8,893
Self insurance liabilities—Note M.....	171,678	6,051	177,729	4,760
Compensated absence liability—Notes F, K.....	147,940	6,723	154,663	12,871
Insurance loss liability—Note F.....	-	224,849	224,849	-
Other financing obligations—Note J.....	9,370	-	9,370	2,040
Other postemployment benefit obligations—Note I.....	-	-	-	56,796
Pollution remediation obligations—Note K.....	24,808	-	24,808	-
Other liabilities—Note K.....	166,903	25,384	192,287	298,978
Total current liabilities.....	<u>9,694,002</u>	<u>4,362,731</u>	<u>14,056,733</u>	<u>1,814,295</u>
Noncurrent liabilities:				
Tuition benefits payable—Note F.....	-	1,239,040	1,239,040	-
Due to primary government—Note H.....	-	-	-	119,546
Due to component units—Note H.....	137,000	-	137,000	-
Unearned revenue.....	-	-	-	3,545
Student loan auction rate security bonds payable—Note J.....	-	-	-	3,550,275
Insurance loss liability—Note F.....	-	1,265,553	1,265,553	-
Notes payable—Note J.....	-	-	-	4,237,886
General obligation bonds payable—Note K.....	10,771,404	-	10,771,404	-
Bonds payable—Note K.....	-	-	-	1,808,972
Revenue bonds payable—Note K.....	-	-	-	13,452,482
Capital lease/installment purchase obligations—Note K.....	129,757	-	129,757	79,247
Other financing obligations—Note J.....	324,860	-	324,860	102,709
Compensated absence liability—Note F, K.....	606,800	28,770	635,570	122,025
Self insurance liabilities—Note M.....	671,658	32,465	704,123	45,015
Other postemployment benefit obligations—Note I.....	1,703,019	61,910	1,764,929	815,017
Pollution remediation obligations—Note K.....	195,392	-	195,392	-
Other liabilities—Note K.....	1,303,853	-	1,303,853	1,128,062
Total non-current liabilities.....	<u>15,843,743</u>	<u>2,627,738</u>	<u>18,471,481</u>	<u>25,464,781</u>
<b>TOTAL LIABILITIES.....</b>	<u>25,537,745</u>	<u>6,990,469</u>	<u>32,528,214</u>	<u>27,279,076</u>
<b>NET ASSETS—Note C</b>				
Invested in capital assets, net of related debt.....	26,580,581	77,259	26,657,840	2,673,929
Restricted for:				
Health-related programs.....	18,977	1,340	20,317	6,359
Transportation.....	670,168	121,760	791,928	-
Capital projects.....	-	-	-	3,214,053
Debt service.....	-	-	-	455,806
Unemployment/worker's compensation.....	427,934	-	427,934	-
Environmental and conservation programs.....	565,891	-	565,891	-
Economic development.....	-	309,636	309,636	193,458
Gaming licensing/regulation.....	725,468	-	725,468	-
Correctional industries and procurement.....	71,095	-	71,095	-
Emergency support.....	46,793	147,747	194,540	-
Higher education.....	-	-	-	931,832
Other purposes.....	35,614	98,203	133,817	631,714
Deficit.....	(5,460,053)	(1,913,601)	(7,373,654)	(3,598,543)
<b>TOTAL NET ASSETS.....</b>	<u>\$ 23,682,468</u>	<u>\$ (1,157,656)</u>	<u>\$ 22,524,812</u>	<u>\$ 4,508,608</u>

Commonwealth of Pennsylvania

Statement of Activities

For the Fiscal Year Ended June 30, 2012

(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	
<b>Primary government:</b>								
<b>Governmental activities:</b>								
Direction and supportive services.....	\$ 2,243,649	\$ 277,492	\$ 152,176	\$ -	\$ (1,813,981)	\$ -	\$ (1,813,981)	\$ -
Protection of persons and property.....	5,541,681	1,302,020	1,056,851	21,869	(3,160,941)	-	(3,160,941)	-
Public education.....	13,394,225	4,776	1,912,136	-	(11,477,313)	-	(11,477,313)	-
Health and human services.....	30,680,717	1,658,657	16,841,979	18,138	(12,161,943)	-	(12,161,943)	-
Economic development.....	1,537,068	8,205	584,874	-	(943,989)	-	(943,989)	-
Transportation.....	4,382,503	970,026	2,220,256	27,859	(1,164,362)	-	(1,164,362)	-
Recreation and cultural enrichment.....	514,309	245,405	48,439	-	(220,465)	-	(220,465)	-
Interest.....	475,545	-	-	-	(475,545)	-	(475,545)	-
<b>Total governmental activities.....</b>	<b>58,769,697</b>	<b>4,466,581</b>	<b>22,816,711</b>	<b>67,866</b>	<b>(31,418,539)</b>	<b>-</b>	<b>(31,418,539)</b>	<b>-</b>
<b>Business-type activities:</b>								
State lottery.....	3,429,773	3,476,953	128,057	-	-	175,237	175,237	-
State workers' insurance.....	268,388	157,579	140,657	-	-	29,848	29,848	-
Tuition payment.....	236,342	185,947	38,601	-	-	(11,794)	(11,794)	-
Unemployment compensation.....	6,031,968	3,447,659	2,896,281	-	-	311,972	311,972	-
Liquor control.....	1,569,868	1,673,027	249	-	-	103,408	103,408	-
Economic development and other.....	16,997	17,478	8,057	-	-	8,538	8,538	-
<b>Total business-type activities.....</b>	<b>11,553,336</b>	<b>8,958,643</b>	<b>3,211,902</b>	<b>-</b>	<b>-</b>	<b>617,209</b>	<b>617,209</b>	<b>-</b>
Total primary government.....	<u>\$ 70,323,033</u>	<u>\$ 13,425,224</u>	<u>\$ 26,028,613</u>	<u>\$ 67,866</u>	<u>(31,418,539)</u>	<u>617,209</u>	<u>(30,801,330)</u>	<u>-</u>
<b>Component units:</b>								
Total component units.....	<u>\$ 6,041,700</u>	<u>\$ 3,117,283</u>	<u>\$ 2,130,221</u>	<u>\$ 508,649</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(285,547)</u>
<b>General revenues:</b>								
<b>Taxes:</b>								
Personal income.....					10,022,285	-	10,022,285	-
Sales and use.....					8,977,379	-	8,977,379	-
Corporation.....					4,504,105	-	4,504,105	-
Liquid fuels and motor carriers.....					2,096,222	-	2,096,222	-
Gaming.....					1,487,729	-	1,487,729	-
Inheritance.....					803,573	-	803,573	-
Cigarette.....					1,081,587	-	1,081,587	-
Realty transfer.....					343,015	-	343,015	-
Other.....					1,306,395	-	1,306,395	-
Total taxes.....					<u>30,622,290</u>	<u>-</u>	<u>30,622,290</u>	<u>-</u>
Investment income.....					14,979	-	14,979	-
Total general revenues.....					<u>30,637,269</u>	<u>-</u>	<u>30,637,269</u>	<u>-</u>
Transfers—Note H.....					210,438	(210,438)	-	-
Net general revenues and transfers.....					<u>30,847,707</u>	<u>(210,438)</u>	<u>30,637,269</u>	<u>-</u>
Change in net assets.....					(570,832)	406,771	(164,061)	(285,547)
<b>Net assets, July 1, 2011 (restated)—Note B.....</b>					<u>24,253,300</u>	<u>(1,564,427)</u>	<u>22,688,873</u>	<u>4,794,155</u>
<b>Net assets, June 30, 2012—Note C.....</b>					<u>\$ 23,682,468</u>	<u>\$ (1,157,656)</u>	<u>\$ 22,524,812</u>	<u>\$ 4,508,608</u>

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





Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2012

# Fund

# Financial Statements

Commonwealth of Pennsylvania

Balance Sheet

Governmental Funds

June 30, 2012

(Amounts in thousands)

	General Fund	Motor License Fund	Nonmajor Funds	Total
<b>ASSETS</b>				
<b>Assets:</b>				
Cash—Note D.....	\$ 145,548	\$ 5,033	\$ 69,276	\$ 219,857
Temporary investments—Note D.....	4,377,397	355,255	2,252,676	6,985,328
Long-term investments—Note D.....	207,330	1,080,168	1,394,031	2,681,529
Receivables, net:				
Taxes—Note G.....	2,955,239	176,038	18,800	3,150,077
Accounts.....	939,389	24,287	379,917	1,343,593
Investment income.....	691	56	5,091	5,838
Loans—Note G.....	18,464	-	52,670	71,134
Lease rentals—Note G.....	-	-	427	427
Investment sale proceeds.....	-	-	14,366	14,366
Other.....	84,400	14,634	23,725	122,759
Due from other funds—Note H.....	48,299	35,168	69,661	153,128
Due from pension trust funds—Note H.....	438	91	516	1,045
Due from component units—Note H.....	127,345	946	9,299	137,590
Due from Federal government.....	2,072,515	250,154	58,920	2,381,589
Due from political subdivisions.....	6,416	4,508	781	11,705
Due from other governments.....	-	599	-	599
Advances to other funds—Note H.....	114,475	-	4,500	118,975
Other assets.....	3,000	-	-	3,000
<b>TOTAL ASSETS.....</b>	<b>\$ 11,100,946</b>	<b>\$ 1,946,937</b>	<b>\$ 4,354,656</b>	<b>\$ 17,402,539</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities.....	\$ 4,935,015	\$ 594,970	\$ 369,860	\$ 5,899,845
Investment purchases payable.....	-	-	69,128	69,128
Tax refunds payable.....	820,748	2,393	-	823,141
Securities lending obligations.....	4,195	21,852	61,802	87,849
Due to other funds—Note H.....	90,288	40,086	26,772	157,146
Due to component units—Note H.....	749	7,758	18,708	27,215
Due to pension trust funds—Note H.....	26,807	3,366	710	30,883
Due to political subdivisions.....	1,072,280	59,790	94,475	1,226,545
Due to other governments.....	11,583	17,608	575	29,766
Unearned revenue.....	2,129,150	2,541	258,000	2,389,691
Advances from other funds—Note H.....	69,000	3,575	-	72,575
Other liabilities.....	681,836	-	-	681,836
<b>TOTAL LIABILITIES.....</b>	<b>9,841,651</b>	<b>753,939</b>	<b>900,030</b>	<b>11,495,620</b>
<b>Fund balances:</b>				
Nonspendable.....	240,975	-	-	240,975
Restricted.....	-	1,192,998	2,497,356	3,690,354
Committed.....	1,276,671	-	960,225	2,236,896
Unassigned deficit.....	(258,351)	-	(2,955)	(261,306)
<b>TOTAL FUND BALANCES.....</b>	<b>1,259,295</b>	<b>1,192,998</b>	<b>3,454,626</b>	<b>5,906,919</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 11,100,946</b>	<b>\$ 1,946,937</b>	<b>\$ 4,354,656</b>	<b>\$ 17,402,539</b>

- 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, 2012

(Amounts in thousands)

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

**Total Fund Balances--Governmental Funds**..... \$ 5,906,919

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.....	\$ 2,612,623	
Land improvements.....	696,316	
Buildings and building improvements.....	6,920,911	
Machinery and equipment.....	1,036,472	
Infrastructure.....	35,488,414	
Intangible.....	148,960	
Construction in progress.....	3,427,582	
Accumulated depreciation.....	<u>(18,486,601)</u>	
Net general capital assets.....		31,844,677

Certain revenues are earned but not available at fiscal year-end and therefore are reported as unearned revenues in the governmental funds balance sheet ..... 2,240,240

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..... 6,020

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 ..... 97,683

The Statement of Net Assets includes inventories that are not reported in the governmental funds balance sheet because they are not current financial resources..... 112,116

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.....	\$ (11,538,799)	
Accrued bond interest payable.....	(167,873)	
Capital lease and installment purchase obligations.....	(129,360)	
Compensated absence liability.....	(752,268)	
Self-insurance liabilities.....	(840,516)	
Other post employment benefits.....	(1,698,524)	
Other liabilities.....	<u>(1,397,847)</u>	
		<u>(16,525,187)</u>

**Total Net Assets--Governmental Activities**..... \$ 23,682,468

- 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, 2012**

(Amounts in thousands)

	General Fund	Motor License Fund	Nonmajor Funds	Total
<b>REVENUES:</b>				
Taxes, net of refunds.....	\$ 26,577,129	\$ 2,096,222	\$ 2,101,666	\$ 30,775,017
Licenses and fees.....	526,547	913,660	630,707	2,070,914
Intergovernmental.....	20,276,131	1,917,064	611,020	22,804,215
Charges for sales and services.....	1,449,895	106,919	206,772	1,763,586
Investment income.....	14,394	34,968	67,583	116,945
Interest on notes and loans.....	472	-	1,261	1,733
Other.....	338,332	3,377	366,368	708,077
<b>TOTAL REVENUES</b> .....	<b>49,182,900</b>	<b>5,072,210</b>	<b>3,985,377</b>	<b>58,240,487</b>
<b>EXPENDITURES:</b>				
Current:				
Direction and supportive services.....	942,668	58,679	576,893	1,578,240
Protection of persons and property.....	4,035,121	707,229	347,504	5,089,854
Health and human services.....	30,030,822	-	631,671	30,662,493
Public education.....	12,735,771	595	626,950	13,363,316
Recreation and cultural enrichment.....	242,218	3,855	235,992	482,065
Economic development.....	744,342	-	661,553	1,405,895
Transportation.....	42,962	2,001,559	1,220,448	3,264,969
Capital outlay.....	232,622	2,542,787	614,392	3,389,801
Debt service:				
Principal retirement.....	9,730	-	702,145	711,875
Interest and fiscal charges.....	16,595	-	494,188	510,783
<b>TOTAL EXPENDITURES</b> .....	<b>49,032,851</b>	<b>5,314,704</b>	<b>6,111,736</b>	<b>60,459,291</b>
<b>EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER) EXPENDITURES</b> .....	<b>150,049</b>	<b>(242,494)</b>	<b>(2,126,359)</b>	<b>(2,218,804)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Bonds issued.....	46,021	-	1,554,282	1,600,303
Refunding bonds issued.....	-	-	161,272	161,272
Premium on bonds/refunding bonds.....	5,826	-	253,488	259,314
Transfers in—Note H.....	424,622	-	1,352,411	1,777,033
Transfers out—Note H.....	(1,096,921)	(67,991)	(415,652)	(1,580,564)
Payment to refunded bond escrow agent.....	-	-	(192,390)	(192,390)
Capital lease and installment purchase obligations.....	108,263	-	-	108,263
<b>NET OTHER FINANCING SOURCES (USES)</b> .....	<b>(512,189)</b>	<b>(67,991)</b>	<b>2,713,411</b>	<b>2,133,231</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>(362,140)</b>	<b>(310,485)</b>	<b>587,052</b>	<b>(85,573)</b>
<b>FUND BALANCES, JULY 1, 2011—Note B</b> .....	<b>1,621,435</b>	<b>1,503,483</b>	<b>2,867,574</b>	<b>5,992,492</b>
<b>FUND BALANCES, JUNE 30, 2012</b> .....	<b>\$ 1,259,295</b>	<b>\$ 1,192,998</b>	<b>\$ 3,454,626</b>	<b>\$ 5,906,919</b>

- 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, 2012

(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, 2012. 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..... \$ (85,573)**

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 .....	\$ 3,384,148	
Depreciation expense and losses on retirement or sale of assets.....	(1,394,012)	
Capital lease, installment purchase and related payments.....	<u>5,413</u>	
Net excess of capital asset additions/installment purchase payments over depreciation expense.....		1,995,549

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 \$228,196.....	\$ (1,828,498)	
Refunding bonds, including a premium of \$31,118.....	(192,390)	
Capital lease and installment purchase acquisitions.....	<u>(108,263)</u>	
Total bond proceeds and capital lease and installment purchase acquisitions.....		(2,129,151)

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.....	\$ 711,875	
Payments to refunded bond escrow agent.....	<u>192,390</u>	
Total bond principal retirement and payment to refunded bond escrow agent.....		904,265

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..... 8,957

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..... (256,843)

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..... (1,008,036)

**Net change in governmental net assets in the statement of activities..... \$ (570,832)**

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

Commonwealth of Pennsylvania

Statement of Net Assets

Proprietary Funds

June 30, 2012

(Amounts in thousands)

	Enterprise Funds						
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2011)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	Internal Service Funds
<b>ASSETS</b>							
Current assets:							
Cash—Note D.....	\$ 91,986	\$ 1,932	\$ 346	\$ 3,762	\$ 33,535	\$ 131,561	\$ 4,056
Cash with fiscal agents.....	25,938	-	-	-	1	25,939	-
Temporary investments—Note D.....	1,283	144,333	293,663	325,855	328,129	1,093,263	59,243
Receivables (net):							
Unemployment assessments.....	730,142	-	-	-	-	730,142	-
Accounts.....	92,157	54,363	18,225	-	17,996	182,741	1,504
Investment income.....	-	10,291	47	3,279	31	13,648	12
Interest on loans.....	90,679	-	-	-	717	91,396	-
Loans—Note G.....	-	-	-	-	48,258	48,258	-
Investment sale proceeds.....	-	-	-	9,839	-	9,839	-
Due from other funds—Note H.....	4,202	-	27	-	4,145	8,374	14,660
Due from pension trust funds—Note H.....	7	-	-	-	-	7	3,775
Due from component units—Note H.....	557	-	-	-	14	571	312
Due from Federal government.....	64,049	-	5,204	-	1	69,254	-
Due from political subdivisions.....	14,511	-	-	-	-	14,511	40
Due from other governments.....	29,759	-	-	-	-	29,759	12
Advances to other funds—Note H.....	-	-	-	-	1,400	1,400	-
Inventory.....	-	-	-	-	176,600	176,600	15,031
Prepaid expenses.....	-	-	-	-	2,452	2,452	-
Other assets.....	-	1,628	17,378	-	-	19,006	8
Total current assets.....	1,145,270	212,547	334,890	342,735	613,279	2,648,721	98,653
Noncurrent assets:							
Long-term investments—Note D.....	-	1,452,304	52,856	1,131,749	271,768	2,908,677	15,986
Receivables (net):							
Loans—Note G.....	-	-	-	-	207,930	207,930	-
Non-depreciable capital assets—Note E:							
Land.....	-	-	-	-	323	323	-
Depreciable or amortizable capital assets—Note E:							
Land improvements.....	-	-	-	-	-	-	2,144
Buildings and building improvements.....	-	-	-	-	48,186	48,186	7,533
Machinery and equipment.....	-	1,512	63,357	-	84,862	149,731	91,813
Intangible assets.....	-	-	-	-	14,034	14,034	-
Less: accumulated depreciation and amortization.....	-	(1,512)	(47,274)	-	(86,229)	(135,015)	(74,505)
Net depreciable or amortizable capital assets.....	-	-	16,083	-	60,853	76,936	26,985
Total noncurrent assets.....	-	1,452,304	68,939	1,131,749	540,874	3,193,866	42,971
<b>TOTAL ASSETS.....</b>	<b>\$ 1,145,270</b>	<b>\$ 1,664,851</b>	<b>\$ 403,829</b>	<b>\$ 1,474,484</b>	<b>\$ 1,154,153</b>	<b>\$ 5,842,587</b>	<b>\$ 141,624</b>

**Commonwealth of Pennsylvania**  
**Statement of Net Assets**  
Proprietary Funds  
June 30, 2012

(Amounts in thousands)

	Enterprise Funds						Internal Service Funds
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2011)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	
<b>LIABILITIES</b>							
Current liabilities:							
Accounts payable and accrued liabilities.....	\$ 154,645	\$ 5,996	\$ 442,321	\$ 2,771	\$ 239,101	\$ 844,834	\$ 30,527
Investment purchases payable.....	-	-	-	12,710	-	12,710	-
Tuition benefits payable—Note F.....	-	-	-	201,058	-	201,058	-
Securities lending obligations.....	-	68,778	1,078	61,239	5,498	136,593	323
Due to other funds—Note H.....	10,222	-	236	2	6,943	17,403	2,826
Due to pension trust funds—Note H.....	-	-	48	-	995	1,043	55
Due to component units—Note H.....	-	-	-	-	4	4	1
Due to political subdivisions.....	-	-	7,288	-	22	7,310	-
Due to Federal government.....	-	-	-	-	-	-	-
Due to other governments.....	2,690,908	-	1,193	-	635	2,692,736	25
Unearned revenue.....	-	67,668	9,377	-	3,492	80,537	-
Self insurance liabilities—Note M.....	-	353	383	-	5,315	6,051	443
Compensated absences—Note F,K.....	-	524	546	-	5,653	6,723	470
Insurance loss liability—Note F.....	-	224,849	-	-	-	224,849	-
Advances from other funds—Note H.....	-	2,270	-	-	113,000	115,270	-
Other liabilities.....	-	25,384	-	-	-	25,384	-
Total current liabilities.....	2,855,775	395,822	462,470	277,780	380,658	4,372,505	34,670
Noncurrent liabilities:							
Tuition benefits payable—Note F.....	-	-	-	1,239,040	-	1,239,040	-
Insurance loss liability—Note F.....	-	1,265,250	-	-	303	1,265,553	-
Installment purchase obligation—Note K.....	-	-	-	-	-	-	397
Compensated absences—Note F,K.....	-	2,233	2,326	109	24,102	28,770	2,002
Self insurance liabilities—Note M.....	-	1,893	2,055	-	28,517	32,465	2,377
Other postemployment benefit obligations—Note I.....	-	4,751	5,836	-	51,323	61,910	4,495
Total noncurrent liabilities.....	-	1,274,127	10,217	1,239,149	104,245	2,627,738	9,271
<b>TOTAL LIABILITIES.....</b>	<b>2,855,775</b>	<b>1,669,949</b>	<b>472,687</b>	<b>1,516,929</b>	<b>484,903</b>	<b>7,000,243</b>	<b>43,941</b>
<b>NET ASSETS</b>							
Invested in capital assets, net of related debt.....	-	-	16,083	-	61,176	77,259	26,588
Restricted for:							
Health-related programs.....	-	-	-	-	1,340	1,340	-
Transportation.....	-	-	-	-	121,760	121,760	-
Economic development.....	-	-	-	-	309,636	309,636	-
Correctional industries and procurement.....	-	-	-	-	-	-	71,095
Emergency support.....	-	-	-	-	147,747	147,747	-
Other purposes—Note C.....	-	-	-	-	98,203	98,203	-
Deficit.....	(1,710,505)	(5,098)	(84,941)	(42,445)	(70,612)	(1,913,601)	-
<b>TOTAL NET ASSETS.....</b>	<b>\$ (1,710,505)</b>	<b>\$ (5,098)</b>	<b>\$ (68,858)</b>	<b>\$ (42,445)</b>	<b>\$ 669,250</b>	<b>\$ (1,157,656)</b>	<b>\$ 97,683</b>

- 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 2012

(Amounts in thousands)

	<b>Enterprise Funds</b>						
	<b>Unemployment Compensation Fund</b>	<b>State Workers' Insurance Fund (Dec. 31, 2011)</b>	<b>State Lottery Fund</b>	<b>Tuition Payment Fund</b>	<b>Nonmajor Funds</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>OPERATING REVENUES:</b>							
Sales and services.....	\$ 3,446,645	\$ 157,448	\$ 3,476,663	\$ 185,947	\$ 1,681,217	\$ 8,947,920	\$ 78,578
Interest on loans.....	-	-	-	-	7,929	7,929	-
Other.....	1,012	131	249	-	107	1,499	-
<b>OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTIBLE ACCOUNTS.....</b>	<b>3,447,657</b>	<b>157,579</b>	<b>3,476,912</b>	<b>185,947</b>	<b>1,689,253</b>	<b>8,957,348</b>	<b>78,578</b>
Provision for uncollectible accounts.....	-	(9,512)	-	-	(2,599)	(12,111)	-
<b>NET OPERATING REVENUES.....</b>	<b>3,447,657</b>	<b>148,067</b>	<b>3,476,912</b>	<b>185,947</b>	<b>1,686,654</b>	<b>8,945,237</b>	<b>78,578</b>
<b>OPERATING EXPENSES:</b>							
Cost of sales and services.....	6,031,968	255,153	3,315,004	230,086	1,567,571	11,399,782	58,855
Depreciation and amortization.....	-	-	2,180	-	16,686	18,866	9,640
Other.....	-	-	112,589	-	-	112,589	-
<b>TOTAL OPERATING EXPENSES .....</b>	<b>6,031,968</b>	<b>255,153</b>	<b>3,429,773</b>	<b>230,086</b>	<b>1,584,257</b>	<b>11,531,237</b>	<b>68,495</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>(2,584,311)</b>	<b>(107,086)</b>	<b>47,139</b>	<b>(44,139)</b>	<b>102,397</b>	<b>(2,586,000)</b>	<b>10,083</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>							
Investment income.....	6	140,657	13,562	38,601	9,112	201,938	592
Investment expense.....	-	(3,723)	-	(6,256)	-	(9,979)	-
Grants and other revenues.....	2,896,277	-	114,536	-	446	3,011,259	-
Other expenses.....	-	-	-	-	(9)	(9)	(1,718)
<b>NONOPERATING REVENUES (EXPENSES), NET.</b>	<b>2,896,283</b>	<b>136,934</b>	<b>128,098</b>	<b>32,345</b>	<b>9,549</b>	<b>3,203,209</b>	<b>(1,126)</b>
<b>INCOME (LOSS) BEFORE TRANSFERS.....</b>	<b>311,972</b>	<b>29,848</b>	<b>175,237</b>	<b>(11,794)</b>	<b>111,946</b>	<b>617,209</b>	<b>8,957</b>
<b>TRANSFERS:</b>							
Transfers in—Note H.....	-	-	164,100	-	42	164,142	-
Transfers out—Note H.....	(2,900)	-	(289,610)	-	(82,070)	(374,580)	-
<b>TRANSFERS, NET.....</b>	<b>(2,900)</b>	<b>-</b>	<b>(125,510)</b>	<b>-</b>	<b>(82,028)</b>	<b>(210,438)</b>	<b>-</b>
<b>INCREASE/(DECREASE) IN NET ASSETS.....</b>	<b>309,072</b>	<b>29,848</b>	<b>49,727</b>	<b>(11,794)</b>	<b>29,918</b>	<b>406,771</b>	<b>8,957</b>
<b>TOTAL NET ASSETS, JULY 1, 2011.....</b>	<b>(2,019,577)</b>	<b>(34,946)</b>	<b>(118,585)</b>	<b>(30,651)</b>	<b>639,332</b>	<b>(1,564,427)</b>	<b>88,726</b>
<b>TOTAL NET ASSETS, JUNE 30, 2012.....</b>	<b>\$ (1,710,505)</b>	<b>\$ (5,098)</b>	<b>\$ (68,858)</b>	<b>\$ (42,445)</b>	<b>\$ 669,250</b>	<b>\$ (1,157,656)</b>	<b>\$ 97,683</b>

- 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, 2012

(Amounts in thousands)

	Enterprise Funds						Internal Service Funds
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2011)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>							
Receipts from employers.....	\$ 3,243,400	\$ 146,735	\$ -	\$ -	\$ -	\$ 3,390,135	\$ -
Receipts from customers.....	-	-	3,475,737	-	1,659,402	5,135,139	84,426
Receipts from borrowers.....	-	-	-	-	70,890	70,890	-
Receipts from participants.....	-	-	-	185,947	-	185,947	-
Receipt of premiums.....	-	-	-	-	5,682	5,682	-
Payments to programs for the elderly.....	-	-	(914,172)	-	-	(914,172)	-
Payments to prize winners.....	-	-	(2,122,052)	-	-	(2,122,052)	-
Payments to participants.....	-	-	-	(184,117)	-	(184,117)	-
Payments to claimants.....	(5,942,618)	(233,093)	-	-	(1,279)	(6,176,990)	-
Payments to borrowers.....	-	-	-	-	(29,077)	(29,077)	-
Payments for vendors, employees and other costs.....	-	(58,279)	(334,696)	(7,046)	(1,486,054)	(1,886,075)	(60,263)
Other receipts.....	1,012	3,864	249	-	1,444	6,569	-
Other payments.....	(104,556)	-	-	-	(1,276)	(105,832)	-
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>(2,802,762)</b>	<b>(140,773)</b>	<b>105,066</b>	<b>(5,216)</b>	<b>219,732</b>	<b>(2,623,953)</b>	<b>24,163</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>							
Net borrowings under advances from other funds.....	-	90	-	-	-	90	-
Borrowings from federal government.....	1,492,777	-	-	-	-	1,492,777	-
Repayments to federal government.....	(2,661,932)	-	-	-	-	(2,661,932)	-
Transfers in.....	-	-	164,100	-	-	164,100	-
Transfers out.....	(2,900)	-	(289,610)	-	(81,674)	(374,184)	-
Grants and other revenues.....	2,916,206	-	113,602	-	1,419	3,031,227	-
<b>NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES.....</b>	<b>1,744,151</b>	<b>90</b>	<b>(11,908)</b>	<b>-</b>	<b>(80,255)</b>	<b>1,652,078</b>	<b>-</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>							
Acquisition and construction of capital assets.....	-	-	(6,478)	-	(8,436)	(14,914)	(12,088)
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>-</b>	<b>-</b>	<b>(6,478)</b>	<b>-</b>	<b>(8,436)</b>	<b>(14,914)</b>	<b>(12,088)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>							
Purchase of investments.....	(1,163)	(1,023,427)	(1,490,594)	(2,183,627)	(1,339,655)	(6,038,466)	(390,047)
Sales and maturities of investments.....	5,800	1,117,394	1,388,807	2,164,280	1,217,481	5,893,762	372,785
Investment income.....	7	47,281	13,818	34,218	7,459	102,783	541
Investment expense.....	-	(3,723)	-	(6,256)	-	(9,979)	-
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....</b>	<b>4,644</b>	<b>137,525</b>	<b>(87,969)</b>	<b>8,615</b>	<b>(114,715)</b>	<b>(51,900)</b>	<b>(16,721)</b>
<b>NET INCREASE (DECREASE) IN CASH.....</b>	<b>(1,053,967)</b>	<b>(3,158)</b>	<b>(1,289)</b>	<b>3,399</b>	<b>16,326</b>	<b>(1,038,689)</b>	<b>(4,646)</b>
<b>CASH AT JULY 1, 2011.....</b>	<b>1,171,891</b>	<b>5,090</b>	<b>1,635</b>	<b>363</b>	<b>17,210</b>	<b>1,196,189</b>	<b>8,702</b>
<b>CASH AT JUNE 30, 2012.....</b>	<b>\$ 117,924</b>	<b>\$ 1,932</b>	<b>\$ 346</b>	<b>\$ 3,762</b>	<b>\$ 33,536</b>	<b>\$ 157,500</b>	<b>\$ 4,056</b>

**Commonwealth of Pennsylvania**  
**Statement of Cash Flows**  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2012  
(Amounts in thousands)

	Enterprise Funds						
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2011)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	Internal Service Funds
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>							
Operating income (loss).....	\$ (2,584,311)	\$ (107,086)	\$ 47,139	\$ (44,139)	\$ 102,397	\$ (2,586,000)	\$ 10,083
Depreciation and amortization.....	-	-	2,180	-	16,686	18,866	9,640
Investment demutualization.....	-	-	12,157	-	-	12,157	-
Provision for uncollectible accounts.....	-	9,512	-	-	2,599	12,111	-
Other adjustments.....	-	-	-	-	2,884	2,884	-
Changes in assets and liabilities:							
Unemployment assessments receivable.....	(142,970)	-	-	-	-	(142,970)	-
Accounts receivable.....	(19,339)	(10,714)	(2,103)	-	(16,436)	(48,592)	2,821
Interest on loans receivable.....	(68,657)	-	-	-	68	(68,589)	-
Loans receivable.....	-	-	-	-	33,561	33,561	-
Due from other funds.....	2,032	-	11	-	3,293	5,336	11,826
Due from pension trust funds.....	3	-	-	-	-	3	3,355
Due from component units.....	244	-	-	-	(14)	230	(34)
Due from political subdivisions.....	1,018	-	-	-	-	1,018	(39)
Due from other governments.....	960	-	-	-	-	960	4
Inventory.....	-	-	-	-	89,264	89,264	(4,049)
Prepaid expenses.....	-	-	-	-	(116)	(116)	-
Other current assets.....	-	3,733	(1,377)	-	-	2,356	1
Accounts payable and accrued liabilities.....	(13,647)	(1,201)	45,806	(259)	(26,045)	4,654	(9,134)
Tuition benefits payable.....	-	-	-	39,176	-	39,176	-
Due to other funds.....	10,151	-	(279)	(5)	(1,737)	8,130	(1,062)
Due to pension trust funds.....	-	-	(18)	-	406	388	(18)
Due to component units.....	-	-	-	-	4	4	(16)
Due to political subdivisions.....	-	-	(808)	-	5	(803)	(88)
Due to other governments.....	11,754	-	389	-	(25)	12,118	(41)
Unearned revenue.....	-	1	1,177	-	338	1,516	-
Self insurance liabilities.....	-	(409)	(362)	-	192	(579)	(110)
Compensated absences.....	-	(33)	(30)	11	413	361	120
Insurance loss liability.....	-	(19,715)	-	-	(8)	(19,723)	-
Other postemployment benefit obligations.....	-	941	1,184	-	12,003	14,128	904
Other liabilities.....	-	(15,802)	-	-	-	(15,802)	-
<b>Total Adjustments.....</b>	<b>(218,451)</b>	<b>(33,687)</b>	<b>57,927</b>	<b>38,923</b>	<b>117,335</b>	<b>(37,953)</b>	<b>14,080</b>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>\$ (2,802,762)</b>	<b>\$ (140,773)</b>	<b>\$ 105,066</b>	<b>\$ (5,216)</b>	<b>\$ 219,732</b>	<b>\$ (2,623,953)</b>	<b>\$ 24,163</b>
Increase (decrease) in fair value of investments during the fiscal year.....	\$ -	\$ (5,639)	\$ (278)	\$ 66,623	\$ 1,641	\$ 62,347	\$ 46
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, 2012

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund INVEST Program for Local Governments (December 31, 2011)	Private Purpose Trust Fund Tuition Account Investment Program	Agency Funds
<b>ASSETS</b>				
Cash—Note D.....	\$ 127,078	\$ 1,000	\$ 1,681	\$ 33,258
Cash with fiscal agents.....	-	-	-	19,709
Temporary investments—Note D.....	32,584	520,128	-	1,001,831
Long-term investments—Note D.....	179,762	-	1,104,428	3,187,275
Short-term funds—Note D.....	2,846,170	-	-	-
Corporate obligations—Note D.....	2,427,258	-	-	-
Collective trust funds—Note D.....	13,027,254	-	-	-
Real estate—Note D.....	8,584,660	-	-	-
Alternative—Note D.....	21,365,368	-	-	-
Securities lending collateral—Note D.....	644,213	-	-	-
Asset-backed securities—Note D.....	689,437	-	-	-
Commercial paper—Note D.....	26,808	-	-	-
Derivatives—Note D.....	164,476	-	-	-
Domestic equities—Note D.....	9,144,028	-	-	-
International equities—Note D.....	7,010,516	-	-	-
International private debt securities—Note D.....	525,749	-	-	-
International public debt securities—Note D.....	1,270,713	-	-	-
Mortgage-backed securities—Note D.....	2,538,454	-	-	-
Private placements—Note D.....	408,267	-	-	-
Repurchase agreements—Note D.....	69,588	-	-	-
State and municipal obligations—Note D.....	3,613	-	-	-
U.S. Treasury obligations—Note D.....	3,954,728	-	-	-
U.S. government agency debt securities—Note D.....	501,271	-	-	-
Receivables, net:				
Taxes—Note G.....	-	-	-	30,755
Accounts.....	39	-	236	78,897
Investment income.....	344,431	-	-	14,084
Interest on notes and loans.....	-	22	-	-
Pension contributions.....	611,759	-	-	-
Investment sale proceeds.....	1,042,340	247,185	-	47,357
Other.....	16,883	-	-	91,085
Due from other funds—Note H.....	6,896	-	-	-
Due from pension trust funds—Note H.....	1,323	-	-	-
Due from component units—Note H.....	3,153	-	-	-
Due from political subdivisions.....	10,719	-	-	-
Due from other governments.....	7,494	-	-	-
Advances to other funds—Note H.....	-	-	-	67,500
Depreciable or amortizable capital assets:				
Machinery and equipment.....	12,390	-	-	-
Intangible assets.....	29,987	-	-	-
Less: accumulated depreciation and amortization.....	(20,044)	-	-	-
Net depreciable or amortizable capital assets.....	22,333	-	-	-
Other assets.....	-	-	-	3,951,913
<b>TOTAL ASSETS.....</b>	<b>77,609,365</b>	<b>768,335</b>	<b>1,106,345</b>	<b>8,523,664</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	163,931	19	619	197,489
Investment purchases payable.....	748,906	258,743	459	66,311
Securities lending obligations.....	683,863	-	-	8,777
Due to other funds—Note H.....	457	-	-	-
Due to pension trust funds—Note H.....	978	-	-	-
Due to political subdivisions.....	-	-	-	406,810
Due to other governments.....	-	-	-	5
Interest payable.....	-	77	-	-
Compensated absence liability.....	-	-	-	417
Self insurance liabilities—Note M.....	-	-	-	459
Other postemployment benefit obligations—Note I.....	-	-	-	1,037
Other liabilities.....	532,100	-	-	7,842,359
<b>TOTAL LIABILITIES.....</b>	<b>2,130,235</b>	<b>258,839</b>	<b>1,078</b>	<b>8,523,664</b>
<b>NET ASSETS</b>				
Held in trust for:				
Pension benefits.....	72,910,975	-	-	-
Postemployment healthcare benefits.....	362,101	-	-	-
Employee salary deferrals.....	2,206,054	-	-	-
INVEST Program participants.....	-	509,496	-	-
Tuition Account Investment Program participants.....	-	-	1,105,267	-
<b>TOTAL NET ASSETS.....</b>	<b>\$ 75,479,130</b>	<b>\$ 509,496</b>	<b>\$ 1,105,267</b>	<b>\$ -</b>

- 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, 2012

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund INVEST Program for Local Governments (December 31, 2011)	Private Purpose Trust Fund Tuition Account Investment Program
<b>ADDITIONS:</b>			
Pension contributions:			
Employer.....	\$ 2,203,606	\$ -	\$ -
Employee.....	1,653,803	-	-
Transfer in from other plans.....	81,147	-	-
Total contributions.....	<u>3,938,556</u>	<u>-</u>	<u>-</u>
Investment income:			
Net appreciation in fair value of investments.....	912,285	-	11,934
Interest income.....	542,829	796	24,559
Dividend income.....	340,884	-	-
Rental and other income.....	512,024	-	-
Total investment activity income.....	<u>2,308,022</u>	<u>796</u>	<u>36,493</u>
Less: investment expenses			
Investment activity expense.....	(681,921)	(495)	-
Net investment earnings.....	<u>1,626,101</u>	<u>301</u>	<u>36,493</u>
Securities lending activities:			
Income.....	11,851	-	-
Expenses.....	(1,470)	-	-
Total securities lending income.....	<u>10,381</u>	<u>-</u>	<u>-</u>
Total net investment income.....	<u>1,636,482</u>	<u>301</u>	<u>36,493</u>
Share transactions (at net asset value of \$1.00 per share):			
Shares purchased.....	-	1,577,143	176,315
Shares issued in lieu of cash distributions.....	-	282	-
Shares redeemed.....	-	(1,663,130)	(77,861)
Net increase (decrease) in net assets from share transactions.....	<u>-</u>	<u>(85,705)</u>	<u>98,454</u>
<b>TOTAL ADDITIONS.....</b>	<u>5,575,038</u>	<u>(85,404)</u>	<u>134,947</u>
<b>DEDUCTIONS:</b>			
Benefit payments.....	9,413,471	-	-
Refunds of contributions.....	34,206	-	-
Transfers to other plans.....	85,401	-	-
Administrative expenses.....	83,430	-	4,455
Other expenses.....	2,808	-	-
Distributions to participants.....	-	301	-
<b>TOTAL DEDUCTIONS.....</b>	<u>9,619,316</u>	<u>301</u>	<u>4,455</u>
<b>CHANGE IN PLAN NET ASSETS HELD IN TRUST FOR:</b>			
Pension benefits.....	(4,175,121)	-	-
Postemployment healthcare benefits.....	(1,781)	-	-
Employee salary deferrals.....	132,624	-	-
INVEST program participants.....	-	(85,705)	-
Tuition Account Investment Program participants.....	-	-	130,492
<b>TOTAL CHANGE IN PLAN NET ASSETS HELD IN TRUST...</b>	<u>(4,044,278)</u>	<u>(85,705)</u>	<u>130,492</u>
<b>Net assets, July 1, 2011.....</b>	<u>79,523,408</u>	<u>595,201</u>	<u>974,775</u>
<b>Net assets, June 30, 2012.....</b>	<u>\$ 75,479,130</u>	<u>\$ 509,496</u>	<u>\$ 1,105,267</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, 2012

(Amounts in thousands)

	Pennsylvania Turnpike Commission (May 31, 2012)	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Nonmajor Discretely Presented Component Units	Total
<b>ASSETS</b>							
Current assets:							
Cash—Note D.....	\$ 452,388	\$ 560,896	\$ 73,346	\$ 53,047	\$ 134,790	\$ 493,323	\$ 1,767,790
Temporary investments—Note D.....	256,908	20,249	837,136	712,727	460,728	242,926	2,530,674
Receivables:							
Accounts .....	34,867	-	40,049	-	120,546	6,275	201,737
Investment income.....	6,108	1,526	19	-	-	121	7,774
Interest on notes and loans.....	-	-	106,666	2,919	-	7,104	116,689
Loans—Note G.....	-	117,215	928,297	206,708	5,302	66,461	1,323,983
Lease rentals—Note G.....	-	-	-	-	-	694	694
Other .....	-	-	-	-	71,226	220	71,446
Due from primary government—Note H.....	7,346	-	-	2	701	4,227	12,276
Due from component units—Note H.....	-	42	-	49	-	-	91
Due from Federal government.....	-	-	64,840	1,544	-	349	66,733
Due from other governments .....	-	-	-	-	-	32	32
Inventory.....	19,576	-	-	-	13,142	639	33,357
Prepaid and deferred expenses.....	-	-	12,255	-	8,654	1,371	22,280
Other assets.....	-	89,902	67,111	-	3,436	10,969	171,418
Total current assets .....	777,193	789,830	2,129,719	976,996	818,525	834,711	6,326,974
Noncurrent assets:							
Long-term investments—Note D.....	898,014	282,759	-	-	1,221,791	19,383	2,421,947
Receivables (net):							
Loans—Note G.....	-	4,358,642	6,611,508	2,142,157	29,120	652,803	13,794,230
Due from primary government—Note H.....	-	-	-	15,000	-	122,000	137,000
Non-depreciable capital assets							
Land.....	256,175	2,454	2,946	-	52,822	117,051	431,448
Construction in progress.....	864,474	-	-	-	166,283	30,784	1,061,541
Depreciable or amortizable capital assets							
Land improvements.....	95,198	-	-	-	240,823	40,577	376,598
Buildings and building improvements.....	832,592	29,845	68,356	-	2,820,145	1,055,674	4,806,612
Machinery and equipment.....	531,210	10,348	27,209	-	493,068	201,384	1,263,219
Turnpike infrastructure.....	6,704,803	-	-	-	-	-	6,704,803
Library books.....	-	-	-	-	83,960	525	84,485
Intangible assets.....	-	-	27,199	-	-	16,663	43,862
Less: accumulated depreciation and amortization.....	(4,568,495)	(11,123)	(70,004)	-	(1,286,501)	(335,755)	(6,271,878)
Net depreciable or amortizable capital assets.....	3,595,308	29,070	52,760	-	2,351,495	979,068	7,007,701
Other assets.....	298,834	134,113	34,343	41	117,171	22,341	606,843
Total noncurrent assets .....	5,912,805	4,807,038	6,701,557	2,157,198	3,938,682	1,943,430	25,460,710
<b>TOTAL ASSETS.....</b>	<b>6,689,998</b>	<b>5,596,868</b>	<b>8,831,276</b>	<b>3,134,194</b>	<b>4,757,207</b>	<b>2,778,141</b>	<b>31,787,684</b>

(continued)

**Commonwealth of Pennsylvania**  
**Statement of Net Assets**  
Discretely Presented Component Units  
June 30, 2012

(Amounts in thousands)

	Pennsylvania Turnpike Commission (May 31, 2012)	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Nonmajor Discretely Presented Component Units	Total
<b>LIABILITIES</b>							
Current liabilities:							
Accounts payable and accrued liabilities.....	201,456	5,464	143,960	1,679	188,065	40,942	581,566
Securities lending obligations.....	-	-	-	10,915	-	-	10,915
Due to primary government—Note H.....	-	32	118	7,022	1,694	9,061	17,927
Due to component units—Note H.....	-	49	-	42	-	-	91
Due to other governments.....	-	-	-	-	-	346	346
Interest payable.....	154,347	41,326	13,420	129	-	11,013	220,235
Unearned revenue.....	40,834	-	172	277	57,602	4,086	102,971
Notes payable—Note J.....	-	-	120,000	46,200	-	194	166,394
Bonds payable—Note K.....	-	-	-	-	41,913	-	41,913
Revenue bonds payable—Note K.....	127,275	82,264	-	3,640	-	74,420	287,599
Capital lease/installment purchase obligations—Note K.....	-	-	-	-	8,893	-	8,893
Self insurance liabilities.....	-	-	-	-	4,755	5	4,760
Compensated absences.....	-	-	588	75	11,656	552	12,871
Other financing obligations—Note J.....	-	-	2,040	-	-	-	2,040
Other postemployment benefit obligations—Note J.....	-	-	-	-	56,635	161	56,796
Other liabilities.....	-	162,657	67,111	-	68,965	245	298,978
Total current liabilities.....	523,912	291,792	347,409	69,979	440,178	141,025	1,814,295
Non-current liabilities:							
Due to primary government—Note H.....	-	-	-	119,546	-	-	119,546
Unearned revenue.....	-	-	-	-	3,545	-	3,545
Student loan auction rate security bonds payable—Note J.....	-	-	3,550,275	-	-	-	3,550,275
Notes payable—Note J.....	-	-	4,018,957	-	218,730	199	4,237,886
Bonds payable—Note K.....	-	-	-	-	1,808,972	-	1,808,972
Revenue bond payable—Note K.....	7,776,161	4,018,280	-	4,007	-	1,654,034	13,452,482
Capital lease/installment purchase obligations—Note J.....	-	-	-	-	79,247	-	79,247
Other financing obligations—Note J.....	-	-	102,709	-	-	-	102,709
Compensated absences.....	6,437	-	16,119	321	96,550	2,598	122,025
Self insurance liabilities.....	29,980	-	-	-	15,008	27	45,015
Other postemployment benefit obligations—Note I.....	-	-	-	437	807,760	6,820	815,017
Other liabilities.....	281,704	465,793	-	-	238,421	142,144	1,128,062
Total non-current liabilities.....	8,094,282	4,484,073	7,688,060	124,311	3,268,233	1,805,822	25,464,781
<b>TOTAL LIABILITIES</b> .....	<b>8,618,194</b>	<b>4,775,865</b>	<b>8,035,469</b>	<b>194,290</b>	<b>3,708,411</b>	<b>1,946,847</b>	<b>27,279,076</b>
<b>NET ASSETS—Note C:</b>							
Invested in capital assets, net of related debt.....	1,017,536	11,588	55,557	-	621,400	967,848	2,673,929
Restricted for:							
Health-related programs.....	-	-	-	-	-	6,359	6,359
Capital projects.....	235,965	-	-	2,939,904	38,030	154	3,214,053
Debt service.....	37,611	212,255	201,741	-	-	4,199	455,806
Economic development.....	-	-	-	-	-	193,458	193,458
Higher Education.....	-	-	538,509	-	389,366	3,957	931,832
Other purposes.....	-	597,160	-	-	-	34,554	631,714
Unrestricted/(Deficit).....	(3,219,308)	-	-	-	-	(379,235)	(3,598,543)
<b>TOTAL NET ASSETS</b> .....	<b>\$ (1,928,196)</b>	<b>\$ 821,003</b>	<b>\$ 795,807</b>	<b>\$ 2,939,904</b>	<b>\$ 1,048,796</b>	<b>\$ 831,294</b>	<b>\$ 4,508,608</b>

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

(concluded)

**Commonwealth of Pennsylvania**  
**Statement of Activities**  
Discretely Presented Component Units  
For the Fiscal Year Ended June 30, 2012

(Amounts in thousands)

	<b>Pennsylvania Turnpike Commission (May 31, 2012)</b>	<b>Pennsylvania Housing Finance Agency</b>	<b>Pennsylvania Higher Education Assistance Agency</b>	<b>Pennsylvania Infrastructure Investment Authority</b>	<b>State System of Higher Education</b>	<b>Nonmajor Discretely Presented Component Units</b>	<b>Total</b>
Expenses.....	\$ 1,529,060	\$ 759,995	\$ 928,667	\$ 88,337	\$ 2,161,491	\$ 574,150	\$ 6,041,700
Program revenues:							
Charges for goods and services.....	803,939	260,038	596,844	31,363	1,342,157	82,942	3,117,283
Operating grants and contributions.....	49,248	510,510	444,409	40,802	817,652	267,600	2,130,221
Capital grants and contributions.....	115,815	-	-	293,708	21,794	77,332	508,649
<b>Total program revenues.....</b>	<b>969,002</b>	<b>770,548</b>	<b>1,041,253</b>	<b>365,873</b>	<b>2,181,603</b>	<b>427,874</b>	<b>5,756,153</b>
<b>Change in net assets.....</b>	<b>(560,058)</b>	<b>10,553</b>	<b>112,586</b>	<b>277,536</b>	<b>20,112</b>	<b>(146,276)</b>	<b>(285,547)</b>
<b>Net assets, July 1, 2011 (restated)—Note B.....</b>	<b>(1,368,138)</b>	<b>810,450</b>	<b>683,221</b>	<b>2,662,368</b>	<b>1,028,684</b>	<b>977,570</b>	<b>4,794,155</b>
<b>Net assets, June 30, 2012.....</b>	<b>\$ (1,928,196)</b>	<b>\$ 821,003</b>	<b>\$ 795,807</b>	<b>\$ 2,939,904</b>	<b>\$ 1,048,796</b>	<b>\$ 831,294</b>	<b>\$ 4,508,608</b>

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



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

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

**Government-Wide Financial Statements**

Government-wide financial statements report the financial position and results of activities for the Commonwealth of Pennsylvania as a whole. Separate columns are presented for governmental and business-type activities within the primary government (defined below) and discretely presented component units. The Statement of Net Assets reports all economic resources (assets) and all liabilities for the primary government of the Commonwealth. The Statement of Activities reports the total cost of providing governmental services, by function, net of related program revenues, and after including general revenues, reports whether the total net assets of the government increased or decreased during the fiscal year ended June 30, 2012. 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 (PG) 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.

School districts, local governments, counties and numerous authorities are considered separate, stand-alone primary governments or organizations because they are governed by popularly-elected officials or appointees and are not fiscally dependent on the PG. These organizations 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. Therefore, they have been excluded from the financial reporting entity. 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**

For financial reporting purposes, the Commonwealth of Pennsylvania is a primary government. 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**

Component units include all legally separate organizations for which the PG is financially accountable, and other organizations for which the nature and significance of their relationship with the PG are such that exclusion would cause the financial statements to be misleading or incomplete. The criteria used to define financial accountability include: appointment of a voting majority of an organization's governing body and (1) the ability of the PG to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the PG. Fiscal dependency is also considered. All component units are discretely presented component units which means they are presented as an aggregated separate column in the government-wide financial statements. Financial statements for

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

component units are available by writing to the Commonwealth Chief Accounting Officer, 555 Walnut Street, Ninth Floor, Harrisburg, PA 17101-1921. The following paragraphs are a brief description of the Commonwealth's component units.

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, 2011.

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. All nine voting members of the SPSBA and the PHEFA governing boards are PG's high ranking officials being ex-officio board members by virtue of their position. The PG's Department of Education approves the SPSBA's projects (which indicates imposition of will and fiscal dependency). Neither the PG nor the Authorities are obligated for debt service payments (beyond lease/loan payments from schools).

Ben Franklin Technology Development Authority (BFTDA) - The BFTDA encourages and coordinates programs and investments which advance the competitiveness of Commonwealth companies in the global economy. The BFTDA works closely with the Department of Community and Economic Development (DCED) providing vital seed capital, technology commercialization and entrepreneurial support services to the technology sector of Pennsylvania's economy. The PG appoints all 21 voting members of the governing board and provides funding on an annual basis.

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, 2011.

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.

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

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, 2012, 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. A significant PG financial burden exists through subsidizing the PHEAA 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 debt. This represents a PG moral obligation for the PHFA debt. The PHFA is fiscally dependent on the PG, as the Governor must approve the issuance of its debt.

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

Pennsylvania Industrial Development Authority (PIDA) - The PIDA was created to provide employment opportunities throughout the Commonwealth by attracting businesses and investors to the state and retaining existing businesses. The PIDA provides low interest rate loans to prospective and existing businesses focusing on areas of the state where unemployment rates are the highest. Loans are made at lower-than-market interest rates; the interest rates are based on local unemployment and other economic conditions. The PIDA issues revenue bonds to finance the loan program. Loan repayments are used for debt service payments. The PIDA works closely with the Department of Community and Economic Development. The PG appoints all voting board members and 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 PENNVEST as capital contributions, the PG creates a significant financial burden. The PG is not obligated for the PENNVEST debt, but the PG could take certain actions to satisfy bondholders. Upon dissolution, the assets of the PENNVEST revert to the Commonwealth.

Pennsylvania Turnpike Commission (PTC) - The PTC was created to construct, maintain, and operate a turnpike system in the Commonwealth. Activities are financed through user tolls and the issuance of revenue bonds. Debt service payments are funded through user tolls. The PTC works closely with the Department of Transportation. The PG appoints all voting members. When all the PTC bondholders have been satisfied, the PTC assets revert to the Department of Transportation. The Governor must approve the issuance of all PTC debt. The PG is not obligated for all PTC debt, but the PG could take certain actions to satisfy bondholders. As further disclosed in Note N to the Financial Statements, the Commonwealth is contingently liable for \$604 million of PTC debt at fiscal year end. The PTC is reported for its fiscal year ended May 31, 2012.

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Thaddeus Stevens College of Technology (College) - The Board of Directors is 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 PLHIGA is under the direct supervision of the Insurance Commissioner. The PLHIGA is reported for its fiscal year ended December 31, 2011.

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 operations of the association shall at all times be subject to the supervision and regulation of the Insurance Commissioner. The PPCIGA is reported for its fiscal year ended December 31, 2011.

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.

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

Pennsylvania Convention Center Authority (PCCA) - The PCCA was created to operate the Pennsylvania Convention Center located in the City of Philadelphia. The PG appoints six of the fifteen voting board members, and may appoint the chairman. The Secretary of the Budget serves as a nonvoting ex-officio member of the board. The PG has final approval authority over the PCCA operating and capital budget. The PCCA may not incur debt without the prior written approval of the PG. The PG financed a portion of the PCCA facility premises in prior fiscal years and during the fiscal year ended June 30, 2012 as well as paying other periodic amounts to the PCCA, thus there is a financial burden on the PG.

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

**Related Organizations**

Related organizations are legally separate, fiscally independent entities for which the Commonwealth appoints a voting majority of the board, but the Commonwealth is not financially accountable for the entity.

The Pennsylvania Municipal Retirement System (PMRS) was created by the Commonwealth. 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 Automotive Theft Prevention Authority (ATPA) was created by the Commonwealth. 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 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 PG is not financially accountable due to a lack of imposition of will and no financial benefit/burden relationship with the Authority.

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 amending ACT 46 of 1999, that provided, in part, for several changes to the Public School Code. Among other things, the changes provide for the Commonwealth to appoint a voting majority of the School Reform Commission that now governs the School District. Despite these changes, the School District remains fiscally dependent on the City.

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

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain 1) an ongoing financial interest or 2) an ongoing financial responsibility. Generally, the purpose of a joint venture is to pool resources and share the costs, risks, and rewards of providing goods or services to the joint venture participants directly or for the benefit of the public or specific service recipients.

The Pennsylvania Employees Benefit Trust Fund (PEBTF) was created by the Commonwealth, through its Office of Administration, 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.

**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: two 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 each type of fiduciary fund. Major Funds are displayed in bold print in the Notes to the Financial Statements. The Commonwealth uses the following fund categories to account for each fund included in the primary government:

**Governmental Funds**

Governmental funds are used to account for activities primarily supported by taxes, grants, and similar revenue sources.

The **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.

Special Revenue Funds – account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The **Motor License Fund** is reported as a Major Fund.

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

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

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

Capital Projects Funds—account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. There are no major capital projects funds.

**Proprietary Funds**

The Proprietary funds are used to account for activities that receive significant support from fees and charges. They focus on determining operating income, changes in financial position and cash flows. Generally accepted accounting principles similar to those used by private sector businesses are applied in accounting for these funds. Included in proprietary fund financial statements are enterprise funds and an internal service fund.

Enterprise Funds—are used to report any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met:

- The activity is financed with debt secured solely by a pledge of the net revenues from fees and charges of the activity;
- Laws or regulations require the activity's costs of providing services, including capital costs (such as depreciation, amortization or debt service), be recovered with fees and charges; or
- The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

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, 2011.

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 government employees who collected UC benefits from Pennsylvania as well as grants to cover the cost of extended benefits. Extended benefits are additional UC benefits payable to qualified workers when an "Extended Benefit Period" (EB) occurs in Pennsylvania. An EB period begins with the third week after the unemployment rate reaches a certain level prescribed by law and ends the third week after the unemployment rate declines to a certain level prescribed by law. The UC Interest Fund was established for the repayment of interest on loans from the Federal government to Pennsylvania's account in the UC Trust Fund.

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



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

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

The Purchasing Fund is used to purchase materials, supplies, services, and equipment for use by departments, agencies, boards, and commissions of state government, and to pay costs associated with administering the fund. The fund receives reimbursements from the various Commonwealth departments, boards, and commissions for the materials, services, and supplies they obtain financed by appropriations. Also, the fund receives proceeds from the sale of vehicles and unserviceable property as well as from investment income. From time to time, the fund has borrowed from the **General Fund**; all such borrowings have been repaid.

The Manufacturing Fund 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 include raw materials, inmate labor, and general and administrative costs.

**Fiduciary Funds**

Fiduciary funds are used to account for resources that a government holds as a trustee or agent on behalf of an outside party and that cannot be used to support that government's own programs.

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 and the Deferred Compensation Fund are reported for their fiscal years ended December 31, 2011; the PSERS is reported for its fiscal year ended June 30, 2012.

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 INVEST Program for Local Governments is reported for its fiscal year ended December 31, 2011. Audited financial statements for that Program are also available through the Chief Accounting Officer.

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. Audited financial statements for that Program are also available through the Chief Accounting Officer.

The Statutory Liquidator Fund, the largest Agency 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.

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

The Medical Care Availability and Reduction of Error Fund (MCare), created by Act 13 of 2002, is used to pay claims against participating health care providers for losses or damages awarded in medical professional liability actions against them in excess of the basic insurance coverage required by the act.

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 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. 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

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

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 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 or long term investments; the pools themselves are not financially reported. Periodic earnings are allocated to specific participating funds based on the net asset value on redemption date combined with share balances on declaration date. 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. It should be noted that several individual funds have statutory authority to own investments outside the CIP. Financial statements for the INVEST Program include a Statement of Net Assets and a Statement of Changes in Net Assets prepared using the economic resources measurement focus and the accrual basis of accounting.

**Temporary Investments:** The Treasury Department manages the Commonwealth Investment Program (CIP); practically all individual funds that are part of primary government are participants in the CIP. Investments purchased by the CIP and reported as shares by the participants are reported as temporary investments. Temporary investments are reported at fair value (typically using published market prices) except for nonparticipating interest-bearing contracts, which are reported at cost. Such investments, which are expected to be realized in cash within twelve months after fiscal year end or less, are reported as temporary investments. The Treasury Department accounts for each participating fund's equity (considered "shares") in the CIP on a daily basis. "Share" balances of participating funds may fluctuate considerably during the fiscal year, based on the timing of cash receipts and disbursements in the participating fund. The CIP is considered an internal investment pool. Periodic CIP earnings are allocated to specific participating funds based on the weighted daily average share balance.

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

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

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

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

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

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

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

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 financial responsibility and legal liability for the SSHE-used real property but the Commonwealth retained title.

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

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

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

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

Employees earn sick leave based on an agreed upon percentage 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:

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

<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	11

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 accounting and financial reporting standards for ‘sole’ and ‘agent’ employer governments. Since the SERS is a cost-sharing, multiple-employer pension plan, the Commonwealth does not financially report a net pension obligation for the amount by which the calculated ARC exceeds actual contributions to the SERS. The Commonwealth is a non employer contributor in relation to the Public School Employees Retirement System with a commitment to fund a minimum of 50 percent of the required contributions.

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

**Interest Expense:** In the Statement of Activities, no interest expense is reported by direct program costs. No interest expense was capitalized during the fiscal year ended June 30, 2012.

**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, 2012, a portion of governmental activities net assets was restricted based on a Federal government purpose restriction. Some restricted net assets could become unrestricted based on possible future legislative changes to amend the enabling legislation.

**Governmental Funds Fund Balance Categories**

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

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Spendable Categories:**

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

**Unrestricted Categories:**

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

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

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

Note: Management utilizes encumbrance accounting. Among spendable fund balance amounts reported in the financial statements, certain amounts are disclosed as encumbrances based on purchase orders or other contracts. Such amounts are disclosed in Note N to the Financial Statements.

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

**Budget Stabilization Reserve Fund:** Act 91 of 2002 provided for this Fund, effective July 1, 2002, to gradually provide a budgetary reserve amounting to 6 percent of the revenues of the **General Fund**. The enacted **General Fund** budget for the fiscal year ended June 30, 2010 provided that nearly the entire balance in this Fund was transferred to the **General Fund**; a \$755 million transfer occurred on October 15, 2009. Act 26 of 2011 suspended the transfer of surplus funds to the Budget Stabilization Reserve Fund during the fiscal years ended June 30, 2011 and 2012.

**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

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

reported as a liability and related premium/discount is amortized over the life of the outstanding debt and is reported as interest expense as part of functional governmental activities expenses. Bond issuance costs are reported as expenses.

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

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

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

Interfund Services Provided and Used—Charges or collections for services provided by one fund to another that are recorded as revenues and expenditures or expenses of the providing (reimbursed) fund are treated as reimbursements (above) and are eliminated and expenditures or expenses of the using (reimbursing) fund are reported 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, 2012 and transfers in/out during the fiscal year ended June 30, 2012 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 – To Be Adopted:**

The GASB issued Statement No. 60 “Accounting and Financial Reporting for Service Concession Arrangements” in November 2010. This statement provides accounting and financial reporting requirements for reporting service concession arrangements (SCAs). An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The Commonwealth is determining whether it is involved in any SCAs and, if so, will report its involvement using the required method of presentation.

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

The GASB issued Statement No. 62 “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements” in December 2010. The statement incorporates into the GASB’s own



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

pronouncements certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

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

The Commonwealth is evaluating whether or not it is engaged in any of the specific activities included in the standard and will financially report such activities as required by the standard.

The GASB issued Statement No. 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position" in June 2011. This statement provides accounting and financial reporting requirements for deferred outflows of resources and deferred inflows of resources as introduced and defined in GASB's Concepts Statement No. 4, "Elements of Financial Statements". This Statement amends the net asset reporting requirements in Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments". The Commonwealth has established proper account coding for the deferred items and is incorporating them into its financial statements and is evaluating potential changes to categories of net assets.

The GASB issued Statement No. 65 "Items Previously Reported as Assets and Liabilities" in March 2012. This statement establishes accounting guidance for the reporting of certain assets and liabilities as deferred outflows or inflows. It also provides guidance on the reporting of certain revenues and expenditures/expenses as deferred outflows or inflows.

The GASB issued Statement No. 66 "Technical Corrections – 2012" in March 2012. This statement improves accounting and financial reporting by resolving conflicting guidance for GASB Statements No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," and No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements."

The GASB issued Statement No. 67 "Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25" in June 2012. This statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented.

The GASB issued Statement No. 68 "Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27" in June 2012. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The Commonwealth will be required to measure and record its proportionate share of the net pension assets or obligations for its participation in the State Employees Retirement System (SERS) and the Public School Employees Retirement System (PSERS).

The new standards must be adopted as follows:

GASB Statement No. 60    Effective July 1, 2012 for financial statements for the fiscal year ending June 30, 2013.

GASB Statement No. 61    Effective July 1, 2012 for financial statements for the fiscal year ending June 30, 2013.

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

GASB Statement No. 62 Effective July 1, 2012 for financial statements for the fiscal year ending June 30, 2013.

GASB Statement No. 63 Effective July 1, 2012 for financial statements for the fiscal year ending June 30, 2013.

GASB Statement No. 65 Effective July 1, 2013 for financial statements for the fiscal year ending June 30, 2014.

GASB Statement No. 66 Effective July 1, 2013 for financial statements for the fiscal year ending June 30, 2014.

GASB Statement No. 67 Effective July 1, 2013 for financial statements for the fiscal year ending June 30, 2014.

GASB Statement No. 68 Effective July 1, 2014 for financial statements for the fiscal year ending June 30, 2015.

**NOTE B – RESTATEMENTS AND REPORTING CHANGE FOR MAJOR FUNDS**

**Primary Government**

**Reporting Change for Major Funds – Governmental Funds**

Effective July 1, 2011 the Commonwealth changed its reporting treatment for governmental funds major funds. Through June 30, 2011 three governmental funds were reported as major funds: **General Fund, Motor License Fund and Tobacco Settlement Fund**. Effective July 1, 2011 the Tobacco Settlement Fund is no longer reported as a major fund and is reported among other nonmajor governmental funds as of and for the fiscal year ended June 30, 2012. The Tobacco Settlement Fund was not required to be reported as a major fund as of and for the fiscal year ended June 30, 2007; however, it continued to be reported as a major fund through June 30, 2011 based on qualitative factors only. This reporting change has no effect on the total previously-reported fund balance of the governmental funds of \$5,992,492 as of June 30, 2011. The previously-reported assets, liabilities, and fund balance of the Tobacco Settlement Fund were \$784,523, \$332,123, and \$452,400, respectively, at June 30, 2011. The previously-reported revenues and expenditures of the Tobacco Settlement Fund were \$616,866 and \$579,794, respectively, for the fiscal year ended June 30, 2011 (amounts in thousands).

**Discretely Presented Component Units**

**Restatement Due to Change in Accounting Estimate**

**Philadelphia Regional Port Authority:** In FY 2012 the Authority elected to make a change in accounting estimate for compensated absences from an internal calculation to a forecast provided by the Commonwealth’s Office of the Budget Bureau of Financial Management. Beginning net assets were reduced by \$388 thousand as a result of the compensated absences adjustment.

**Restatement Due to Change in Reporting Entity**

**Pennsylvania Higher Education Assistance Authority (PHEAA):** Previously, PHEAA did not combine the financial activity of PHEAA Student Loan Trust I (Trust) into their financial statements, because the Trust was legally separate and fiscally independent from PHEAA. On July 14, 2011 PHEAA created PHEAA Student Loan Trust 2011-1 (2011-1 Trust) to securitize student loans and related assets, and to acquire student loans from PHEAA and issue promissory notes secured by a pledge of such assets. The 2011-1 Trust is legally separate and fiscally independent from PHEAA (similar to the Trust). In 2012 PHEAA determined that the Trust and the 2011-1 Trust should be component units of PHEAA in order to keep its financial statements from being misleading due to the material relationship of the Trust and the 2011-1 Trust. In addition, the Trust and the 2011-1 Trust are blended component units, because they provide services entirely to PHEAA. As blended component units, PHEAA combined the financial activities of the Trust and the 2011-1 Trust into PHEAA’s financial statements and restated applicable prior periods.

The Pennsylvania Higher Education Foundation (PHEF) no longer provided services to outside third parties in the form of grants and scholarships used to promote nursing education during the 2011-12 fiscal year, but rather provided services entirely to PHEAA. As a result, PHEAA determined that PHEF should be a blended component unit, instead of a discretely presented component unit. As a blended component unit PHEAA combined the financial statement of PHEF into their financial statements and restated applicable prior periods.

In the table below, PHEAA shows the impact of the above changes on ending net assets as of June 30, 2011.

Change in total net assets:

As of June 30, 2011 (in thousands)	<u>As previously reported</u>	<u>PHEF</u>	<u>Trust</u>	<u>Eliminations</u>	<u>Restated</u>
Total net assets	\$672,488	\$1,294	\$34,470	\$(25,031)	\$683,221

**NOTE C – NET ASSETS AND FUND BALANCE**

**Governmental Activities and Business-Type Activities Net Assets:** Total Net Assets are the difference between Total Assets and Total Liabilities reported on the Statement of Net Assets. Total Net Assets are reported in three distinct components: Invested in capital assets, net of related debt; Restricted net assets; and Unrestricted net assets.

Invested in capital assets, net of related debt represents total capital assets less accumulated depreciation and the outstanding liability (excluding unspent proceeds) for debt specifically related to the acquisition of the capital assets. At June 30, 2012, governmental and business-type activities, respectively, reported \$26,580,581 and \$77,259 of net assets invested in capital assets, net of related debt (amounts in thousands).

Restricted net assets are reported based on constraints imposed by either 1) creditors, grantors, contributors, or laws or regulations of the Federal or other governments; or 2) Commonwealth enabling legislation. At June 30, 2012, governmental and business-type activities, respectively, reported \$2,561,940 and \$678,686 of restricted net assets. Net assets restricted for other purposes of \$35,614 and \$98,203 for governmental activities and business-type activities, respectively, at June 30, 2012 include amounts for a range of dissimilar statutory purposes (amounts in thousands).

Unrestricted net assets represents total net assets less the amounts of net assets invested in capital assets, net of related debt and restricted net assets. At June 30, 2012, governmental and business-type activities, respectively, reported unrestricted net assets deficits of \$5,460,053 and \$1,913,601 (amounts in thousands).

**Governmental Funds Fund Balance:** Reported fund balance within individual governmental funds is categorized between nonspendable and spendable categories. At June 30, 2012 nonspendable fund balance is only reported for amounts which are not in spendable form; no nonspendable fund balance is reported based on either legal or contractual requirements to be maintained intact. Within the spendable category, fund balance is further categorized among: restricted, committed, assigned and, within the **General Fund** only, unassigned categories. At June 30, 2012, spendable governmental funds fund balance is categorized among all categories except that no assigned fund balance is reported among any governmental fund for which reporting assigned fund balance would cause reporting a deficit unassigned fund balance. The following chart provides detail about reported nonspendable fund balance and fund balance restrictions and commitments at June 30, 2012 (amounts in thousands):

NOTE C – NET ASSETS AND FUND BALANCE (continued)

	General Fund	Motor License Fund	Nonmajor Funds	Total
<b>Nonspendable:</b>				
<b>Not in spendable form:</b>				
Advances to other funds.....	\$ 114,475	\$ -	\$ -	\$ 114,475
Long-term loans receivable.....	6,954	-	-	6,954
Due from component unit.....	<u>119,546</u>	-	-	<u>119,546</u>
<b>Total nonspendable.....</b>	<b><u>240,975</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>240,975</u></b>
<b>Restricted for:</b>				
Health-related programs.....	-	-	18,992	18,992
Transportation.....	-	1,192,998	187,009	1,380,007
Unemployment/worker's compensation.....	-	-	796,240	796,240
Environmental and conservation programs	-	-	667,920	667,920
Gaming licensing/regulation.....	-	-	736,209	736,209
Emergency support.....	-	-	46,954	46,954
Other purposes.....	-	-	<u>44,032</u>	<u>44,032</u>
<b>Total restricted.....</b>	<b><u>-</u></b>	<b><u>1,192,998</u></b>	<b><u>2,497,356</u></b>	<b><u>3,690,354</u></b>
<b>Committed for:</b>				
General government operations.....	972,509	-	-	972,509
Health-related programs.....	-	-	373,400	373,400
Transportation.....	-	-	26,557	26,557
Capital projects.....	-	-	483,061	483,061
Debt service.....	-	-	48,400	48,400
Elderly programs.....	74,299	-	-	74,299
Environmental and conservation programs	97,659	-	28,807	126,466
Economic development.....	9,241	-	-	9,241
Emergency support.....	336	-	-	336
Higher education.....	3,141	-	-	3,141
Other purposes.....	<u>119,486</u>	-	-	<u>119,486</u>
<b>Total committed.....</b>	<b><u>1,276,671</u></b>	<b><u>-</u></b>	<b><u>960,225</u></b>	<b><u>2,236,896</u></b>
<b>Unassigned:</b>				
Deficit.....	<u>(258,351)</u>	-	<u>(2,955)</u>	<u>(261,306)</u>
<b>Total fund balances.....</b>	<b><u>\$ 1,259,295</u></b>	<b><u>\$ 1,192,998</u></b>	<b><u>\$ 3,454,626</u></b>	<b><u>\$ 5,906,919</u></b>

A portion of the nonspendable fund balance reported by the **General Fund**, \$114,475, is applicable to advances to other funds at June 30, 2012, as follows; \$2,300 to the **State Workers' Insurance Fund** and \$110,000 to the State Stores Fund, both Enterprise Funds; and \$2,175 to the **Motor License Fund**, a Special Revenue fund (amounts in thousands).

**Governmental Funds Fund Balance Deficit:** The State Racing Fund, a Special Revenue Fund, reported a fund balance deficit of \$2,955 at June 30, 2012 (amounts in thousands).

**Proprietary Funds Net Assets:** Nonmajor Enterprise funds reported total restricted net assets for "other purposes" of \$98,203 at June 30, 2012 for the following programs: mine subsidence insurance, \$88,841; vocational rehabilitation, \$1,842; and \$7,520 for other programs (amounts in thousands).

**Proprietary Funds Net Assets Deficits:** In addition to net assets deficits reported in all four major Enterprise funds (**Unemployment Compensation Fund, State Workers' Insurance Fund, State Lottery Fund and Tuition Payment Fund**), one nonmajor Enterprise fund has reported a net assets deficit in the Proprietary Funds 'Statement of Net Assets'. The State Stores Fund reported an unrestricted net assets deficit of \$70,612 at June 30, 2012 (amount in thousands).

**NOTE C – NET ASSETS AND FUND BALANCE (continued)**

**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, 2012 the Philadelphia Regional Port Authority and the Commonwealth Financing Authority reported unrestricted net assets deficits of \$726 and \$643,387, respectively, both of which are supported by primary government commitments as discussed in Note N (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, 2012, the Treasury Department manages the Commonwealth Investment Program (CIP). Practically all Commonwealth Funds of the primary government are invested on a temporary basis in the CIP. Treasury is required to exercise careful judgment in determining those investments that are appropriate for each Commonwealth fund based upon distinct investment criteria such as income needs, cash flow requirements, investment time horizons, and risk tolerance. All investments are made in accordance with the statutory authority described in the preceding paragraph. The CIP investment pool structure invests in both equity securities and fixed income securities to achieve the investment objectives of the funds of the CIP. Asset allocation targets among cash, equity securities, fixed income securities and alternative investments are established in order to meet these overall objectives.

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

**Other Investing Organizations**

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

**Pension Trust Funds**

The State Employees' Retirement System (SERS), the Deferred Compensation Program (DCP), the Public School Employees' Retirement System (PSERS) and the Other Post Employment Benefit Investment Pool constitute combined Pension (and Other Employee Benefit) Trust Funds (Pension Trust Funds) reported in the basic financial statements. Pension Trust Funds

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

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.

**Statutory Liquidator Fund**

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

**Deposit Risks**

At June 30, 2012, Commonwealth bank balances of \$8,305 were subject to custodial risk because they were uninsured and uncollateralized. In addition, \$19,034 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 \$69,588 at June 30, 2012 that were not required to be collateralized by statute or policy. None of the other investing organizations or the Pension Trust Funds were exposed to either custodial credit risk or foreign currency risk for its deposits at June 30, 2012 (December 31, 2011 for the **State Workers' Insurance Fund**, SERS, INVEST and DCP) (amounts in thousands).

**Investment Risks**

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

**Investments by Type**

At June 30, 2012, the Treasury and other investing organizations reported a total of \$17,098,017 in investments. Cash equivalents and certificates of deposit, amounting to \$2,332,028, which are held in the Commonwealth Investment Pool and other portfolios, are reported as investments but are not included as part of fixed income investment disclosures. Excluding cash equivalents and certificates of deposits, total investments disclosed amount to \$14,765,989; of this amount, excluding equities and private equity holdings (\$1,814,114 and \$820,559, respectively), fixed income investments disclosed amount to \$12,131,314. The investment types and related amounts are as follows (amounts in thousands):



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

INVESTMENT TYPE	Amount
Asset backed securities.....	\$ 86,757
Commercial paper.....	4,977,910
Corporate obligations.....	1,228,288
Equity.....	1,814,114
Money market mutual funds.....	1,550,718
Mortgage-backed securities.....	459,632
Mutual funds.....	40,471
Preferred securities.....	2,292
Private equity.....	820,559
Private placements.....	108,224
Repurchase agreements.....	175,439
Sovereign debt obligations.....	34,891
State and municipal obligations.....	185,409
U.S. Government agencies.....	28,987
U.S. Government sponsored enterprises.....	2,305,876
U.S. Treasury obligations.....	<u>946,422</u>
<b>Total investments .....</b>	<b>14,765,989</b>
Cash equivalents and certificates of deposit.....	<u>2,332,028</u>
<b>Total investments, cash equivalents and certificates of deposit.....</b>	<b><u>\$ 17,098,017</u></b>

In addition, at June 30, 2012, all reported investments of the Tuition Account Investment Program, amounting to \$1,104,428 consist entirely of mutual funds (\$1,058,951) and money market mutual funds (\$45,477) (amounts in thousands).

**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, 2012, only the Statutory Liquidator Fund, an Agency Fund, owned investment securities subject to custodial credit risk, in the amount of \$2,557,694. 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>	Amount
Asset backed securities.....	\$ 222,297
Commercial paper.....	14,220
Corporate obligations.....	1,154,069
Mortgage backed securities.....	547,484
Private placements.....	98,110
Repurchase agreements.....	4,977
Sovereign obligations.....	8,170
U.S. Government agencies.....	272,263
U.S. Treasury obligations.....	<u>236,104</u>
<b>Total.....</b>	<b><u>\$ 2,557,694</u></b>

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

**Concentration of Credit Risk:** Concentration of credit risk is the risk of loss attributed to the magnitude of the government’s investment in a single issuer. The Treasury Department places a 10 percent limit on the concentration of investments in any one fixed income issuer within the CIP, **Tuition Payment** and **INVEST**. This limitation excludes government-sponsored enterprises (GSEs), direct obligations of the U.S. Treasury or U.S. agencies, and repurchase agreements. The Treasury Department also places a 5 percent limit on the concentration of investments in one equity issuer within the Commonwealth Investment Program. Similarly, to a degree, the five other investing organizations limit exposure to concentration of credit risk. Several other investing organizations have adopted policies, which allow greater than 5 percent of portfolios to consist of securities issued by the U.S. Treasury. Among Treasury and other investing organizations, based on total portfolio value of \$14,765,989, the following concentrations existed as of June 30, 2012 (December 31, 2011 for the **State Workers’ Insurance Fund (SWIF)** and **INVEST**) (amounts in thousands):

<u>Issuer Name</u>	<u>Amount</u>	<u>% of Treasury and Other Investing Organizations Portfolio</u>
Federal Home Loan Bank.....	\$ 1,356,857	9.2%
Goldman Sachs Financial Square Fund.....	1,057,850	7.2%

The concentration of credit risk for the Statutory Liquidator Fund is as follows (amounts in thousands):

<u>Issuer Name</u>	<u>Amount</u>	<u>% of Treasury and Other Investing Organizations Portfolio</u>
Fannie Mae.....	\$ 343,017	10.4%
Federated Prime.....	264,907	8.0%
Western Asset.....	263,154	8.0%
U.S. Treasury.....	236,104	7.1%
JP Morgan Chase.....	185,076	5.6%
Freddie Mac.....	184,422	5.6%

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

At June 30, 2012, approximately \$12,131,314 of total Treasury and other investing organization investments of \$17,098,017 are fixed income investments, susceptible to credit quality rating; the remainder is primarily equities \$1,814,114, private equities \$820,559, cash equivalents, certificates of deposit, and various deposit accounts of \$2,332,028. Of the amount susceptible to credit quality rating, \$10,364,517 is rated; ratings are not available for \$1,766,797 of fixed income investments (amounts in thousands):

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

<u>Moody's Investors Service</u>	<u>Amount</u>
P-1.....	\$ 1,378,857
Aaa .....	182,661
Aa.....	72,206
A.....	307,698
Baa.....	259,104
Ba.....	105,480
B.....	109,033
Caa.....	24,629
Ca.....	99
<b>Moody's Investors Service subtotal.....</b>	<b><u>2,439,767</u></b>
<u>Standard and Poor's</u>	
A-1.....	1,728,013
AAA.....	20,541
AA.....	3,753,016
A.....	146,270
BBB.....	72,833
BB.....	30,182
B.....	40,670
CCC.....	9,581
CC.....	66
D.....	236
<b>Standard and Poor's subtotal.....</b>	<b><u>5,801,408</u></b>
<u>Fitch Ratings</u>	
F1.....	1,809,280
AAA.....	571
AA.....	2,562
A.....	278,449
BBB.....	24,677
BB.....	1,729
B.....	2,133
CCC.....	3,514
CC.....	241
C.....	186
<b>Fitch Ratings subtotal.....</b>	<b><u>2,123,342</u></b>
<b>Rated subtotal.....</b>	<b>10,364,517</b>
<b>Unrated subtotal.....</b>	<b><u>1,766,797</u></b>
<b>Total fixed income investments.....</b>	<b><u>\$ 12,131,314</u></b>

At June 30, 2012, 3 percent (\$327,779) of rated fixed income investments of \$10,364,517 are rated below investment grade. Approximately 14 percent (\$1,766,797) of the fixed income portfolio in Treasury and other investing organizations are not rated by any of the NRSRA. Unrated Fixed Income Investments include securities that did not have a credit rating available from a NRSRA at June 30, 2012 (December 31, 2011 for the **SWIF** and **INVEST**). These unrated items include U.S. Treasury Obligations (\$946,422). They are negotiable debt obligations of the U.S. Treasury secured by the full faith and credit of the U.S. Government and are treated as having no credit risk. Among the Tuition Account Investment Program's mutual funds within its portfolios, certain mutual funds hold fixed income investments susceptible to credit quality ratings and all such investments are rated Baa or higher by Moody's or BBB or higher by S&P (amounts in thousands).

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

The Pension Trust Funds may expose themselves to greater credit risk than the Treasury Department or other investing organizations to meet specific investment objectives. SERS and DCP fixed income securities (at December 31, 2011), which are exposed to credit risk, are rated as follows (amounts in thousands):

<u>Moody's Investors Service<sup>a</sup></u>	<u>SERS</u>	<u>DCP</u>
Aaa.....	\$ 180,368	\$ 37,673
Aa.....	218,329	472,999
A.....	229,770	147,142
Baa.....	495,015	53,655
Ba and below.....	801,972	1,038
Unrated <sup>b</sup> .....	38,244	-
Short-term investments.....	962,717	53,360
<b>Total.....</b>	<b><u>\$ 2,926,415</u></b>	<b><u>\$ 765,867</u></b>

- 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 (\$38,244 for SERS).

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, 2012 (amounts in thousands):

<u>Standard and Poor's Equivalent<sup>a</sup></u>	<u>Amount</u>
AAA.....	\$ 764,417
AA.....	473,928
A.....	705,148
BBB.....	702,523
BB and below.....	971,777
Unrated <sup>b</sup> .....	8,055,914
U.S. Government guaranteed <sup>c</sup> .....	3,638,615
<b>Total.....</b>	<b><u>\$15,312,322</u></b>

- a. The S & P rating represents all the securities that fall within subcategories of the ratings shown in this table. For example, a security with a rating of A+ is shown as a rating of A in this table.
- b. Unrated represents securities that were not rated by S&P; \$5,455,269 in collective trust funds and \$2,600,645 in other investments.
- c. Represents securities issued by the U.S. Government and agency obligations explicitly guaranteed by the U.S. Government and not considered to have credit risk.

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

The Statutory Liquidator Fund fixed income securities at June 30, 2012, which are exposed to credit risk, are rated as follows:

<u>Moody's Investors Service</u>	<u>Amount</u>
Aaa.....	\$ 366,334
Aa.....	104,129
A.....	459,111
Baa.....	236,400
Ba.....	3,622
P-1.....	894
P-2.....	2,630
<b>Moody's Investors Service subtotal.....</b>	<b><u>1,173,120</u></b>
<u>Standard and Poor's</u>	
AAA.....	55,439
AA.....	634,918
A.....	209,813
BBB.....	187,805
BB.....	2,744
<b>Standard and Poor's subtotal.....</b>	<b><u>1,090,719</u></b>
<b>Rated subtotal.....</b>	<b><u>2,263,839</u></b>
<b>Unrated subtotal.....</b>	<b><u>1,042,179</u></b>
<b>Total fixed income investments.....</b>	<b><u>\$ 3,306,018</u></b>

**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, 2012, Treasury and other investing organizations’ fixed income portfolio, excluding Statutory Liquidator Fund and Tuition Account Investment Program, had the following option-adjusted durations (in years) by investment type (amounts in thousands):

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

<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>
Asset backed securities.....	\$ 44,300	1.200	\$ 42,457	\$ 86,757
Commercial paper.....	4,977,910	0.150	-	4,977,910
Corporate obligations.....	1,053,321	5.080	174,967	1,228,288
Money market mutual funds.....	1,436,577	0.080	114,139	1,550,716
Mortgage-backed securities.....	425,718	2.710	33,914	459,632
Mutual funds.....	4,687	0.003	35,784	40,471
Preferred securities.....	838	3.320	1,454	2,292
Private placements.....	99,116	4.540	9,108	108,224
Repurchase agreements.....	175,439	0.010	-	175,439
Sovereign debt obligations.....	14,891	8.160	20,000	34,891
State and municipal obligations.....	62,943	8.090	122,466	185,409
U.S. Government agencies.....	21,786	3.110	7,201	28,987
U.S. Government sponsored enterprises.....	2,295,376	0.840	10,500	2,305,876
U.S. Treasury obligations.....	946,422	7.420	-	946,422
<b>Total.....</b>	<b>\$ 11,559,324</b>		<b>\$ 571,990</b>	<b>\$ 12,131,314</b>

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):

<u>Investment Type</u>	<u>Matures in less than 1 Year</u>	<u>Matures in 1 to 5 Years</u>	<u>Matures in 6 to 10 Years</u>	<u>Matures in 11 to 20 Years</u>	<u>Matures in 21 to 30 Years</u>	<u>Matures in 31 to 40 Years</u>	<u>Matures after 40 Years</u>	<u>No Maturity Date</u>	<u>Total</u>
Annuity.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,263	\$ 1,263
Asset backed securities.....	1,116	194,409	24,422	2,221	-	129	-	-	222,297
Cash and equivalents.....	-	-	-	-	-	-	-	53,862	53,862
Certificates of deposit.....	-	-	-	-	-	-	-	122	122
Commercial paper.....	14,220	-	-	-	-	-	-	-	14,220
Corporate obligations.....	102,512	1,013,708	33,614	1,972	717	877	669	-	1,154,069
Money markets mutual funds.....	1,299	-	-	-	26,771	-	-	589,055	617,125
Mortgage backed securities.....	172	7,963	69,615	45,073	246,865	9,344	8,814	159,638	547,484
Private placements.....	4,027	88,129	5,269	610	-	75	-	-	98,110
Repurchase agreements.....	4,977	-	-	-	-	-	-	-	4,977
Sovereign debts obligations.....	1,280	6,486	404	-	-	-	-	-	8,170
State and municipal obligations.....	2,660	2,575	577	-	-	-	-	-	5,812
Treasury Investment Pool.....	-	-	-	-	-	-	-	70,140	70,140
U.S. Government agencies.....	82,331	189,932	-	-	-	-	-	-	272,263
U.S. Treasury obligations.....	14,503	140,713	40,591	-	-	-	-	40,297	236,104
<b>Total.....</b>	<b>\$ 229,097</b>	<b>\$ 1,643,915</b>	<b>\$ 174,492</b>	<b>\$ 49,876</b>	<b>\$ 274,353</b>	<b>\$ 10,425</b>	<b>\$ 9,483</b>	<b>\$ 914,377</b>	<b>\$ 3,306,018</b>

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

	<u>Amount</u>	<u>Average Duration</u>	<u>Average Effective Maturity</u>
Vanguard Total Bond Market II Index Fund Institutional Shares.....	\$ 352,813	5.2 years	7.2 years
Vanguard Inflation-Protected Securities Fund Institutional Shares.....	37,449	8.6 years	9.4 years
Vanguard Prime Money Market Fund Institutional Shares.....	59,758	N/A	58 days

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

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

<u>Investment Type</u>	<u>SERS Amount</u>	<u>DCP Amount</u>	<u>SERS Option- Adjusted Duration</u>	<u>DCP Option- Adjusted Duration</u>
Asset backed securities.....	\$ 64,313	\$ 28,742	0.90	1.20
Corporate obligations.....	727,694	273,165	5.20	4.60
Mortgage-backed securities.....	194,232	360,473	2.50	2.40
Other investments <sup>a</sup> .....	2,657	-	N/A	N/A
Sovereign debt obligations.....	535,203	8,942	6.40	4.70
Treasury investment pool.....	962,717	55,054	0.10	0.10
U.S. Treasury obligations.....	1,512,224	410,723	4.70	4.40
U.S. Government sponsored enterprises.....	48,395	104,497	3.60	2.40
U.S. private placements.....	405,443	2,824	3.40	1.80
<b>Total.....</b>	<b><u>\$ 4,452,878</u></b>	<b><u>\$ 1,244,420</u></b>		

- a. Other Investments represents certain SERS securities with maturities ranging through 2019 and the value of swap agreements as of December 31, 2011.

**PSERS:**

<u>Investment Type</u>	<u>Amount</u>	<u>Option-Adjusted Duration</u>
Domestic asset-backed and mortgage-backed securities.....	\$ 2,580,131	1.0
U.S. Government and agency obligations.....	1,961,606	6.9
Domestic corporate and taxable municipal bonds.....	1,426,219	0.6
Collective trust funds.....	5,455,269	4.3
International fixed income.....	1,239,602	4.0
PSERS Short-Term Investment Fund.....	1,789,068	0.1
<b>Total.....</b>	<b><u>\$ 14,451,895</u></b>	

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, 2012.

**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, 2012, the Tobacco Settlement Fund reported \$3.6 million and the **Tuition Payment Fund** reported \$38.1 million of foreign currency-denominated holdings. The foreign currency holdings make up nearly 2.7 percent of the **Tuition Payment Fund's** total investment portfolio and nearly .9 percent of the Tobacco Settlement Fund's total investment portfolio. The amounts invested, by currency, are as follows:

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

<u>Foreign Currency</u>	<u>Equities</u>	<u>Preferred Securities</u>	<u>Private Equity</u>	<u>Total</u>
Australian dollar.....	\$ 237	\$ -	\$ -	\$ 237
Brazil real.....	907	-	-	907
British pound sterling.....	8,844	-	-	8,844
Canadian dollar.....	2,627	-	-	2,627
Danish krone.....	1,464	-	-	1,464
Euro .....	6,766	761	3,633	11,160
Hong Kong dollar.....	5,113	-	-	5,113
Japanese yen.....	5,016	-	-	5,016
Mexican new peso.....	602	-	-	602
Swedish krona.....	2,322	-	-	2,322
Swiss franc.....	3,483	-	-	3,483
<b>Total.....</b>	<b>\$ 37,381</b>	<b>\$ 761</b>	<b>\$ 3,633</b>	<b>\$ 41,775</b>

Within the Tuition Account Investment Program, the Vanguard Total International Stock Index Fund (\$172,153) is exposed to foreign currency risk (amounts in thousands).

Each Pension Trust Fund is exposed to foreign currency risk as part of meeting specific investing objectives or allocations among different classes of investments. The SERS is exposed to foreign currency risk primarily for equity securities at December 31, 2011 as follows (amounts in thousands):

<u>Foreign Currency</u>	<u>Short Term</u>				<u>Alternative Investments</u>	<u>Total</u>
	<u>Investments<sup>a</sup></u>	<u>Fixed income</u>	<u>Equity</u>	<u>Real Estate</u>		
Euro.....	\$ (15,443)	\$ 16,598	\$ 547,180	\$ 12,364	\$ 427,609	\$ 988,308
British pound sterling.....	(57,826)	83,809	459,563	11,281	-	496,827
Japanese yen.....	1,646	(464)	347,007	28,416	-	376,605
Swiss franc.....	1,642	-	179,675	1,919	-	183,236
Hong Kong dollar.....	(394)	-	148,753	28,401	-	176,760
Australian dollar.....	(17,403)	17,936	89,234	25,456	-	115,223
Canadian dollar.....	(18,014)	32,221	86,713	5,832	-	106,752
Singapore dollar.....	341	6,125	44,524	10,103	-	61,093
Swedish krona.....	-	-	35,406	1,359	7,199	43,964
South Korean won.....	-	7,911	27,767	-	-	35,678
Mexican peso.....	822	31,749	1	-	-	32,572
Norwegian krone.....	223	185	30,904	-	-	31,312
Malaysian ringgit.....	79	25,167	4,602	-	-	29,848
Brazil real.....	1,291	20,383	3,593	1,230	-	26,497
South African rand.....	999	23,209	-	-	-	24,208
Polish zloty.....	584	21,230	725	-	-	22,539
Danish krone.....	225	-	21,077	-	-	21,302
New Turkish lira.....	196	18,076	-	-	-	18,272
Indonesian rupiah.....	1,605	15,867	-	-	-	17,472
Thai baht.....	174	9,348	2,560	-	-	12,082
Other currencies (14).....	1,421	44,946	14,846	-	-	61,213
<b>Total.....</b>	<b>\$ (97,832)</b>	<b>\$ 374,296</b>	<b>\$ 2,044,130</b>	<b>\$ 126,361</b>	<b>\$ 434,808</b>	<b>\$ 2,881,763</b>

a. Includes receivables and payables as of December 31, 2011 for securities sold and purchased.

One of several investing choices that may be selected by the DCP participants is the European, Australian and Far East (EAFE) Equity Index Fund, which owns international equities and is managed by an external manager. The EAFE Equity Index Fund within the DCP seeks to track the more than 1,000 foreign stocks representing established companies in 21 countries located in Western Europe and the Pacific Rim that are a part of the Morgan Stanley Capital International EAFE Index. At December 31, 2011, the DCP had the following currency exposures related to equity securities (amounts in thousands):



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

<u>Foreign Currency</u>	<u>Fair Value</u>
Euro.....	\$ 26,724
British pound sterling.....	22,585
Japanese yen.....	20,902
Swiss franc.....	8,357
Australian dollar.....	8,318
Swedish krona.....	2,994
Hong Kong dollar.....	2,713
Singapore dollar.....	1,610
Danish krone.....	1,013
Norwegian krone.....	901
Israeli new shekel.....	624
New Zealand dollar.....	112
<b>Total.....</b>	<b><u>\$ 96,853</u></b>

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

<u>Foreign Currency</u>	<u>Equity</u>	<u>Fixed income</u>	<u>Alternative Investments and Real Estate</u>	<u>Short-term*</u>	<u>Total</u>
Euro.....	\$ 573,763	\$ 171,451	\$ 2,420,337	\$ (629,843)	\$ 2,535,708
Japanese yen.....	675,615	53,696	-	73,113	802,424
British pound sterling.....	772,071	36,716	24,171	(139,358)	693,600
Canadian dollar.....	359,569	22,974	269	17,386	400,198
Australian dollar.....	264,528	-	-	(39,707)	224,821
Hong Kong dollar.....	210,518	-	-	210	210,728
Brazil real.....	52,874	65,855	-	75,055	193,784
South African rand.....	64,243	43,544	-	72,791	180,578
New Turkish lira.....	37,238	39,922	-	101,023	178,183
Mexican new peso.....	10,288	67,619	-	52,407	130,314
South Korean won.....	72,610	42,477	-	(1,328)	113,759
Norwegian krone.....	39,774	2,906	-	70,461	113,141
Polish zloty.....	7,660	36,509	-	62,622	106,791
Other currencies.....	713,324	197,579	-	(438,917)	471,986
<b>Total.....</b>	<b><u>\$ 3,854,075</u></b>	<b><u>\$ 781,248</u></b>	<b><u>\$ 2,444,777</u></b>	<b><u>\$ (724,085)</u></b>	<b><u>\$ 6,356,015</u></b>

\*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,

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

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 obligation to borrowers are reported.

To the extent collateral received consists of cash, the lending agent may use or invest the cash in accordance with reinvestment guidelines approved by the Treasury Department. At June 30, 2012, 100 percent of the collateral was invested in repurchase agreements. Either the participant or the borrower may terminate lending agreements on demand. Lending agreements are typically of very short duration – usually overnight. Therefore, the duration of lending agreements do not generally match the maturities of the investments made with the cash collateral. The resulting rate risk is mitigated by the lending agent’s ability to reallocate lending agreements among program participants.

The program requires that the lending agent indemnify the Treasury Department for all claims, liabilities and costs resulting from the lending agent’s negligence or intentional misconduct. During the fiscal year ended June 30, 2012 (December 31, 2011 for the **SWIF**, **SERS** and **DCP**), there were no failures by any borrower to return securities lent or pay distributions thereon. Also, there were no losses resulting from a lending agent or borrower default and there were no Treasury Department restrictions on the amount of the loans that could be made.

At June 30, 2012 (December 31, 2011 for the **SWIF**, the **SERS** and the **DCP**), the total fair value of the securities lent, along with the type of investments lent, were as follows (amounts in thousands):

Fund/Organization	Total Securities Lent	U.S.					Sovereign Debt Obligations	Exchange Traded
		U.S. Treasury Obligations	Government Sponsored Enterprises	Corporate Obligations	Equities			
Deferred Compensation Program.....	\$ 21,491	\$ -	\$ 21,055	\$ 437	\$ -	\$ -	\$ -	
State Employees' Retirement System.....	231,458	118,075	6,282	25,147	73,918	8,036	-	
Public School Employees' Retirement System.....	2,841,486	1,327,372	-	49,496	1,421,577	18,896	24,145	
Tobacco Settlement Fund.....	3,275	-	3,275	-	-	-	-	
Underground Storage Tank Indemnification Fund....	6,014	3,268	2,111	432	202	-	-	
Workers' Compensation Security Trust Fund.....	46,149	29,265	-	3,513	1,752	-	11,619	
<b>State Workers' Insurance Fund.....</b>	<b>67,535</b>	<b>56,701</b>	<b>7,225</b>	<b>1,908</b>	<b>1,646</b>	<b>-</b>	<b>55</b>	
Other Postemployment Benefits Investment Pool..	26,136	-	-	-	-	-	26,136	
Commonwealth Investment Program.....	59,253	24,269	7,192	8,845	18,946	-	-	
<b>Tuition Payment Fund.....</b>	<b>60,912</b>	<b>17,269</b>	<b>1,745</b>	<b>-</b>	<b>19,548</b>	<b>-</b>	<b>22,350</b>	

**Derivative and Other Similar Investments**

**Primary Government**

Treasury, through investment managers, enters into a variety of financial contracts, which include forward currency contracts. The Treasury is not a dealer, but an end user of these instruments. The contracts are used primarily to enhance performance and reduce volatility of the portfolio.

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. To reduce the risk of counterparty non-performance, the investment manager generally enters into these contracts with institutions regarded as meeting high standards of credit worthiness. The contracts reported below include forwards. The table below shows pending foreign currency contracts outstanding at June 30, 2012 which consists of “buy” contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies and “sell” contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies. Although these transactions have settlement dates, there is no expectation of holding these contracts until settlement.

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

Investment Derivatives (amounts in thousands)	Changes in Fair Value		Fair Value at June 30, 2012		
	Classification	Amount	Classification	Amount	Notional
<b>Foreign Currency Forward Contracts</b>					
Governmental Activities.....	Investment income	\$ (303)	Investments	\$ (303)	\$ 53,692
Business-Type Activities.....		(48)		(48)	8,462
Fiduciary Funds.....		(18)		(18)	3,226
Component Units.....		(88)		(88)	15,584
<b>Total.....</b>		<b>\$ (457)</b>		<b>\$ (457)</b>	<b>\$ 80,964</b>

**State Employees’ Retirement System (SERS)**

Within narrowly prescribed guidelines, SERS permits investment advisors to enter into certain derivative and structured financial instruments primarily to enhance the performance and reduce the volatility of its portfolio. Typically, investment advisors enter 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.

SERS is exposed to counterparty credit risk on all open derivative positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract. As of December 31, 2011 SERS’ counterparty credit risk was not deemed significant. SERS mitigates its legal risk on investment holdings including derivatives by carefully reviewing and selecting investment advisors. It manages its exposure to market risk within risk limits set by management.

SERS advisors also indirectly hold foreign exchange contracts, futures contracts, and certain swap contracts through its investments in collective trust funds and absolute return funds-of-hedge funds. These funds invest in instruments 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 portfolio.

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 investment advisor uses these contracts primarily for its international investments to settle pending trades that occur more than two business days after trade date. The contracts are used by the investment advisor for the purpose of eliminating foreign exchange risk. As a matter of policy, the investment advisors enter into these contracts at their full discretion to protect currency fluctuations. To reduce the risk of counterparty nonperformance, the investment advisors 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, 2011, SERS had contracts to purchase and sell, by major foreign currency, as follows (amounts in thousands):

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

<u>Foreign Currency</u>	<u>Purchase Contracts</u>	<u>Unrealized Gain/(Loss)</u>	<u>Sell Contracts</u>	<u>Unrealized Gain/(Loss)</u>
British pound sterling.....	\$ 71,539	\$ (82)	\$ 59,335	\$ 96
Australian dollar.....	41,850	660	81,562	(1,577)
Euro.....	27,074	(209)	60,891	1,823
Brazilian real.....	18,986	(275)	25,585	397
Canadian dollar.....	18,406	(34)	18,393	33
Chinese yuan renminbi.....	16,026	157	5,325	(21)
Malaysian ringgit.....	14,455	(850)	400	-
New Turkish lira.....	13,262	(414)	462	9
South Korean won.....	9,090	(232)	1,179	23
Russian ruble.....	9,050	(833)	1,304	(4)
Singapore dollar.....	6,131	(14)	154	-
Japanese yen.....	5,997	61	62,944	(6)
Chilean peso.....	5,231	(193)	1,713	46
Mexican peso.....	3,189	(86)	2,497	21
Swiss franc.....	2,654	(260)	32,333	2,103
Philippines peso.....	2,492	(27)	1,755	25
South African rand.....	1,528	42	12,312	204
Indonsian rupiah.....	1,402	(88)	4,736	83
Polish zloty.....	955	(56)	1,211	98
Hungarian forint.....	903	(32)	3,318	270
Hong Kong dollar.....	824	-	-	-
Norwegian krone.....	-	-	12,560	61
Other currencies (6).....	279	(1)	11,908	245
<b>Total.....</b>	<b>\$ 271,323</b>	<b>\$ (2,766)</b>	<b>\$ 401,877</b>	<b>\$ 3,929</b>

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 September 15, 2014. The notional value of these contracts at December 31, 2011 is as follows (amounts in thousands):

<u>Futures Contract Type</u>	<u>Purchase Contracts</u>	<u>Sell Contracts</u>
Eurodollar.....	\$ 158,706	\$ -
US Ultrabond.....	5,446	-

The exchange on which futures contracts are traded assumes the counterparty risk and generally requires margin payments to minimize such risk.

Swap agreements provide for periodic payments between parties based on the change in value of underlying assets, indexes, rates, or credit worthiness. During 2011, the SERS used contracts with multiple counterparties as well as collateral posting requirements to manage its counterparty credit risk. Credit default swaps are agreements with counterparties to either purchase or sell credit protection. The SERS uses credit default swaps to either increase or decrease credit exposure to certain credit markets. Interest rate swaps are over-the-counter contracts that allow counterparties to exchange a fixed rate liability for a floating rate liability. The SERS used interest rate swaps as a cost-effective way of gaining exposure to certain sectors of the fixed income market.

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

The table below presents the SERS’ swap exposure at December 31, 2011 (amounts in thousands):

<u>Swap Type</u>	<u>Notional Value</u>	<u>Receivable/(Payable)</u>
Interest rate.....	\$ 87,000	\$ 1,595
Credit default.....	32,500	83

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

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

**Deferred Compensation Program (DCP)**

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

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

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

BTC seeks to mitigate its legal risk related to derivative financial instruments by using them only in the accounts for which they are authorized. BTC manages its exposure to market risk within risk limits set for the accounts by buying or selling instruments or entering into offsetting positions. The following table discloses the futures contracts held and the derivatives held indirectly in the security lending collateral pool, as of December 31, 2011 (amounts in thousands):

	<u>Notional Value</u>
<b>Equity Index Fund</b>	
Futures directly held.....	\$ 4,750
<b>Extended Market Fund</b>	
Futures directly held.....	3,717
<b>EAFE Equity Index Fund</b>	
Futures directly held.....	3,381

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

**Public School Employees’ Retirement System (PSERS)**

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

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

The following table summarizes the aggregate notional or contractual amounts for the PSERS’ derivative financial instruments at June 30, 2012 (amounts in thousands):

<u>Type of Derivative</u>	<u>Notional Value</u>
Futures contracts - long.....	\$ 2,493,546
Futures contracts - short.....	259,429
Foreign exchange forward and spot contracts, gross.....	9,497,409
Options - calls purchased.....	5,103,649
Options - puts purchased.....	5,140,968
Options - calls sold.....	5,751,549
Options - puts sold.....	5,831,011
Swaps - total return type.....	2,338,655

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, 2012 represent a restriction on the amount of assets available as of fiscal year-end to use for other purposes.

Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or at a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option. The PSERS generally uses exchange listed currency, index, stock, and future options.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. The \$9,497 million of foreign currency contracts outstanding at June 30, 2012 consist of “buy” contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of \$4,376 million and “sell” contracts, which represent the U.S. dollar equivalents of commitments to sell foreign

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

currencies of \$5,121 million. The unrealized loss on contracts of \$7.9 million at June 30, 2012 is included in the PSERS' Statement of Plan Net Assets and represents the fair value of the contracts.

Swap agreements provide for periodic payments at predetermined future dates between parties based on the change in value of underlying securities, indexes or interest rates. During the fiscal year ended June 30, 2012, 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 \$23 million at June 30, 2012 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 14, 2012 to July 1, 2013.

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, 2012 is \$1.4 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**

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, PSERS would not be able to recover the value of the deposits. The Commonwealth's Treasury Department is the custodian of PSERS' funds. Commonwealth Treasury Department deposits must be held in insured depositories approved by the Commonwealth's Board of Finance and Revenue and must be fully collateralized.

PSERS, through its third party administrator, maintains certain bank deposits for the operation of its voluntary Health Options Program. These deposits are not required to be collateralized by statute or policy. These deposits totaled \$69.6 million at June 30, 2012 and are under the custody of M&T Bank which has an A-rating by Standard and Poor's (S&P) and an A3 rating by Moody's Investor Services (Moody's).

At June 30, 2012, the Pennsylvania Higher Education Assistance Agency (PHEAA) held \$34.5 million 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 \$64 million 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.

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

The State System of Higher Education (SSHE) held \$2.3 million of uninsured and uncollateralized deposits; and \$16.6 million 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 \$438 thousand of deposits uninsured but collateralized by the financial institution.

The Pennsylvania Infrastructure Investment Authority (PENNVEST) held \$53.1 thousand in deposits that were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the PENNVEST name.

The Insurance Fraud Prevention Authority held deposits of \$690 thousand that were uncollateralized.

Philadelphia Shipyard Development Corporation exceeded the federally insured limit of \$250 thousand. Management regularly monitors the financial condition of the financial institutions, as well as their cash balances, and endeavors to keep credit risk to a minimum.

**Investment Risks**

**Risk Management Policies:** At June 30, 2012, 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 PHEAA investment policy does not include requirements that limit its exposure to custodial credit risk.

**Investments by Type**

At June 30, 2012, the discretely presented component units reported total temporary investments of \$2,530,674 including securities lending collateral of \$10,931 (temporary investment) and long-term investments of \$2,421,947, amounting to \$4,952,621. Total investments disclosed amount to \$4,586,616, in addition SSHE component units reported \$366,005, for total investments reported of \$4,952,621. Nearly 100 percent of this amount represents fixed income investments. The investment types and related amounts are as follows (amounts in thousands):



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

<u>Investment Type</u>	<u>Amount</u>
Asset-backed securities.....	\$ 110,872
Commercial paper.....	254,329
Common stock.....	1,972
Corporate obligations.....	693,491
Derivatives.....	22,569
Domestic Common Equities.....	98
Fixed income mutual funds.....	5,264
GNMA mortgages.....	15,245
Money market mutual funds.....	522,377
Mortgage backed securities.....	430,560
Municipal bonds.....	376,569
Mutual Funds.....	26,915
Repurchase agreement.....	49,100
Securities Lending Collateral.....	10,931
Short-term funds.....	299
TIP.....	1,184,538
Government and agency.....	812,542
U.S. Treasury.....	50,922
<b>Total investments.....</b>	<b><u>\$ 4,568,593</u></b>
Certificates of deposit.....	<u>18,023</u>
<b>Total investments and certificates of deposits.....</b>	<b><u>\$ 4,586,616</u></b>

**Concentration of Credit Risk:** Concentration of credit risk is the risk of loss attributed to the magnitude of the organizations’ investment in a single issuer. Several of the organizations limit concentration to five percent or more of their total investments, with the exception of U.S. Treasury and U.S. Government Agencies. The SSHE has policies that do not limit the concentration in any single issuer for corporate bonds, collateralized mortgage obligations, and asset-backed securities. The following concentrations existed as of June 30, 2012 (May 31, 2012 for the Pennsylvania Turnpike Commission) (amounts in thousands):

<u>Issuer Name</u>	<u>PA Turnpike Commission</u>	<u>PA Housing Finance Agency</u>	<u>PA Industrial Development Authority</u>
Federal National Mortgage Association.....	\$ 118,668	\$ -	\$ -
First American Government.....	-	-	206,110
Tennessee Valley Authority.....	-	57,204	-

**Credit Risk:** At June 30, 2012, \$4,546,700 of total discretely presented component unit investments of \$4,575,685 are fixed income investments, susceptible to credit risk. Of the amount of fixed income securities susceptible to credit risk, \$2,727,212 are rated and \$1,819,488 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, 2012 (May 31, 2012 for Pennsylvania Turnpike Commission) (amounts in thousands):

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

<b>Moody's</b>	<b>Amount</b>	<b>Unrated</b>	<b>Amount</b>
Aaa.....	\$ 1,077,650	Corporate obligations.....	\$ 15
Aa.....	99,336	Municipal bonds.....	43
A.....	53,781	Commonwealth Investment Program.....	1,184,538
B.....	-	Money market mutual funds.....	206,130
Ba.....	3,588	U.S. Treasury obligations.....	50,922
Baa.....	53,820	U.S. Government agency obligations.....	267,639
P1.....	228,919	Repurchase agreements.....	49,100
<b>Moody's Investors Service subtotal.....</b>	<b><u>1,517,094</u></b>	Certificates of deposit.....	18,023
		Derivatives.....	22,569
		GNMA obligations.....	15,245
		Fixed income mutual funds.....	<u>5,264</u>
		<b>Unrated subtotal.....</b>	<b><u>1,819,488</u></b>
		<b>Total fixed income investments.....</b>	<b><u>4,546,700</u></b>
		Equity/balanced mutual funds.....	26,915
		Common stock.....	1,972
		Domestic common equities.....	<u>98</u>
		<b>Total investments.....</b>	<b><u>\$ 4,575,685</u></b>

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

**Interest Rate Risk:** Interest rate risk is managed using different techniques: weighted average maturity, maximum maturity dates, effective duration, modified duration or operational cash needs. The following table discloses option-adjusted duration (in years) by investment type for the fixed income portfolio of the discretely presented component units, excluding the PHEAA, the PHFA, the PENNVEST and the Pennsylvania Industrial Development Authority (PIDA) at June 30, 2012 (May 31, 2012 for the Pennsylvania Turnpike Commission) (amounts in thousands):

<b>Investment Type</b>	<b>Amount</b>	<b>Option-Adjusted Duration</b>	<b>Securities with no Duration</b>
Asset backed securities.....	\$ 110,872	0.5	\$ -
Certificates of deposit.....	18,000	0.0	23
Commercial paper.....	187,893	0.1	-
Corporate obligations.....	689,888	1.5	-
Derivatives.....	22,569	0.0	-
Mortgage-backed securities.....	226,760	3.5	-
Mutual funds.....	26,225	3.4	-
State and municipal obligations.....	376,526	1.4	-
U.S. Government agency obligations.....	754,663	3.0	-
U.S. Treasury obligations.....	28,426	2.7	-
<b>Total.....</b>	<b><u>\$ 2,441,822</u></b>		<b><u>\$ 23</u></b>

The PHEAA, the PHFA, the PENNVEST and the Pennsylvania Industrial Development Authority do not use option-adjusted duration as a means of managing interest rate risk; the following provides segmented time distribution for those organizations at June 30, 2012 (amounts in thousands):

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

<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.....	\$ 66,436	\$ -	\$ -	\$ 66,436
Corporate obligations.....	-	3,588	-	3,588
Money market mutual funds.....	522,357	-	-	522,357
Mortgage-backed securities.....	-	10,021	209,024	219,045
Repurchase agreements.....	8,228	-	-	8,228
Ultra short-term bond fund.....	-	299	-	299
U.S. Government agency obligations.....	154	506	57,219	57,879
U.S. Treasury obligations.....	11,009	11,487	-	22,496
<b>Total.....</b>	<b>\$ 608,184</b>	<b>\$ 25,901</b>	<b>\$ 266,243</b>	<b>\$ 900,328</b>

At June 30, 2012, discretely presented component units reported investments including CIP holdings amounting to \$1,184,538 and, for the PA Treasury securities lending program, collateral held of \$10,931 (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 foreign currency exchange rates. The SSHE disclosed that \$44 of its local investments was exposed to foreign currency risk, British pound sterling, at June 30, 2012 (amounts in thousands):

<u>Foreign Currency</u>	<u>Amount</u>
British pound sterling.....	\$ 44
<b>Total.....</b>	<b>\$ 44</b>

**Derivatives**

As of June 30, 2012, the PHFA, in its separately-issued financial statements, reported a noncurrent hedging derivative instrument liability of \$119 million. Changes in the fair value of the hedging derivatives of \$17 million were deferred. To obtain further information regarding the nature and notional value of the financial instruments refer to their separately audited and issued financial statements.

As of May 31, 2012, the Pennsylvania Turnpike Commission (PTC), in its separately-issued financial statements, reported noncurrent hedging derivative instrument liabilities of \$198,518 which were offset by reported deferred outflow of resources of \$198,518. Also, the PTC reported noncurrent hedging derivative instrument liabilities of \$(33,229) which were offset by reported deferred inflow of resources of \$33,229. Changes in the fair value of the hedging derivative instruments during the fiscal year ended May 31, 2012 (-\$113,371) were deferred (amounts in thousands).

Further information regarding the nature and notional value of the hedging and investment derivative instruments of the PHFA (as of June 30, 2012) and the PTC (as of May 31, 2012) is available within their separately audited and issued financial statements.

NOTE E – CAPITAL ASSETS

A summary of capital assets by category at June 30, 2012 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.....	\$ 568,767	\$ -	\$ 568,767	\$ 323	\$ 431,448
Highway right-of-way.....	2,043,856	-	2,043,856	-	-
Buildings and building improvements. Improvements other than buildings.....	6,920,911	7,533	6,928,444	48,186	4,806,612
Machinery and equipment.....	696,316	2,144	698,460	-	376,598
Library books and other.....	1,036,472	91,813	1,128,285	149,731	1,263,219
Turnpike infrastructure.....	-	-	-	-	84,485
Bridge infrastructure.....	-	-	-	-	6,704,803
Highway infrastructure.....	11,180,587	-	11,180,587	-	-
Waterway infrastructure.....	24,096,370	-	24,096,370	-	-
Other infrastructure.....	25,926	-	25,926	-	-
General construction in progress.....	185,531	-	185,531	-	-
Highway and bridge construction in progress.....	822,935	-	822,935	-	197,067
Software.....	2,604,647	-	2,604,647	-	864,474
Other intangibles.....	148,760	-	148,760	14,034	27,199
Total.....	200	-	200	-	16,663
	<u>\$ 50,331,278</u>	<u>\$ 101,490</u>	<u>\$ 50,432,768</u>	<u>\$ 212,274</u>	<u>\$ 14,772,568</u>

Changes in general capital assets for the fiscal year ended June 30, 2012 are as follows (amounts in thousands):

	Balance			Balance
	June 30, 2011	Increases	Decreases	June 30, 2012
Non-Depreciable General Capital Assets:				
Land.....	\$ 543,447	\$ 25,526	\$ 206	\$ 568,767
Highway right-of-way.....	1,970,183	73,673	-	2,043,856
General construction in progress.....	783,857	529,115	490,037	822,935
Transportation construction in progress.....	2,753,284	2,189,510	2,338,147	2,604,647
Subtotal.....	6,050,771	2,817,824	2,828,390	6,040,205
Depreciable and Amortizable General Capital Assets:				
Buildings and building improvements.....	6,517,338	428,436	24,863	6,920,911
Improvements other than buildings.....	656,324	40,826	834	696,316
Machinery and equipment.....	933,088	141,108	37,724	1,036,472
Bridge infrastructure.....	10,137,372	1,043,215	-	11,180,587
Highway infrastructure.....	22,801,439	1,294,931	-	24,096,370
Waterway infrastructure.....	23,158	2,768	-	25,926
Other infrastructure.....	179,184	6,347	-	185,531
Software.....	112,909	35,851	-	148,760
Other intangibles.....	200	-	-	200
Subtotal.....	41,361,012	2,993,482	63,421	44,291,073
Total general capital assets.....	<u>\$ 47,411,783</u>	<u>\$ 5,811,306</u>	<u>\$ 2,891,811</u>	<u>\$ 50,331,278</u>

**NOTE E – CAPITAL ASSETS (continued)**

Changes in general capital assets accumulated depreciation and amortization for the fiscal year ended June 30, 2012 are as follows (amounts in thousands):

	<b>Balance</b>			<b>Balance</b>
	<b>June 30, 2011</b>	<b>Increases</b>	<b>Decreases</b>	<b>June 30, 2012</b>
Buildings and building improvements.....	\$ 2,550,771	\$ 148,524	\$ 21,909	\$ 2,677,386
Improvements other than buildings.....	282,564	20,199	522	302,241
Machinery and equipment.....	503,546	68,771	26,129	546,188
Bridge infrastructure.....	2,386,191	237,713	-	2,623,904
Highway infrastructure.....	11,379,240	882,094	-	12,261,334
Waterway infrastructure.....	1,845	481	-	2,326
Other infrastructure.....	17,340	9,298	-	26,638
Software.....	34,738	11,743	-	46,481
Other intangibles.....	83	20	-	103
Total accumulated depreciation and amortization.....	<u>\$ 17,156,318</u>	<u>\$ 1,378,843</u>	<u>\$ 48,560</u>	<u>\$ 18,486,601</u>

Depreciation and amortization expense, by function, related to governmental activities capital assets for the fiscal year ended June 30, 2012 is as follows (amounts in thousands):

	<b>General Capital</b>	<b>Internal</b>
	<b>Assets</b>	<b>Service</b>
Direction and supportive services.....	\$ 42,851	\$ 4,155
Protection of persons and property.....	98,949	5,485
Public education.....	27,936	-
Health and human services.....	12,596	-
Economic development.....	214	-
Transportation.....	1,178,138	-
Recreation and cultural enrichment.....	18,159	-
Total depreciation and amortization expense.....	<u>\$ 1,378,843</u>	<u>\$ 9,640</u>

Changes in Internal Service funds capital assets for the fiscal year ended June 30, 2012 are as follows (amounts in thousands):

	<b>Balance</b>			<b>Balance</b>
	<b>June 30, 2011</b>	<b>Increases</b>	<b>Decreases</b>	<b>June 30, 2012</b>
Buildings and building improvements.....	\$ 7,462	\$ 376	\$ 305	\$ 7,533
Improvements other than buildings.....	1,011	1,133	-	2,144
Machinery and equipment.....	93,335	10,579	12,101	91,813
Total Internal Service fund capital assets.....	<u>\$ 101,808</u>	<u>\$ 12,088</u>	<u>\$ 12,406</u>	<u>\$ 101,490</u>

Changes in Internal Service fund capital assets accumulated depreciation for the fiscal year ended June 30, 2012 are as follows (amounts in thousands):

	<b>Balance</b>			<b>Balance</b>
	<b>June 30, 2011</b>	<b>Increases</b>	<b>Decreases</b>	<b>June 30, 2012</b>
Buildings and building improvements.....	\$ 1,934	\$ 492	\$ 305	\$ 2,121
Improvements other than buildings.....	137	164	-	301
Machinery and equipment.....	73,482	8,984	10,383	72,083
Total accumulated depreciation.....	<u>\$ 75,553</u>	<u>\$ 9,640</u>	<u>\$ 10,688</u>	<u>\$ 74,505</u>

**NOTE E – CAPITAL ASSETS (continued)**

Changes in Enterprise fund capital assets for the fiscal year ended June 30, 2012 are as follows (amounts in thousands):

	<u>Balance</u> <u>June 30, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2012</u>
Non-Depreciable Capital Assets:				
Land.....	\$ 323	\$ -	\$ -	\$ 323
General construction in progress.....	2,886	-	2,886	-
Subtotal.....	<u>3,209</u>	<u>-</u>	<u>2,886</u>	<u>323</u>
Depreciable and Amortizable Capital Assets:				
Buildings and building improvements.....	48,096	90	-	48,186
Machinery and equipment.....	141,233	8,724	226	149,731
Software.....	12,688	8,699	7,353	14,034
Subtotal.....	<u>202,017</u>	<u>17,513</u>	<u>7,579</u>	<u>211,951</u>
Total Enterprise fund capital assets.....	<u>\$ 205,226</u>	<u>\$ 17,513</u>	<u>\$ 10,465</u>	<u>\$ 212,274</u>

Changes in Enterprise fund capital assets accumulated depreciation and amortization for the fiscal year ended June 30, 2012 are as follows (amounts in thousands):

	<u>Balance</u> <u>June 30, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2012</u>
Buildings and building improvements.....	\$ 28,122	\$ 2,600	\$ -	\$ 30,722
Machinery and equipment.....	82,500	15,732	214	98,018
Software.....	10,539	534	4,798	6,275
Total accumulated depreciation and amortization.....	<u>\$ 121,161</u>	<u>\$ 18,866</u>	<u>\$ 5,012</u>	<u>\$ 135,015</u>

Construction in progress included in general capital assets at June 30, 2012 includes project information as follows (amounts in thousands):

	<u>Project</u> <u>Authorization</u>	<u>Amounts Expended</u> <u>at June 30, 2012</u>	<u>Authorization</u> <u>Available</u>
General Construction in Progress:			
Capitol Complex.....	\$ 396,991	\$ 103,676	\$ 293,315
Department of Corrections Institutions.....	625,337	238,787	386,550
Educational Institutions.....	763,809	130,481	633,328
Environmental Protection.....	12,768	339	12,429
State Parks and Forests.....	199,164	51,954	147,210
Veterans Homes and Military Armories.....	67,833	9,870	57,963
Department of Public Welfare Institutions.....	21,893	18,825	3,068
Transportation Facilities.....	67,699	23,868	43,831
Historical and Museum Commission Facilities.....	46,027	21,923	24,104
State Police Facilities.....	18,188	2,064	16,124
Agriculture Facilities.....	19,108	7,881	11,227
Department of Labor and Industry Software.....	213,450	170,464	42,986
Other.....	<u>118,653</u>	<u>42,803</u>	<u>75,850</u>
Total general construction in progress.....	2,570,920	822,935	1,747,985
Highway and Bridge Construction in Progress.....	<u>4,226,744</u>	<u>2,604,647</u>	<u>1,622,097</u>
Total construction in progress.....	<u>\$ 6,797,664</u>	<u>\$ 3,427,582</u>	<u>\$ 3,370,082</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, 2012 the remaining amount of general capital assets related to the initial June 30, 1986 valuation amounted to \$1,378 million. The initial June 30, 1986 valuation did not include highway, bridge or waterway infrastructure. Such infrastructure was first reported in the June 30, 2002 basic financial statements, retroactive to July 1, 1980.

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

**Tuition Benefits Payable**

The reported liability for tuition benefits payable of \$1,440,098 of the **Tuition Payment Fund**, an Enterprise Fund, at June 30, 2012 is based on several actuarial assumptions, including those related to future sales of tuition credits, tuition cost increases, administrative charges, investment experience and program expenses for the Pennsylvania 529 Guaranteed Savings Plan (GSP). The June 30, 2012 actuarial analysis includes three changes in assumptions to reflect updated expense projections, a change in investment returns and tuition inflation changes for private and Ivy League schools. The change in expense assumptions reflects an increase in authorized expenses. The assumed rate of return on long-term investments decreased from 8.00% to 7.68%. Assumptions for long-term tuition inflation for private and Ivy League schools were lowered from 5.75% per year to 5.50%. The current portion of the total liability is \$201,058 and the noncurrent portion is \$1,239,040 (amounts in thousands).

Changes in tuition benefits payable are as follows (amounts in thousands):

Balance at July 1, 2011	Additions	Reductions	Balance at June 30, 2012	Current Due within One Year	Non Current Due after One Year
\$1,400,922	\$ 211,131	\$ 171,955	\$ 1,440,098	\$ 201,058	\$1,239,040

**Insurance Loss Liability**

The reported insurance loss liability of the **State Workers' Insurance Fund (SWIF)**, an Enterprise Fund, is primarily based on historical claims experience. One of the assumptions used to determine the reported liability amount includes using a discount rate of 2.75 and 3.25 percent at December 31, 2011 and December 31, 2010, respectively. 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, 2011 and 2010, 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	
2011	\$1,509,814	\$185,750	\$53,695	\$37,358	\$221,802	\$1,490,099
2010	1,554,136	226,197	31,327	43,747	258,099	1,509,814

The current portion of the total **SWIF** insurance loss liability is \$224,849 and the noncurrent portion is \$1,265,250. Additionally, nonmajor Enterprise funds reported a noncurrent insurance loss liability of \$303 at June 30, 2012. Total reported current insurance loss liability amounts to \$224,849 and total noncurrent insurance loss liability amounts to \$1,265,553 at June 30, 2012 (amounts in thousands).

**Compensated Absences Liability**

The reported compensated absences liability for the Enterprise Funds totaled \$35,493 at June 30, 2012. Of that amount, the liability is primarily owed by the State Stores Fund (\$27,701), the **State Worker's Insurance Fund** (\$2,757), and the **State Lottery Fund** (\$2,872). The following summary provides aggregated information reported for June 30, 2012 compensated absences liabilities; additions and reductions during the fiscal year ended June 30, 2012 and reported compensated absences liabilities at June 30, 2011 (amounts in thousands):

Liability at June 30, 2011	Additions	Reductions	Liability at June 30, 2012
\$ 35,132	\$ 26,305	\$ 25,944	\$ 35,493

The current portion of the total compensated absences liability for Enterprise Funds is \$6,723, the noncurrent portion is \$28,770 (amounts in thousands).

**NOTE G - TAXES, LOANS, AND LEASE RENTALS RECEIVABLE AND GOVERNMENTAL FUNDS UNEARNED REVENUE**

**Taxes Receivable:** Taxes receivable, by tax type, reported on the Statement of Net Assets at June 30, 2012 consisted of the following (amounts in thousands):

<b>Statement of Net Assets</b>			
<b>Governmental Activities</b>			
	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
Sales and use.....	\$ 656,383	\$ 178,783	\$ 835,166
Personal income	426,222	363,266	789,488
Corporation.....	301,509	544,330	845,839
Liquid fuels.....	176,038	-	176,038
Inheritance.....	318,190	108,605	426,795
Cigarette.....	57,951	-	57,951
Other.....	18,800	-	18,800
Total.....	<u>\$ 1,955,093</u>	<u>\$ 1,194,984</u>	<u>\$ 3,150,077</u>

Taxes receivable reported on the Balance Sheet for Governmental Funds at June 30, 2012 consisted of the following (amounts in thousands):

<b>Fund Balance Sheets</b>							
<b>General Fund</b>					<b>Motor License Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Fiduciary Funds</b>
Expected to be Collected:							
From					Collected by	Collected by	Collected by
September 1, 2012							
	By	through	After	Total	August 31, 2012	August 31, 2012	August 31, 2012
	<u>August 31, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2013</u>	<u>Total</u>	<u>August 31, 2012</u>	<u>August 31, 2012</u>	<u>August 31, 2012</u>
Sales and use....	\$ 569,128	\$ 87,255	\$ 178,783	\$ 835,166	-	-	\$ 29,228
Personal income	309,812	116,410	363,266	789,488	-	-	-
Corporation.....	126,415	175,094	544,330	845,839	-	-	-
Liquid fuels.....	-	-	-	-	176,038	-	-
Inheritance.....	134,913	183,277	108,605	426,795	-	-	-
Cigarette.....	57,951	-	-	57,951	-	-	-
Other.....	-	-	-	-	-	18,800	1,527
Total.....	<u>\$ 1,198,219</u>	<u>\$ 562,036</u>	<u>\$ 1,194,984</u>	<u>\$2,955,239</u>	<u>\$ 176,038</u>	<u>\$ 18,800</u>	<u>\$ 30,755</u>

On the governmental funds balance sheet, the **General Fund** taxes receivable of \$1,757,020 expected to be collected after August 31, 2012 is reported as an unearned revenue liability. The total amount of taxes receivable reported on the governmental funds balance sheet, \$1,955,093 (\$1,760,255 reported in the **General Fund**, \$176,038 reported in the **Motor License Fund**, and \$18,800 reported in nonmajor governmental funds), expected to be collected from July 1, 2012 through June 30, 2013 is also reported as current taxes receivable in governmental activities on the Statement of Net Assets. The remaining **General Fund** taxes receivable of \$1,194,984 reported on the governmental funds balance sheet expected to be collected after June 30, 2013 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 AND GOVERNMENTAL FUNDS UNEARNED REVENUE (continued)**

**Loans Receivable:** Loans receivable at June 30, 2012 consisted of the following (amounts in thousands):

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business Type Activities		
	General Fund	Capital Projects Funds	Enterprise Funds	
Mortgage loans.....	\$ -	\$ -	\$ -	\$ 4,703,474
Student loans.....	-	-	-	7,596,444
Economic development loans.....	21,932	-	199,003	739,349
Drinking water, storm water and sewer system loans.....	-	62,453	-	2,395,390
Volunteer fire company loans.....	-	-	89,619	-
Environmental program loans.....	7,699	-	-	-
Other notes and loans.....	110	-	-	8,049
	<u>29,741</u>	<u>62,453</u>	<u>288,622</u>	<u>15,442,706</u>
Less: allowance for uncollectible amounts.....	11,277	9,783	32,434	324,493
Loans receivable, net.....	<u>\$ 18,464</u>	<u>\$ 52,670</u>	<u>\$ 256,188</u>	<u>\$ 15,118,213</u>

The **General Fund** reported \$15,928 in loans due after June 30, 2013, Capital Projects funds reported \$49,734 in loans due after June 30, 2013 and the Enterprise funds reported \$207,930 in loans due after June 30, 2013. Discretely presented component units reported \$13,794,230 in loans receivable due after June 30, 2013 (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, 2012 the total remaining minimum lease payments to be received were \$493, consisting of principal present value of \$427 and interest of \$66 (amounts in thousands).

The Philadelphia Regional Port Authority, a discretely presented component unit, reported a lease rental receivable of \$694 at June 30, 2012 (amounts in thousands).

Minimum lease payments receivable from prior years and for the fiscal year succeeding June 30, 2012 are as follows (amounts in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units
Prior years .....	\$ 493	\$ -
2013.....	-	694

All amounts receivable are due by June 30, 2013.

**Governmental Funds Unearned Revenue:** The **General Fund**, Special Revenue Funds, and Debt Service Funds reported unearned revenue at June 30, 2012. The following chart provides the portion of total unearned revenue which was 1) unavailable or 2) not yet earned as of June 30, 2012 (amounts in thousands):

**NOTE G - TAXES, LOANS, AND LEASE RENTALS RECEIVABLE AND GOVERNMENTAL FUNDS UNEARNED REVENUE (continued)**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
Unavailable.....	\$ 2,072,144	\$ 168,096	\$ -
Unearned.....	<u>57,006</u>	<u>88,796</u>	<u>3,649</u>
Total unearned revenue.....	<u>\$ 2,129,150</u>	<u>\$ 256,892</u>	<u>\$ 3,649</u>

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS

Statement of Net Assets

Internal Balances

In the Statement of Net Assets, reported internal balances of (\$121,715)/\$122,899 for governmental activities/business-type activities differ by \$1,184 because the **State Workers' Insurance Fund**, an Enterprise Fund, reports for its fiscal year ended December 31, 2011 (amounts in thousands).

Fund Financial Statements

Interfund Balances

The composition of governmental and proprietary funds interfund balances reported at June 30, 2012 is as follows, with Major Fund titles in bold. Aggregate nonmajor governmental funds receivables from other funds and from component units, respectively, amount to \$70,177 and \$9,299; aggregate nonmajor enterprise funds receivables amount to \$4,145 and \$14; aggregate internal service funds receivables amount to \$18,435 and \$312 (amounts in thousands):

FUND TYPE/FUND <u>PRIMARY GOVERNMENT</u>	DUE FROM		DUE TO	
	OTHER FUNDS	COMPONENT UNITS	OTHER FUNDS	COMPONENT UNITS
<b>General Fund</b> .....	\$ 48,737	\$ 127,345	\$ 117,095	\$ 749
<u>Special Revenue:</u>				
<b>Motor License Fund</b> .....	35,259	946	43,452	7,758
Public Transportation Trust Fund.....	36,882	-	8	-
Gaming Fund.....	2	8,449	1,081	15,000
Vocational Rehabilitation Fund.....	-	-	4,169	-
Emergency Medical Services Operating Fund.....	2,537	-	-	-
Agricultural Conservation Easement Purchase Fund.....	10,243	-	-	-
Game Fund.....	273	-	2,052	-
Other Funds.....	3,546	-	2,632	19
	<u>88,742</u>	<u>9,395</u>	<u>53,394</u>	<u>22,777</u>
<u>Capital Projects:</u>				
Capital Facilities Fund.....	3,820	850	16,490	3,689
Keystone Recreation, Park and Conservation Fund.....	5,123	-	18	-
Growing Greener Bond Fund.....	-	-	157	-
Public Transportation Assistance Fund.....	7,751	-	875	-
	<u>16,694</u>	<u>850</u>	<u>17,540</u>	<u>3,689</u>
<u>Enterprise:</u>				
<b>Unemployment Compensation Fund</b> .....	4,209	557	10,222	-
<b>State Lottery Fund</b> .....	27	-	284	-
<b>Tuition Payment</b> .....	-	-	2	-
State Stores Fund.....	31	-	7,539	-
Rehabilitation Center Fund.....	3,902	14	91	-
Other Funds.....	212	-	308	4
	<u>8,381</u>	<u>571</u>	<u>18,446</u>	<u>4</u>
<u>Internal Service:</u>				
Purchasing Fund.....	14,636	309	2,706	1
Manufacturing Fund.....	3,799	3	175	-
	<u>18,435</u>	<u>312</u>	<u>2,881</u>	<u>1</u>
<u>Fiduciary - Pension Trust:</u>				
State Employees' Retirement System.....	5,647	3,153	-	-
Deferred Compensation Fund.....	-	-	92	-
Public School Employees' Retirement System.....	2,572	-	1,343	-
	<u>8,219</u>	<u>3,153</u>	<u>1,435</u>	<u>-</u>
Total primary government.....	\$ 189,208	\$ 141,626	\$ 210,791	\$ 27,220

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

DISCRETELY PRESENTED COMPONENT UNITS	DUE FROM		DUE TO	
	PRIMARY	COMPONENT	PRIMARY	COMPONENT
	GOVERNMENT	UNITS	GOVERNMENT	UNITS
Pennsylvania Turnpike Commission.....	\$ 7,346	\$ -	\$ -	\$ -
Pennsylvania Housing Finance Agency.....	-	42	32	49
Pennsylvania Higher Education Assistance Agency.....	-	-	118	-
Pennsylvania Infrastructure Investment Authority.....	15,002	49	126,568	42
State System of Higher Education.....	701	-	1,694	-
Philadelphia Regional Port Authority.....	4,226	-	33	-
Commonwealth Financing Authority.....	-	-	556	-
Pennsylvania Convention Center Authority.....	122,000	-	8,449	-
Other component units.....	1	-	23	-
Total component units.....	<u>\$ 149,276</u>	<u>\$ 91</u>	<u>\$ 137,473</u>	<u>\$ 91</u>

The amount of total reported interfund receivables of \$480,201 does not agree with total reported interfund payables of \$375,575 at June 30, 2012 due to different fiscal year ends and reporting differences for certain Funds included in the Fund Financial Statements at June 30, 2012. The amount reported for the Pennsylvania Turnpike Commission, a discretely presented component unit, is reported at its fiscal year ended May 31, 2012; the amounts reported as interfund balances for the State Employees' Retirement System and Deferred Compensation Fund, Pension Trust Funds, and the **State Workers' Insurance Fund**, an Enterprise Fund, are reported at their fiscal years ended December 31, 2011. The following presents a reconciliation of interfund balances reported at June 30, 2012 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.....	\$ 153,128	\$ 23,034	\$ 6,896	\$ -	\$ 183,058
Due from pension trust funds.....	1,045	3,782	1,323	-	6,150
Due from component units.....	137,590	883	3,153	91	141,717
Due from primary government.....	-	-	-	149,276	149,276
Total.....	<u>\$ 291,763</u>	<u>\$ 27,699</u>	<u>\$ 11,372</u>	<u>\$ 149,367</u>	<u>\$ 480,201</u>
<b>Reported Interfund Receivables.....</b>					\$ 480,201
State Employees' Retirement System decrease in receivables from January 1, 2012 through June 30, 2012.....					(6,618)
Pennsylvania Turnpike Commission decrease in receivables from June 1, 2012 through June 30, 2012.....					(56)
<b>State Workers' Insurance Fund increase in receivables from January 1, 2012 through June 30, 2012.....</b>					720
Interfund receivables reported as taxes receivable and accounts receivable by fiduciary funds.....					15,808
Payroll accrual at June 30, 2012 - receivables attributable to State Employees' Retirement System.....					12,657
<b>Payroll accrual at June 30, 2012 - receivables attributable to State Workers' Insurance Fund.....</b>					631
<b>Reconciled Interfund Receivables.....</b>					<u>\$ 503,343</u>

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

	Governmental Funds	Proprietary Funds	Fiduciary Funds	Component Units	Total
Due to other funds.....	\$ 157,146	\$ 20,229	\$ 457	\$ -	\$ 177,832
Due to pension trust funds.....	30,883	1,098	978	-	32,959
Due to component units.....	27,215	5	-	91	27,311
Due to primary government.....	-	-	-	137,473	137,473
Total.....	<u>\$ 215,244</u>	<u>\$ 21,332</u>	<u>\$ 1,435</u>	<u>\$ 137,564</u>	<u>\$ 375,575</u>
<b>Reported Interfund Payables.....</b>					<b>\$ 375,575</b>
State Employees' Retirement System increase in payables from January 1, 2012 through June 30, 2012.....					548
Deferred Compensation Fund decrease in payables from January 1, 2012 through June 30, 2012.....					(88)
Pennsylvania Turnpike Commission increase in payables from June 1, 2012 through June 30, 2012.....					1,077
<b>State Workers' Insurance Fund increase in payables from January 1, 2012 through June 30, 2012.....</b>					<b>129</b>
Interfund payables reported as accounts payable by fiduciary funds.....					4,102
Capital Facilities Fund payable to Pennsylvania Convention Center Authority (full accrual).....					122,000
<b>Reconciled Interfund Payables.....</b>					<b><u>\$ 503,343</u></b>

Advances – Fund Financial Statements

At June 30, 2012 the **General Fund** reported Advances to Other Funds of \$114,475. Specifically, this amount has been advanced as follows: \$2,300 to the **State Workers' Insurance Fund** and \$110,000 to the State Stores Fund, Enterprise Funds; and, \$2,175 to the **Motor License Fund**, a Special Revenue Fund. These amounts have been reported by the respective owing Funds as Advances from Other Funds, except for the **State Workers' Insurance Fund**, which reported an advance of \$2,270 at its fiscal year ended December 31, 2011. At June 30, 2012 the Workers' Compensation Security Fund and the Hazardous Sites Cleanup Fund, Special Revenue Funds, reported Advances to Other Funds of \$1,500 and \$3,000, respectively; these amounts were advanced to the **General Fund** and the Small Business First Fund, an Enterprise Fund. Additionally, the Pennsylvania Infrastructure Bank Fund, an Enterprise Fund, reported an advance of \$1,400; the amount was advanced to the **Motor License Fund**, a Special Revenue Fund. All amounts advanced, with exception to a \$630 repayment from the **Motor License Fund** to the Pennsylvania Infrastructure Bank Fund, are expected to be repaid subsequent to June 30, 2013. The Underground Storage Tank Indemnification Fund, an Agency Fund, reported a \$67,500 statutory advance to the **General Fund** at June 30, 2012; no repayment is expected to occur during the fiscal year ending June 30, 2013 (amounts in thousands).

Transfers

A summary of transfers reported for the fiscal year ended June 30, 2012 is as follows, with Major Fund titles in bold. Aggregate nonmajor governmental fund transfers from other funds amounted to \$1,352,411 during the fiscal year ended June 30, 2012; aggregate nonmajor governmental fund transfers to other funds amounted to \$415,652. Aggregate nonmajor proprietary fund transfers from other funds amounted to \$42, while aggregate nonmajor proprietary fund transfers to other funds amounted to \$82,070 (amounts in thousands).

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

<u>PRIMARY GOVERNMENT</u>	TRANSFERS IN	TRANSFERS OUT
General Fund.....	\$ 424,622	\$ 1,096,921
<u>Special Revenue:</u>		
Motor License Fund.....	-	67,991
Workers' Compensation Administration Fund.....	-	5,980
Tobacco Settlement Fund.....	-	24,790
Public Transportation Trust Fund.....	106,656	-
Gaming Fund.....	-	288,103
Environmental Stewardship Fund.....	-	43,098
Vocational Rehabilitation Fund.....	40,473	-
Agricultural Conservation Easement Purchase Fund.....	5,110	-
State Farm Products Show Fund.....	2,450	-
Self-Insurance Guaranty Fund.....	1,980	-
Recycling Fund.....	1,000	1,250
Oil and Gas Lease Fund.....	-	30,263
Hazardous Sites Cleanup Fund.....	-	5,000
Uninsured Employers Guaranty Fund.....	4,000	-
Other Funds.....	1,596	122
	<u>163,265</u>	<u>466,597</u>
<u>Debt Service:</u>		
Pennsylvania Infrastructure Investment Authority Redemption Fund.....	4,807	-
Capital Debt Fund.....	1,112,885	-
Pennsylvania Economic Revitalization Sinking Fund.....	505	-
Water Facilities Loan Redemption Fund.....	1,849	-
Volunteer Company Loan Sinking Fund.....	82	-
Agricultural Conservation Easement Purchase Sinking Fund.....	670	-
Growing Greener Bond Sinking Fund.....	37,988	-
Water Supply and Wastewater Treatment Sinking Fund.....	14,868	-
Persian Gulf Veterans' Compensation Bond Sinking Fund.....	499	-
Water and Sewer Assistance Bond Sinking Fund.....	14,993	-
	<u>1,189,146</u>	<u>-</u>
<u>Capital Projects:</u>		
Public Transportation Assistance Fund.....	-	17,046
	<u>-</u>	<u>17,046</u>
<u>Enterprise:</u>		
Unemployment Compensation Fund.....	-	2,900
State Lottery Fund.....	164,100	289,610
State Stores Fund.....	-	82,070
Pennsylvania Infrastructure Bank Fund.....	42	-
	<u>164,142</u>	<u>374,580</u>
Total transfers, fund financial statements.....	1,941,175	1,955,144
Less: net elimination of governmental fund transfers.....	1,730,737	1,730,737
Less: General Fund transfer to Underground Storage Tank Indemnification Fund.....	-	13,969
Total transfers, Statement of Activities.....	<u>\$ 210,438</u>	<u>\$ 210,438</u>

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

**Assigned Investment Income:** During the fiscal year ended June 30, 2012, 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 .....	<b>General Fund</b> .....	Legal/contractual .....	\$ 5
Liquid Fuels Tax Fund .....	<b>Motor License Fund</b> .....	Legal/contractual .....	28
Land and Water Development Fund .....	Land and Water Development Sinking Fund .....	Legal/contractual .....	1
Remining Financial Assurance Fund .....	Land and Water Development Sinking Fund .....	Other than legal/contractual.....	8
Fire Insurance Tax Fund .....	State Insurance Fund .....	Legal/contractual .....	110
Fire Insurance Tax Fund .....	Municipal Pension Aid Fund .....	Legal/contractual .....	24

**Primary Government Transactions with Discretely Presented Component Units**

**Financial Support Provided to:**

**Major Discretely Presented Component Units**

During the fiscal year ended June 30, 2012 (May 31, 2012 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) .....	\$ 540,049
PA Higher Education Assistance Agency (grants).....	436,305
PA Infrastructure Investment Authority (capital contributions and other state receipts).....	178,489
PA Turnpike Commission (capital contributions).....	89,897
PA Housing Finance Agency (program income and fees).....	2,000

**Nonmajor Discretely Presented Component Units**

During the fiscal year ended June 30, 2012, the Commonwealth provided financial support in the amount \$145,170 to the Commonwealth Financing Authority; the support included \$82,019 in **General Fund** appropriations and \$63,151 from the Gaming Fund for payment of debt service and approved project funding. Additionally, the Commonwealth provided financial support to the Philadelphia Regional Port Authority during the fiscal year ended June 30, 2012; 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, 2012, the Philadelphia Regional Port Authority’s reported revenues and transfers include about \$82,000 of financial support from the Commonwealth (amounts in thousands).

Additionally, during the fiscal year ended June 30, 2012, the Commonwealth provided financial support to nonmajor component units by appropriations, as follows (amounts in thousands):

Ben Franklin Technology Development Authority.....	\$ 14,500
Thaddeus Stevens College of Technology .....	10,332
Port of Pittsburgh Commission.....	50

**Financial Support Provided to the Commonwealth**

During its fiscal year ended May 31, 2012, the PA Turnpike Commission incurred additional debt in order to provide \$200,000 to the **Motor License Fund** and \$250,000 to the Public Transportation Trust Fund under the statutory provisions of Act 44 of 2007 and the related Lease and Funding Agreement between the PA Turnpike Commission and the Commonwealth. Additionally, during the fiscal year ended June 30, 2012, the Commonwealth Financing Authority provided \$1,000 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 classified as Fiduciary Funds. The SERS and the PSERS issue stand-alone, audited financial statements which are available at [www.sers.state.pa.us](http://www.sers.state.pa.us) and [www.psers.state.pa.us](http://www.psers.state.pa.us), respectively. 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, 2011 there were 107 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. Prior to Act 2010-120 (Act 120), employees who retire at age 60 with 3 years of service, or with 35 years of service if under age 60, are entitled to a normal 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 3 years of service. Act 120 preserved all benefits in place for members but mandated a number of benefit reductions for new members effective January 1, 2011. The benefit reduction included a new class of membership that accrues benefits at 2 percent of their final average salary instead of the previous 2.5 percent. The new vesting period changed from five to ten years of credited service, and the option to withdraw lump sum accumulated employee contributions was eliminated. The new normal retirement age is 65 for most employees and age 55 for members of the General Assembly and certain employees classified in hazardous duty positions.

Most members of the SERS, and all covered employees hired after June 30, 2001 and prior to January 1, 2011 (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. Act 120 created a new A-3 class of service and an optional A-4 class for most employees that entered SERS membership for the first time on or after January 1, 2011. The general annual benefit for Class A-3 members is 2 percent of the member's highest three-year average salary times years of service while the Class A-4 benefit accrual rate is 2.5 percent.

**Funding Policy:** Commonwealth law establishes the funding policy for all members' 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. The general membership contribution rate under Act 120 for A-3 and A-4 members is 6.25 percent and 9.3 percent of salary, respectively. Higher contributions are required for certain members of the General Assembly, 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.



**NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

Act 120 imposes rate increase collars on employer contributions that keep the employer contribution rate below the rates established in accordance with actuarial parameters suggested by the GASB standards. The collar for FY 11/12 is 3 percent, capping the employer contribution rate at 8.0 percent. The FY 12/13 collar is 3.5 percent. A variation of the entry-age normal actuarial cost method is used to determine the liabilities and costs related to all of the SERS benefits. Including superannuation, withdrawal, death, and disability benefits, and to determine employer contribution rates. These rates are computed based upon actuarial valuations on the SERS' fiscal year-end December 31 and applied to the Commonwealth based on its fiscal year-end June 30.

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

<u>Year ended</u> <u>December 31</u>	Annual Required Contribution (ARC) <u>(in thousands)</u>	Percentage of ARC <u>Contributed</u>
2011	\$913,778	42.8%
2010	\$866,822	31.4%
2009	\$643,861	39.1%

At December 31, 2011, the SERS disclosed no long-term contracts for contributions to the plan.

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

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

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

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

**NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

Investments in venture capital, alternative investments and real estate are generally illiquid. Because of the inherent uncertainty in valuing privately held securities, the fair value may differ from the values that would have been used had a ready market for such securities existed, and the difference can be material. Accordingly, the realized value received upon the sale of the asset may differ from the fair value.

**Public School Employees' Retirement System**

**Plan Description:** The PSERS is a cost-sharing multiple-employer defined benefit retirement system established to provide pension and other benefits for public school employee members. At June 30, 2012 there were 773 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. Under the provisions of the 1975 revision of the Code by the Pennsylvania General Assembly, members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service.

Benefits are generally equal to 2 percent or 2.5 percent, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, in most cases after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

**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. According to requirements established in Act 29 of 1994, the Commonwealth reimburses school entity employers a portion of the employer contributions paid to the System. All school entity employers are reimbursed by the Commonwealth at least 50% of the total employer contributions based on the total contribution rate. The Commonwealth remits employer contributions for employers other than school entities directly to PSERS.

The contribution rates for active plan memberships started prior to July 1, 2011 are as follows:

- Membership Class T-C and T-D hired before July 22, 1983 are 5.25 and 6.50 percent of covered payroll, respectively;
- Membership Class T-C and T-D hired after July 21, 1983, the rates are 6.25 and 7.50 percent, respectively.

The contribution rates for active plan memberships started on or after July 1, 2011 are as follows:

- Membership Class T-E and T-F rates are 7.50 and 10.30 percent, respectively.

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

Fiscal year ended June 30, 2012 – not more than 3 percent plus the premium assistance contribution rate  
Fiscal year ending June 30, 2013 – not more than 3.5 percent plus the premium assistance contribution rate  
Fiscal year ending June 30, 2014 – not more than 4.5 percent plus the premium assistance contribution rate

The rate cap remains at 4.5 percent until the rate cap no longer applies, i.e. the rise in the employer contribution rate is less than the rate cap in effect at that time. Once the rate caps no longer apply, the employer normal cost becomes the contribution rate floor.

**NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

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

Fiscal year Ended <u>June 30</u>	Annual Required <u>Contribution(ARC)</u>	Percentage of ARC <u>Contributed</u>
2012	\$ 2,629,244	38%
2011	\$ 2,436,602	27%
2010	\$ 1,928,278	27%

**Summary of Significant Accounting Policies:** The financial statements of PSERS are prepared on the accrual basis of accounting under which 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 their 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:** PSERS's investments are reported at fair value. Fair value is the amount that PSERS can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Short-term securities are carried at cost, which approximates fair value, unless they have published market prices or quotations from national securities exchanges or securities pricing services, in which case they are valued 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 securities exchanges or securities pricing services. Securities which are not traded on a national securities 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 stream is used. Real estate owned investments are reported net of related debt borrowed against the market value of the property. As of June 30, 2012 \$132 million in line of credit advances were netted against the related property valuation. The line of credit balance is due on March 9, 2015. The line is payable at an interest rate equivalent to the lender's commercial paper rate plus 75 basis points and is collateralized by certain fixed income investments of PSERS.

For alternative investments which include private equity, private debt, venture capital and equity real estate investments where no readily ascertainable market value exists, management, in consultation with the general partner and investment advisors, has determined the fair values for the individual investments based upon the partnership's most recent available financial information. Futures contracts, foreign exchange contracts, and options are marked-to-market daily based on published market prices and quotations from national securities exchanges or securities pricing services. The 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 generally 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 regulatory agencies such as the Securities and Exchange Commission have regulatory oversight. Investments that are not subject to this oversight are subject to annual independent audits.

**Other Postemployment Benefits**

**Primary Government**

The Commonwealth established and sponsors two primary plans which provide postemployment benefits other than pensions (OPEB). These two plans are the Retired Employees Health Program (REHP) and the Retired Pennsylvania State Police Program (RPSP). These two plans are administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF), which

**NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

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 issues a stand-alone financial report or 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, 2012, 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. Starting July 1, 2005, REHP plan members with membership dates after June 30, 2004 contribute between 1.0 percent and 3.0 percent of their final salary, based on REHP enrollment date. In February 2008 a three tiered prescription REHP member copayment was introduced and in May 2008 a Medicare Private Fee-For-Service plan for REHP was started. In January 2011, the majority of REHP Medicare-eligible members were enrolled in Medicare HMO or Medicare PPO medical plans.

RPSPP contribution requirements are established within collective bargaining agreements. During the fiscal year ended June 30, 2012 employing agencies contributed \$575 (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 current year annuitant health care costs are established as part of the Commonwealth’s annual budgeting process. During the fiscal year ended June 30, 2012, the Commonwealth funded \$628.2 and \$68.8 of annuitant health care claims and administrative costs for the REHP and RPSPP, respectively. Any additional contributions to advance fund annuitant health care liabilities are determined annually by the Commonwealth. During the fiscal year ended June 30, 2008, advance funding of \$60 for the REHP and \$50.8 for the RPSPP was contributed to the Other Postemployment Benefits Investment Pool, a Pension (and Other Employee Benefit) Trust Fund. Since then, neither the REHP nor the RPSPP Annual Required Contributions has been fully funded. Policy on advance funding is evaluated annually (amounts in millions).

**Annual OPEB cost and actual contributions – primary government OPEB plans:** (amounts in millions)

As of and for the fiscal year ended <u>June 30, 2012</u>	<u>REHP</u>	<u>RPSPP</u>	<u>Judiciary</u>	<u>House</u>	<u>Senate</u>	<u>Total</u>
Annual required contributions.....	\$866.77	\$174.23	\$34.07	\$41.33	\$17.02	<b>\$1,133.42</b>
Interest on net OPEB obligation.....	44.31	13.16	3.60	5.03	2.91	<b>69.01</b>
Adjustment to annual required contribution..	(40.88)	(12.15)	(3.19)	(6.86)	(2.47)	<b>(65.55)</b>
Total Annual OPEB cost (expense).....	870.20	175.24	34.48	39.50	17.46	<b>1,136.88</b>
Qualifying contributions.....	(628.19)	(68.78)	(21.47)	(12.95)	(6.38)	<b>(737.77)</b>
Increase in net OPEB obligation.....	242.01	106.46	13.01	26.55	11.08	<b>399.11</b>
Net OPEB obligation, July 1, 2011.....	932.78	277.13	73.50	111.68	64.67	<b>1,459.76</b>
<b>Net OPEB obligation, June 30, 2012.....</b>	<b><u>\$1,174.79</u></b>	<b><u>\$383.59</u></b>	<b><u>\$86.51</u></b>	<b><u>\$138.23</u></b>	<b><u>\$75.75</u></b>	<b><u>\$1,858.87</u></b>

All OPEB plans qualifying contributions for the primary government during the fiscal year ended June 30, 2012 were \$737.77. The total annual OPEB cost of \$1,136.88 for the fiscal year less the \$737.77 contribution resulted in an increase in OPEB

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

obligations of \$399.11. The prior year unfunded OPEB liability of \$1,459.76 plus the increase of \$399.11 resulted in a total unfunded OPEB liability of \$1,858.87 as of June 30, 2012. The net OPEB obligation attributable to REHP at June 30, 2012 is allocated among all REHP-participating employers. Several REHP-participating employer organizations are not 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, 2012, 2011 and 2010 is as follows (amounts in millions):

	REHP	RPSPP	Judiciary	House	Senate	Total
<b>For the fiscal year ended June 30, 2012</b>						
Annual OPEB cost.....	\$870.20	\$175.24	\$34.48	\$39.50	\$17.46	\$1,136.88
Percentage of annual OPEB cost contributed.....	72%	39%	62%	33%	37%	65%
Net OPEB obligation.....	\$1,174.79	\$383.59	\$86.51	\$138.23	\$75.75	\$1,858.87
<b>For the fiscal year ended June 30, 2011</b>						
Annual OPEB cost.....	\$883.16	\$159.45	\$36.28	\$39.96	\$18.06	\$1,136.91
Percentage of annual OPEB cost contributed.....	68%	42%	54%	30%	34%	62%
Net OPEB obligation.....	\$932.78	\$277.13	\$73.50	\$111.68	\$64.67	\$1,459.75
<b>For the fiscal year ended June 30, 2010</b>						
Annual OPEB cost.....	\$850.44	\$151.73	\$34.57	\$37.31	\$17.22	\$1,091.27
Percentage of annual OPEB cost contributed.....	61%	41%	52%	27%	33%	56%
Net OPEB obligation.....	\$647.96	\$184.03	\$56.92	\$83.73	\$52.78	\$1,025.42

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

OPEB Plan	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Liability (UAAL)	Funded Ratio (assets as % of AAL)	Estimated Annual Covered Payroll	UAAL as a Percentage of Annual Covered Payroll
REHP.....	July 1, 2011	\$70.74	\$12,907.79	\$12,837.05	0.5%	\$3,839.00	334%
RPSPP.....	July 1, 2011	59.90	2,492.28	2,432.38	2.4%	447.00	544%
Judiciary.....	July 1, 2012	-	425.50	425.50	0.0%	194.50	219%
House.....	July 1, 2010	-	352.27	352.27	0.0%	96.16	366%
Senate.....	July 1, 2011	-	217.75	217.75	0.0%	48.45	449%
<b>Total primary government.....</b>		<u>\$130.64</u>	<u>\$16,395.59</u>	<u>\$16,264.95</u>	0.8%	<u>\$4,625.11</u>	352%

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

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Specific actuarial assumptions for the REHP and RPSPP:

Actuarial cost method:	Projected Unit Credit
Method used to determine actuarial value of assets:	Fair Value
Investment returns:	4.75 percent
Inflation rate assumption:	2.75 percent

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

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

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

Discretely Presented Component Units

Each discretely presently component unit with employees participates in the Commonwealth’s REHP except for the Pennsylvania Turnpike Commission (PTC) and the Pennsylvania Housing Finance Agency, which have both established and sponsor their own, separate OPEB plans. The State System of Higher Education (SSHE), another discretely presented component unit, participates in the REHP, for certain employees, as well as its own, separate SSHE OPEB plan. All separate, non-REHP plans, have been established under pertinent statutory authority. All benefit provisions and contributions are established by the plan sponsors. Net OPEB obligations (assets) are reported at June 30, 2012 (May 31, 2012 for the PTC) as follows:

As of and for the fiscal year ended June 30, 2012	PA Turnpike Commission	PA Housing Finance Agency	State System of Higher Education	Total
Annual required contributions.....	\$27.733	\$5.042	\$116.548	\$149.323
Interest on net OPEB obligation.....	1.088	0.526	35.615	37.229
Adjustment to annual required contribution.	0.244	(0.718)	(40.491)	(40.965)
Annual OPEB cost (expense).....	29.065	4.850	111.672	145.587
Qualifying contributions.....	(54.397)	(0.637)	(38.729)	(93.763)
<b>Increase in net OPEB obligation/(asset).....</b>	<b>(25.332)</b>	<b>4.213</b>	<b>72.943</b>	<b>51.824</b>
Net OPEB obligation/(asset), July 1, 2011.....	(3.539)	13.288	791.452	801.201
Net OPEB obligation/(asset), June 30, 2012....	<b>(\$28.871)</b>	<b>\$17.501</b>	<b>\$864.395</b>	<b>\$853.025</b>

(amounts in millions)

**NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

As of and for the fiscal year ended June 30, 2012	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.....	-	\$1,373.05	\$1,373.05	-	\$570.84	240.5
PA Turnpike Commission (May 31, 2011).	\$152.34	\$250.75	\$98.41	60.8	\$124.24	79.2
PA Housing Finance Agency.....	\$49.07	\$67.07	\$18.00	73.2	\$15.70	114.6

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 (amounts in millions).

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

**Primary Government**

**Short-Term Debt**

On August 11, 2011 the PA Treasury Department advanced \$500 million to the Capital Facilities Fund, a Capital Projects Fund. The purpose of the advance was to temporarily finance ongoing construction, improvement and other project expenditures until general obligation bonds were issued on October 27, 2011 at which time the advance was repaid to the PA Treasury Department.

On December 22, 2011 the PA Treasury Department advanced \$500 million to the Capital Facilities Fund, a Capital Projects Fund. The purpose of the advance was to temporarily finance ongoing construction, improvement and other project expenditures until general obligation bonds were issued on April 26, 2012 at which time the advance was repaid to the PA Treasury Department.

Disclosures related to general obligation bonds payable are provided in Note K to the basic financial statements. Details on the advances follow (amounts in thousands):

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012
Advance	\$ -	\$ 1,000,000	\$ 1,000,000	\$ -

**Other Financing Obligation**

Pursuant to applicable Commonwealth laws, the Underground Storage Tank Indemnification Fund (USTIF), an Agency Fund, advanced \$67,500 to the **General Fund**. There were no borrowings from, or repayments to, the USTIF during the fiscal year ended June 30, 2012, as follows (amounts in thousands):

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012
Principal	\$ 67,500	\$ -	\$ -	\$ 67,500

Based on several contractual agreements between the Commonwealth, the City of Philadelphia (City), and the Pennsylvania Convention Center Authority (PCCA), a discretely presented component unit, the Commonwealth is financially obligated for debt service principal and interest payments for certain bonds issued by a public financing authority in connection with the PCCA premises in Philadelphia, Pennsylvania. Total debt service requirements for the bonds at June 30, 2012 are as follows (amounts in thousands):



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

<u>Fiscal Year Ending June 30</u>	<u>Total Other Financing Obligations</u>
2013.....	\$ 25,479
2014.....	25,108
2015.....	24,136
2016.....	19,985
2017.....	20,004
2018-22.....	97,271
2023-27.....	70,251
2028-32.....	112,834
2033-37.....	128,734
2038-39.....	<u>50,951</u>
Total principal and interest.....	574,753
Less: interest .....	<u>(308,023)</u>
<b>Total Principal .....</b>	<b><u>\$ 266,730</u></b>

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012
Bonds	\$ -	\$ 276,460	\$ 9,730	\$ 266,730

Total bond principal and interest payments made during the fiscal year ended June 30, 2012 amounted to \$26,325 and were financed by \$15,000 from the City (in the form of an annual service fee), \$6,137 from the U.S. Treasury (in the form of a Build America Bonds interest subsidy for Series B of the bonds), \$5,076 from the Gaming Fund of the Commonwealth (paid under the provisions of Act 53 of 2007), and \$112 of bond trustee investment income (amounts in thousands).

Through June 30, 2039, the Commonwealth anticipates that the City will remit \$15,000 each fiscal year to the bond trustee, to be applied first to bond principal and interest payments due during each fiscal year (amounting to a total of \$405,000); a total of \$112,350 of Build America Bonds interest subsidy for Series B of the bonds will be paid to the bond trustee; the bond trustee will apply investment income of \$5,939; and the Commonwealth will appropriate a maximum amount of \$51,464 to be financed by the Gaming Fund under the provisions of Act 53 of 2007 to finance total bond principal and interest payments of \$574,753 at June 30, 2012. Amounts to be financed by the Gaming Fund under the provisions of Act 53 of 2007 are established each fiscal year and will vary based on bond trustee investment income and other amounts due under the bond trust indenture and other contractual agreements (amounts in thousands).

**Discretely Presented Component Units**

In December 2010, the Pennsylvania Infrastructure Investment Authority (PENNVEST), a discretely presented component unit, issued the first series of short term obligations to finance the issuance of loans to program participants. These obligations were issued at interest rates ranging from 0.06 percent to 0.32 percent, with the interest due at maturity. During the fiscal year ended June 30, 2012, PENNVEST issued fifty-nine such obligations in the aggregate principal amount of \$938,300 and repaid sixty-one of these in the aggregate principal amount of \$977,100 (the repayment amounts include prior year carryover loans). As of June 30, 2012, \$46,200 of these obligations remained outstanding. PENNVEST used a letter of credit to finance the \$977,100 repayment and repaid all balances owed for the letter of credit during the fiscal year ended June 30, 2012. A schedule of changes in the short-term obligations and the letter of credit follows (amounts in thousands):

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

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012
Notes Payable	\$ 85,000	\$ 938,300	\$ 977,100	\$ 46,200
Letter of Credit	\$ -	\$ 977,100	\$ 977,100	\$ -

The Pennsylvania Higher Education Assistance Agency (PHEAA), a discretely presented component unit, has reported \$3,550,275 of auction rate security bonds payable, \$4,138,957 of notes payable (consisting of student loan financings of \$120,000, student loan floating rate notes of \$3,085,692, and student loan variable rate notes of \$933,265), and \$104,749 of other obligations (consisting of capital financings of \$45,415 and term financings of \$59,334) at June 30, 2012 as follows (amounts in thousands):

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

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2012</u>
Bonds payable:				
Student loan auction rate security bonds, due 2022-2047, at weighted-average rates of 0.44 percent as of June 30, 2012 and 1.14 percent as of June 30, 2011.....	\$ 6,352,825	\$ -	\$ 2,802,550	\$ 3,550,275
Less: deferred amount on current refunding of student loan auction rate security bonds.....	<u>2,137</u>	<u>-</u>	<u>2,137</u>	<u>-</u>
Total auction rate security bonds payable.....	<u>\$ 6,350,688</u>	<u>\$ -</u>	<u>\$ 2,800,413</u>	<u>\$ 3,550,275</u>
Notes payable:				
Student loan variable rate funding notes, due 2013 at an estimated weighted-average rate of 0.78 percent as of June 30, 2012 and 0.75 percent as of June 30, 2011.....	\$ 1,127,643	\$ -	\$ 191,867	\$ 935,776
Less: deferred amount on current refunding of student loan variable rate funding notes.....	<u>4,096</u>	<u>-</u>	<u>1,585</u>	<u>2,511</u>
Subtotal.....	<u>\$ 1,123,547</u>	<u>\$ -</u>	<u>\$ 190,282</u>	<u>\$ 933,265</u>
Student loan floating rate notes, due 2016-2038 at weighted average rates of 0.38 percent as of June 30, 2012 and 0.55 percent as of June 30, 2011.....	\$ 1,601,603	\$ 1,676,400	\$ 388,255	\$ 2,889,748
Plus: deferred gain on bond refundings of student loan floating rate notes.....	-	221,096	20,191	200,905
Less: deferred amount on current refundings of student loan floating rate notes.....	<u>4,013</u>	<u>1,688</u>	<u>740</u>	<u>\$ 4,961</u>
Subtotal.....	<u>\$ 1,597,590</u>	<u>\$ 1,895,808</u>	<u>\$ 407,706</u>	<u>\$ 3,085,692</u>
Student loan financings, due on demand at weighted-average rates of 0.97 percent as of June 30, 2012 and 0.78 percent as of June 30, 2011 .....	\$ 135,800	\$ -	\$ 15,800	\$ 120,000
Total notes payable.....	<u>\$ 2,856,937</u>	<u>\$ 1,895,808</u>	<u>\$ 613,788</u>	<u>\$ 4,138,957</u>
Capital acquisition refunding bonds, due 2012-2027, at weighted-average rates of 5.09 percent as of June 30, 2012 and 2011.....	\$ 62,610	\$ -	\$ 16,965	\$ 45,645
Term financing, due 2029-2030, at zero percent interest as of June 30, 2012 and 2011.....	65,459	-	6,125	59,334
Subtotal.....	<u>128,069</u>	<u>-</u>	<u>23,090</u>	<u>104,979</u>
Less: unamortized discount.....	<u>387</u>	<u>-</u>	<u>157</u>	<u>230</u>
Total capital and other financing obligations.....	<u>\$ 127,682</u>	<u>\$ -</u>	<u>\$ 22,933</u>	<u>\$ 104,749</u>

The note and bond indentures, among other things, require the PHEAA to comply with various covenants. Student loans and investments collateralize all student loan auction rate notes, floating and variable rate notes, and financings. As of June 30, 2012, \$7.6 billion of student loan principal and related interest receivable and \$272.3 million of cash equivalents collateralized the \$7.5 billion of student loan financings and notes and bonds payable.

The student loan auction rate security bonds, floating rate notes, variable rate funding notes and other term financings are non-recourse obligations to the PHEAA's unrestricted net assets and to the Commonwealth, except for the \$120.0 million of student loan financings, which are borrowings from the Commonwealth's Treasury Department.

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

Debt service requirements subsequent to June 30, 2012, based upon stated maturities for student loan bonds and estimated interest payments for variable-rate debt after considering terms renegotiated after June 30, 2012 are as follows:

Year of <u>Maturity</u>	<u>Student Loan Bonds and Notes</u>		<u>Other Financing Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013.....	\$ 120,000	\$ 56,695	\$ 2,040	\$ 2,553
2014.....	935,776	52,431	2,125	2,161
2015.....	-	49,354	2,220	2,050
2016.....	-	49,354	2,315	1,934
2017.....	13,678	49,291	2,420	1,814
2018-22.....	324,079	240,051	13,970	7,047
2023-27.....	105,181	233,935	17,820	3,014
2028-32.....	213,022	221,582	62,069	64
2033-37.....	809,504	213,892	-	-
2038-42.....	1,800,509	97,716	-	-
2043-47.....	3,174,050	32,410	-	-
Total.....	<u>\$ 7,495,799</u>	<u>\$ 1,296,711</u>	<u>\$ 104,979</u>	<u>\$ 20,637</u>
<b>Reported as:</b>				
Total principal owed on student loan				
auction rate security bonds payable.....	\$ 3,550,275		-	
Notes payable - current.....	120,000		-	
Notes payable - non-current.....	4,018,957		-	
Deferred amount on current refundings.....	(193,433)		-	
Other financing obligations, current.....	-		2,040	
Other financing obligations, non-current.....	-		102,709	
Unamortized discount.....	-		230	
Total principal .....	<u>\$ 7,495,799</u>		<u>\$ 104,979</u>	

The PHEAA reported \$7.5 billion of its total \$7.7 billion of student loan bonds, notes, and financings as variable-rate debt, of which \$14.9 million resets based upon auctions every 7 days, \$3.4 billion resets based upon auctions every 28 days, \$169.7 million resets based upon auctions every 35 days, \$3.0 billion is indexed to the one-month or three-month LIBOR, \$935.8 million 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 \$120,000 at June 30, 2012, the Pennsylvania Infrastructure Investment Authority (PENNVEST) reported current notes payable of \$46,200 and the Philadelphia Regional Port Authority (PRPA) reported current notes payable of \$194. Also, in addition to the PHEAA’s reported non-current notes payable of \$4,018,957 at June 30, 2012, component unit organizations of the State System of Higher Education reported non-current notes payable of \$218,730 and the PRPA reported non-current notes payable of \$199. Total reported notes payable, current and non-current, for all discretely presented component units totaled \$166,394 and \$4,237,886, respectively, at June 30, 2012 (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, 2012 and changes therein during the fiscal year ended June 30, 2012 are as follows (amounts in thousands):

GENERAL LONG-TERM OBLIGATIONS	Issue	Interest	Maturity	Bonds	Balance	Additions	Reductions	Balance
	Dates	Rates	Dates	Authorized But Unissued	July 1, 2011			June 30, 2012
General Obligation Bonds Payable From Tax Revenues:								
Capital Facilities.....	1992-12	2.0-6.25%	2032	\$85,062,560	\$ 5,961,650	\$1,379,000	\$ 538,055	\$ 6,802,595
Disaster Relief.....	-	-	-	105,908	-	-	-	-
Land and Water Development.....	1992	6.25%	2012	300	475	-	230	245
Nursing Home Loan Development.....	-	-	-	31,000	-	-	-	-
Volunteer Companies Loan.....	1992	6.25%	2012	50,000	155	-	75	80
Vietnam Conflict Veterans								
Compensation.....	-	-	-	3,000	-	-	-	-
Water Facilities Loan.....	1992	6.25%	2012	11,500	3,475	-	1,685	1,790
Pennsylvania Economic Revitalization.....	1992	6.25%	2012	14,000	950	-	460	490
Pennsylvania Infrastructure								
Investment Authority.....	1992-12	2.0-6.25%	2031	161,600	278,185	196,000	8,465	465,720
Agricultural Conservation Easement								
Purchase.....	1992	6.25%	2012	-	1,260	-	610	650
Local Criminal Justice.....	2004-08	4.00-5.25%	2028	3,000	3,700	-	285	3,415
Water Supply and Wastewater								
Treatment.....	2005-10	.60-5.85%	2030	38,725	172,555	-	6,865	165,690
Growing Greener.....	2005-12	3.45-5.85%	2032	96,000	412,640	25,000	17,700	419,940
Persian Gulf Conflict Veterans								
Compensation.....	2008	4.00-5.00%	2028	13,000	5,590	-	230	5,360
Refunding Bonds.....	2002-11	2.0-5.50%	2022	-	3,036,430	161,575	303,965	2,894,040
Total principal.....				85,590,593	9,877,065	1,761,575	878,625	10,760,015
Unamortized premium on bonds issued..					755,372	259,314	56,514	958,172
Unamortized deferred net refunded loss.					(189,247)	(15,911)	(25,770)	(179,388)
Total general obligation bonds payable..					<u>\$85,590,593</u>	<u>10,443,190</u>	<u>2,004,978</u>	<u>\$ 11,538,799</u>
Other General Long-Term Obligations								
Payable From Tax and Other Revenues:								
Installment Purchase Obligations.....					3,968	903	1,408	3,463
Capital Lease Obligations.....					22,939	107,360	4,005	126,294
Self-Insurance—Note M*.....					972,904	533,115	662,683	843,336
Compensated Absences *.....					749,108	492,065	486,433	754,740
Pollution Remediation Obligations*.....					235,831	14,947	30,578	220,200
Other* .....					1,345,361	403,442	278,047	1,470,756
Subtotal.....					<u>3,330,111</u>	<u>1,551,832</u>	<u>1,463,154</u>	<u>3,418,789</u>
<b>TOTAL GENERAL LONG-TERM OBLIGATIONS.....</b>					<u><b>\$13,773,301</b></u>	<u><b>\$3,556,810</b></u>	<u><b>\$2,372,523</b></u>	<u><b>\$ 14,957,588</b></u>

\*The reported current liability portion of: Self-Insurance is \$171,678; Compensated Absences is \$147,940; Pollution Remediation Obligation is \$24,808 and Other liabilities is \$166,903 (amounts in thousands).

Total principal ‘Additions’ above, amounting to \$1,761,575, are equal to Bonds Issued of \$1,600,303 and refunding bonds issued of \$161,272 reported in the Governmental Funds ‘Statement of Revenues, Expenditures, and Changes in Fund Balances’ for the fiscal year ended June 30, 2012 (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, 2012 (May 31, 2012 for the Pennsylvania Turnpike Commission (PTC)) and changes during the fiscal year then ended are as follows (amounts in thousands):

	Issue Dates	Interest Rates	Maturity Dates Through	Bonds		Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012
				Authorized But Unissued					
<b>REVENUE BONDS PAYABLE</b>									
Philadelphia Regional Port Authority.....	2008	3.00-5.00	2021	-	\$ 36,385	\$ -	\$ 2,935	\$ 33,450	
Pennsylvania Housing Finance Agency.....	1993-11	various	2041	-	4,605,339	81,087	563,543	4,122,883	
Pennsylvania Industrial Development Authority.....	2008-12	3.00-5.50	2024	-	340,090	170,185	231,190	279,085	
Pennsylvania Turnpike Commission.....	2001-12	various	2049	-	7,719,598	652,793	420,020	7,952,371	
Commonwealth Financing Authority.....	2005-10	0.93-6.40	2040	-	1,427,275	-	39,285	1,387,990	
Pennsylvania Infrastructure Investment Authority..	1998-05	4.00-5.00	2014	-	14,040	-	6,530	7,510	
Total principal obligations.....					14,142,727	904,065	1,263,503	13,783,289	
Less: unamortized bond discount.....					(22,206)	-	(5,165)	(17,041)	
Add: unamortized bond premium.....					126,214	53,893	19,795	160,312	
Less: deferred net refunded loss.....					(197,054)	(18,290)	(26,865)	(188,479)	
<b>TOTAL .....</b>					<b>\$14,049,681</b>	<b>\$ 939,668</b>	<b>\$ 1,251,268</b>	<b>\$ 13,738,081</b>	

Additionally, the Port of Pittsburgh Commission reported non-current revenue bonds payable of \$2,000 at June 30, 2012 for total revenue bonds payable for all discretely presented component units of \$13,740,081. Total reported current and non-current revenue bonds payable were \$287,599 and \$13,452,482, respectively, at June 30, 2012 (May 31, 2012 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, 2012, these three funds transferred \$1,001,756, \$65,353 and \$45,776 respectively, to the Capital Debt Fund. The Capital Debt fund reported \$1,112,914 (nearly 93 percent) of total Debt Service funds principal and interest expenditures of \$1,196,333 (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 \$2,004,978 for General Obligation Bonds Payable at June 30, 2012 consists of total bond and refunding bond proceeds of \$1,828,196 and \$192,693, respectively, for Governmental Funds (including premium of \$259,314) less deferred net refunded losses of \$15,911 during the fiscal year ended June 30, 2012.

The total "Reductions" of \$909,369 for General Obligation Bonds Payable at June 30, 2012 consists of total principal repayments of \$878,625, plus \$56,514 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, 2012 is \$958,172), less \$25,770 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, 2012 is \$179,388) (amounts in thousands)

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

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

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, 2012. The nature of the remediation activities in such instances is often site assessment, investigation or feasibility studies. Remediation efforts are typically funded through the Hazardous Sites Cleanup Fund or the **Motor License Fund**, both special revenue funds.

Included in “Other” for Other General Long-Term Obligations payable from workers’ compensation insurance carrier assessments, **General Fund**, **Motor License Fund**, Hazardous Sites Cleanup Fund and/or other governmental fund tax revenues, investment income and/or escheated property are the following at June 30, 2012 (amounts in thousands):

Workers' Compensation Security Trust claims.....	\$ 352,409
Catastrophic Loss Benefits claims.....	81,755
Public Utility Realty Tax Act (PURTA) liability.....	30,972
Litigation liability - Note N.....	205,100
State Insurance Fund claims.....	8,917
Foster Care litigation liability - Note N.....	109,768
Restricted receipts liability.....	3,001
Escheated property liability.....	<u>678,834</u>
<b>Total.....</b>	<b><u>\$ 1,470,756</u></b>

The Workers’ Compensation Security Trust Fund provides for payment of valid claims under the Workers’ Compensation Law to individuals whose employers are insured by insolvent insurance carriers. The Catastrophic Loss Benefits Continuation Fund provides specific benefits to qualifying claimants who sustained severe injuries in motor vehicle accidents. The Public Utility Realty Tax Act (PURTA) provides for a tax on utility realty property whereby amounts received during the fiscal year are used as a **General Fund** revenue source. The Act also provides for payment of a majority of the PURTA revenues as a distribution to local taxing authorities during the following fiscal year (normally in October). Such payments are appropriated for expenditure in the following fiscal year and are, therefore, not expendable during the fiscal year the related revenue is received. Escheated property is held in perpetuity for the rightful owner. This property may be claimed at any time without the appropriation process. None of the ‘Other’ amounts included in General Long-Term Obligations at June 30, 2012 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 \$59.0 billion as of August 31, 2012, with net debt outstanding of \$9.19 billion.

**Discretely Presented Component Units**

The Pennsylvania Housing Finance Agency (PHFA), the Pennsylvania Industrial Development Authority, the Pennsylvania Turnpike Commission (PTC), the Philadelphia Regional Port Authority (PRPA), the Commonwealth Financing Authority (CFA) and the Pennsylvania Infrastructure Investment Authority (PENNVEST), discretely presented component units, have pledged substantially all of their revenues for the redemption of revenue bonds outstanding. Revenue bonds outstanding at June 30, 2012 (May 31, 2012 for the PTC) include unamortized bond discount, unamortized bond premium, and deferred net refunded loss of \$17 million, \$160 million, and \$188 million, respectively.

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

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, 2012 (May 31, 2012 for the Pennsylvania Turnpike Commission) (amounts in thousands):

**Primary Government**

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018-22</b>	<b>2023-27</b>
<b>GENERAL OBLIGATION BONDS:</b>							
Capital Facilities.....	\$ 719,620	\$ 684,706	\$ 624,085	\$ 594,025	\$ 578,043	\$ 2,642,071	\$ 2,911,030
Disaster Relief.....	-	-	-	-	-	-	-
Land and Water Development.....	253	-	-	-	-	-	-
Nursing Home Loan Development.....	-	-	-	-	-	-	-
Volunteer Companies Loan.....	83	-	-	-	-	-	-
Vietnam Conflict Veterans Compensation.....	-	-	-	-	-	-	-
Water Facilities Loan.....	1,846	-	-	-	-	-	-
Pennsylvania Economic Revitalization.....	505	-	-	-	-	-	-
Pennsylvania Infrastructure Investment Authority.....	37,252	35,236	35,135	35,028	34,921	175,428	231,445
Agricultural Conservation Easement Purchase.....	670	-	-	-	-	-	-
Local Criminal Justice.....	368	362	236	231	376	1,656	1,417
Water Supply and Wastewater Treatment.....	15,274	15,279	15,281	15,294	15,296	62,364	82,685
Growing Greener.....	39,838	39,708	39,635	39,563	39,456	165,774	200,256
Persian Gulf Conflict Veterans Compensation.....	497	506	504	499	507	1,907	2,866
Refunding Bonds.....	472,541	434,259	409,121	379,430	340,609	1,510,391	35,568
Total Principal and Interest.....	1,288,747	1,210,056	1,123,997	1,064,070	1,009,208	4,559,591	3,465,267
Less: Interest Payments.....	521,352	610,548	640,035	433,914	347,903	1,300,146	633,927
Total General Obligation Bonds.....	767,395	599,508	483,962	630,156	661,305	3,259,445	2,831,340
Other General Long-Term Obligations.....	511,329	190,784	203,297	210,172	206,179	930,352	587,695
<b>TOTAL GENERAL LONG-TERM OBLIGATIONS</b>	<b>\$ 1,278,724</b>	<b>\$ 790,292</b>	<b>\$ 687,259</b>	<b>\$ 840,328</b>	<b>\$ 867,484</b>	<b>\$ 4,189,797</b>	<b>\$ 3,419,035</b>



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

**Primary Government (continued)**

	<u>2028-32</u>	<u>Total</u>
<b>GENERAL OBLIGATION BONDS:</b>		
Capital Facilities.....	\$ 1,344,062	\$ 10,097,642
Disaster Relief.....	-	-
Land and Water Development.....	-	253
Nursing Home Loan Development.....	-	-
Volunteer Companies Loan.....	-	83
Vietnam Conflict Veterans Compensation.....	-	-
Water Facilities Loan.....	-	1,846
Pennsylvania Economic Revitalization.....	-	505
Pennsylvania Infrastructure Investment Authority.....	148,770	733,215
Agricultural Conservation Easement Purchase.....	-	670
Local Criminal Justice.....	120	4,766
Water Supply and Wastewater Treatment.....	17,219	238,692
Growing Greener.....	56,433	620,663
Persian Gulf Conflict Veterans Compensation.....	574	7,860
Refunding Bonds.....	-	<u>3,581,919</u>
Total Principal and Interest.....	1,567,178	15,288,114
Less: Interest Payments.....	<u>40,274</u>	<u>4,528,099</u>
Total General Obligation Bonds.....	1,526,904	10,760,015
Other General Long-Term Obligations.....	<u>578,981</u>	<u>3,418,789</u>
<b>TOTAL GENERAL LONG-TERM OBLIGATIONS.....</b>	<u>\$ 2,105,885</u>	<u>\$ 14,178,804</u>

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

**DISCRETELY PRESENTED COMPONENT UNITS**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018-22</u>	<u>2023-27</u>
Philadelphia Regional Port Authority..	\$ 4,604	\$ 4,604	\$ 4,608	\$ 4,607	\$ 4,607	\$ 18,428	\$ -
Pennsylvania Housing Finance Agency	204,453	210,920	219,895	244,513	244,185	1,246,258	1,166,359
Pennsylvania Industrial Development Authority.....	31,996	33,197	32,735	30,586	32,530	162,404	43,449
Pennsylvania Turnpike Commission....	442,673	510,755	494,483	426,766	453,932	2,430,643	2,631,363
Commonwealth Financing Authority...	125,036	125,244	125,156	125,079	123,164	612,987	540,674
Pennsylvania Infrastructure Investment Authority.....	3,913	2,419	1,608	-	-	-	-
Total Principal and Interest.....	812,675	887,139	878,485	831,551	858,418	4,470,720	4,381,845
Less: Interest Payments.....	525,076	522,192	511,293	500,103	517,873	2,478,455	2,046,569
<b>TOTAL PRINCIPAL OBLIGATIONS.....</b>	<b>\$ 287,599</b>	<b>\$ 364,947</b>	<b>\$ 367,192</b>	<b>\$ 331,448</b>	<b>\$ 340,545</b>	<b>\$ 1,992,265</b>	<b>\$ 2,335,276</b>
	<u>2028-32</u>	<u>2033-37</u>	<u>2038-42</u>	<u>2043-47</u>	<u>2048-52</u>	<u>Total</u>	
Philadelphia Regional Port Authority..	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 41,458	
Pennsylvania Housing Finance Agency	1,115,759	1,006,799	368,996	-	-	6,028,137	
Pennsylvania Industrial Development Authority.....	-	-	-	-	-	366,897	
Pennsylvania Turnpike Commission....	2,614,858	2,796,100	1,982,849	405,549	220,384	15,410,355	
Commonwealth Financing Authority...	273,382	176,612	74,705	-	-	2,302,039	
Pennsylvania Infrastructure Investment Authority.....	-	-	-	-	-	7,940	
Total Principal and Interest.....	4,003,999	3,979,511	2,426,550	405,549	220,384	24,156,826	
Less: Interest Payments.....	1,613,216	1,086,629	456,033	98,879	17,219	10,373,537	
<b>TOTAL PRINCIPAL OBLIGATIONS.....</b>	<b>\$2,390,783</b>	<b>\$ 2,892,882</b>	<b>\$ 1,970,517</b>	<b>\$ 306,670</b>	<b>\$ 203,165</b>	<b>\$13,783,289</b>	

The Commonwealth routinely leases various facilities and equipment on an ongoing basis. Some of these lease agreements constitute in-substance purchases (capital leases) whereby the assets being leased are reported as capital assets and the related liabilities are reported as Capital Lease Obligations. In addition, the Commonwealth routinely acquires certain capital assets using installment purchase arrangements. The following is a schedule by fiscal year of future minimum payments due for capital leases and installment purchases, together with the present value of the net minimum lease payments as of June 30, 2012 (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			
2013.....	\$ 13,470	\$ 1,341	\$ 87,409
2014.....	12,866	1,152	89,771
2015.....	13,033	686	95,659
2016.....	13,189	439	98,894
2017.....	7,110	179	97,015
2018-22.....	38,038	-	437,761
2023-27.....	41,241	-	276,530
2028-32.....	43,789	-	130,800
2033-37.....	27,181	-	52,300
2038-42.....	-	-	1,911
Total minimum lease payments.....	209,917	3,797	1,368,050
Less: amount representing estimated executory cost included in minimum lease payments.....	3,240	-	-
Net minimum lease payments and installment purchases.....	206,677	3,797	1,368,050
Less: amount representing interest.....	80,383	334	426,335
<b>Total Capital Lease and Installment Purchase Obligations and Bonds Payable.....</b>	<b>\$ 126,294</b>	<b>\$ 3,463</b>	<b>\$ 941,715</b>

At June 30, 2012, general capital assets included \$197 million of buildings and \$7.3 million of equipment being procured by capital leases. A total of \$21.2 million in general capital assets is being procured by vendor-financed installment purchase arrangements.

At June 30, 2012 the State System of Higher Education (SSHE), a discretely presented component unit, reported \$941,715 of bonds payable, of which \$41,913 is the current portion, related to various capital projects currently under construction for which a public financing authority issued bonds to provide funding for these capital projects. SSHE capital assets include \$93,000 of construction in progress related to capital leases at June 30, 2012. Further, the SSHE, along with its component unit organizations, reported total capital lease obligations of \$88,140 at June 30, 2012. Component unit organizations of the SSHE reported bonds payable of \$909,170 at June 30, 2012; in total, the SSHE reported bonds payable of \$1,850,885 at June 30, 2012 (amounts in thousands).

**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, 2012, the SPSBA had \$3.1 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, 2012, the PHEFA had \$6.69 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, 2012 the PHFA had \$87 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, 2012, the Commission had \$31.3 million of such bonds outstanding. Neither the PPC nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds payable are reported in the accompanying financial statements.

The Pennsylvania Economic Development Financing Authority (PEDFA) finances projects on behalf of local industrial and commercial development authorities to promote economic growth within the Commonwealth. Revenue bonds issued by the PEDFA represent limited obligations payable solely from PEDFA financed project revenues. At June 30, 2012, the PEDFA had \$2.9 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.

**NOTE L - REFUNDED DEBT****Primary Government**

During the fiscal year ended June 30, 2012, the Commonwealth issued \$161.6 in general obligation bonds, First Refunding Series of 2011 with an average interest cost of 2.36 percent to advance refund \$176.5 of previously issued general obligation bonds with average interest rates of 4.59 percent. The net refunding bond proceeds of \$192.4 (including bond premium of \$31.1), 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 \$20.2 and to obtain an economic gain of \$15.4 (amounts in millions).

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, 2012, \$990.2 million of general obligation bonds outstanding that were previously accounted for in the Commonwealth's financial statements were defeased through advance refunding.

**Discretely Presented Component Units**

In November 2011 the Pennsylvania Turnpike Commission (PTC) issued 2011 Series D Senior Bonds at a variable rate with a maturity date of December 1, 2014. The 2011 Series D Bonds were issued primarily to partially refund the 2009 Series C Senior Bonds. The refunding did not change the Commission's debt service. The transaction resulted in an economic loss of \$0.3 million. In November 2011, PTC issued 2011 Series E Senior Bonds at a fixed rate with a maturity date of December 1, 2030. The 2011 Series E Bonds were issued primarily to current refund a portion of the 2001 Series R Bonds. This partial refunding of the 2001 Series R Bonds allowed the Commission to reduce its debt service by approximately \$14.6 million. The transaction resulted in an economic gain of approximately \$8.1 million.

In March 2012, the State System of Higher Education used the net proceeds from the Series AN revenue bonds to current refund the Series U, W, and X bonds. This refunding was performed to reduce debt service by approximately \$13.8 million and resulted in an economic gain (difference between the present values of the old and new debt service payments) of approximately \$13.3 million.

The Pennsylvania Convention Center Authority (PCCA) fully defeased Refunding Revenue Bonds, Series A of 2005 in April 2010. The bonds were issued in October 2005 primarily to refund outstanding Revenue Bonds Series A of 1994. The proceeds of the 1994 bonds were deposited in an irrevocable trust to provide for all future debt service payments on the 1989 bonds. As of June 30, 2012 the outstanding balance of the defeased 1989 bonds was \$143.4 million.

At June 30, 2011, \$16 million of bonds that were previously reported by the Pennsylvania Infrastructure Investment Authority have been defeased through refundings. At June 30, 2012 the amount of defeased debt was \$10.5 million.

In May 2012, the Pennsylvania Industrial Development Authority issued \$170 in Economic Development Revenue Refunding Bonds which proceeds along with funds on hand were deposited in an irrevocable trust to provide for future debt service payments on the old bonds; these funds defeased \$209.8 of outstanding economic development revenue bonds. The refunding resulted in a net cash flows savings of \$26 and an economic gain of \$21.4. At June 30, 2012 the balance of all defeased bonds outstanding was \$212.8 (amounts in millions).

**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 a \$1 million retention with excess commercial insurance coverage up to \$500 million per occurrence. The Commonwealth is also self-insured for claims against the Department of Transportation (transportation claims). The Commonwealth has established various administrative policies that are intended to avoid or limit the aforementioned risks. 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.

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, 2012. No accrued liability has been reported for property losses under self-insurance.

There were no reductions in commercial insurance coverage during the fiscal year ended June 30, 2012. No settlements exceeded commercial insurance coverage during any of the past three fiscal years.

At June 30, 2012, none of the \$843,336 of accrued liabilities for governmental activities were payable from current expendable available financial resources. The governmental activities liabilities are primarily owed by the **General Fund** (\$624,648) and the **Motor License Fund** (\$186,442). Business-type activities liabilities are primarily owed by the **State Lottery Fund** (\$2,438), the **State Workers’ Insurance Fund** (\$2,246), and the State Stores Fund (\$32,206), all Enterprise Funds. All accrued self-insurance liabilities at June 30, 2012 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.....	\$ 99,711	\$ 534,952	\$ 6,051	\$ 32,465	\$ 72	\$ 388
Annuitant medical/hospital.	49,967	-	-	-	-	-
Automobile tort.....	3,250	7,750	-	-	-	-
Employee tort.....	5,750	37,439	-	-	-	-
General tort.....	500	12,572	-	-	-	-
Transportation.....	12,500	78,945	-	-	-	-
Totals.....	<u>\$ 171,678</u>	<u>\$ 671,658</u>	<u>\$ 6,051</u>	<u>\$ 32,465</u>	<u>\$ 72</u>	<u>\$ 388</u>

The following summary provides aggregated information on June 30, 2011 reported self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2012 and reported self-insurance liabilities at June 30, 2012 (amounts in thousands):

	June 30, 2011 Liability	Incurred Claims		Payments		June 30, 2012 Liability
		Current	Prior	Current	Prior	
Employee disability.....	\$ 723,370	\$ 61,024	\$ (33,669)	\$ 8,888	\$ 68,198	\$ 673,639
Annuitant medical/hospital.	37,404	583,878	-	533,911	37,404	49,967
Automobile tort.....	16,044	2,817	(4,958)	1,332	1,571	11,000
Employee tort.....	61,086	7,519	(20,996)	73	4,347	43,189
General tort.....	38,894	977	(26,463)	29	307	13,072
Transportation.....	135,792	10,719	(47,764)	455	6,847	91,445
Totals.....	<u>\$ 1,012,590</u>	<u>\$ 666,934</u>	<u>\$ (133,850)</u>	<u>\$ 544,688</u>	<u>\$ 118,674</u>	<u>\$ 882,312</u>

**NOTE M – SELF-INSURANCE LIABILITIES (continued)**

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

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

**NOTE N – COMMITMENTS AND CONTINGENCIES**

**Construction and Other Commitments:** At June 30, 2012, the Department of Transportation (DOT) had contractual commitments of approximately \$1.1 billion for various DOT highway construction and mass transit projects. Financing for these future expenditures will be primarily from approved Federal grants and general obligation bond proceeds. In addition, the Commonwealth has a variety of contractual and other commitments for future subsidies and purchases of goods and services for approximately \$5.8 billion at June 30, 2012. Actual expenditures are contingent upon approved spending authority and/or availability of financial resources. Also, at May 31, 2012 the Pennsylvania Turnpike Commission, a discretely presented component unit, had open purchase order commitments of \$545 million.

**Encumbrances:** As noted in Note A, the Commonwealth utilizes encumbrances to account for outstanding commitments for open purchase orders and unfulfilled contracts. Amounts related to encumbrances based on outstanding purchase orders or other contracts are as follows (amounts in thousands):

General Fund.....	\$ 775,128
Motor License Fund.....	272,240
Capital Facilities Fund.....	2,222,139
Other nonmajor funds.....	<u>272,492</u>
Total.....	<u>\$ 3,541,999</u>

**Investment Commitments:** At December 31, 2011, the State Employees Retirement System (SERS) had contractual commitments totaling approximately \$1.8 billion to fund future alternative investments and \$155 million to fund future real estate investments. At June 30, 2012, the Treasury Commonwealth Investment Program had capital commitments of \$55 million to fund alternative investments, of which \$40 million was unfunded. At June 30, 2012, the **Tuition Payment Fund** had capital commitments of \$135 million to fund alternative investments, of which \$61 million was unfunded. At June 30, 2012, the Tobacco Settlement Fund had capital commitments of \$291 million to fund private equity investments, of which \$55 million was unfunded.

**Loan Commitments:** At June 30, 2012, primary government funds had approved \$70 million in loans that had not been disbursed. Also at June 30, 2012, the following discretely presented component units had approved loans that had not been disbursed (amounts in millions):

Pennsylvania Housing Finance Agency .....	\$ 24
Pennsylvania Infrastructure Investment Authority .....	449
Commonwealth Financing Authority.....	54
Pennsylvania Industrial Development Authority.....	75

**Operating Lease Commitments:** As of June 30, 2012, the Commonwealth has commitments to lease certain buildings and equipment. Future minimum rental commitments for non-cancelable operating leases as of June 30, 2012 were as follows (amounts in thousands):



**NOTE N – COMMITMENTS AND CONTINGENCIES (continued)**

Fiscal year ending June 30:	
2013.....	\$ 205,091
2014.....	149,784
2015.....	123,844
2016.....	99,830
2017.....	76,443
2018-22.....	243,758
2023-27.....	122,606
2028-32.....	<u>155</u>
Total Minimum Lease Payments.....	<u>\$ 1,021,511</u>

Rental expenditures/expenses for all operating leases for the fiscal year ended June 30, 2012 amounted to \$256 million.

**Child Support Payments:** At June 30, 2012, the Commonwealth was contingently liable for approximately \$24 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, 2012 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 \$315 million for which the likelihood of an unfavorable outcome is probable.

Additionally, the Commonwealth is currently involved in certain legal proceedings for which the likelihood of an unfavorable outcome is reasonably possible, for which liabilities have not been recorded as of June 30, 2012. Unfavorable outcomes for such cases, which the Commonwealth is vigorously contesting, could range from approximately \$123 million to \$1.2 billion for the **General Fund**; \$1 million to \$181 million for the **Motor License Fund**, a Special Revenue Fund; and \$.1 million to \$1.1 billion of possible additional liabilities for the State Employees’ Retirement System, a fiduciary fund. The range of potential liability for governmental activities is from \$124 million to \$1.4 billion.

**Federal Grants:** The Commonwealth receives significant financial assistance from the Federal government in the form of grants and entitlements, including several non-cash programs (which are not included in the basic financial statements). Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit Act or to financial and compliance audits by the grantor agencies of the Federal government or their designees. Disallowances and sanctions as a result of these audits may become liabilities of the Commonwealth. The Commonwealth is currently involved in administrative and legal proceedings, with certain Federal agencies, contesting various disallowances and sanctions related to Federal Assistance Programs ranging from \$18 million to \$978 million at June 30, 2012. The Commonwealth’s management believes ultimate disallowances and sanctions, if any, will not have a material effect on the basic financial statements.

**Loan Guarantees:** The Pennsylvania Higher Education Assistance Agency (PHEAA), a discretely presented component unit, guarantees Federal Stafford, PLUS, and consolidation loans which were originated prior to July 1, 2010. Total original principal of outstanding guarantees issued by PHEAA approximated \$43.4 billion at June 30, 2012. 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.

**NOTE N – COMMITMENTS AND CONTINGENCIES (continued)**

The Commonwealth Financing Agency (CFA), a discretely presented component unit, through various economic development programs, provided loan guarantees as of June 30, 2012 as follows (amounts in thousands):

First Industries loan guarantees.....	\$ 47,626
Tax increment financing guarantees .....	38,500
Second stage loan guarantees .....	1,485
Venture capital guarantees .....	<u>197,500</u>
Total loan guarantees .....	<u>\$ 285,111</u>

Through June 30, 2012 the CFA has been required, from time to time with respect to loan guarantees, to make principal or interest payments on behalf of the ultimate borrowers. Accordingly, expenses totaling \$1,192 have been reported in the CFA’s financial statements during its fiscal year ended June 30, 2012 (amount in thousands).

**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, 2012, the amount of future payments owed to prizewinners was \$775 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, 2012, prizewinners had voluntarily assigned future payments of \$530 million.

**Pennsylvania Turnpike Commission Commitment to Primary Government:** In July 2007, Act 44 was signed into law and, among other things, provides funding for roads, bridges and transit throughout the Commonwealth. Under Act 44, the Pennsylvania Turnpike Commission (PTC) and the Pennsylvania Department of Transportation (DOT) established a 50 year Lease and Funding Agreement (Agreement). Act 44 and the Agreement require the PTC to make scheduled quarterly payments to DOT. Through June 30, 2012 the PTC has paid DOT \$3.4 billion; the **Motor License Fund** received \$1.85 billion and the Public Transportation Trust Fund received \$1.55 billion.

Due to the significance of the quarterly payments under Act 44, the PTC currently does not have excess cash from operations to finance these required payments due to DOT. Therefore, the PTC plans to continue to increase toll rates annually and to issue debt for the foreseeable future to finance its required payments. Act 44 authorizes the PTC to issue Special Revenue Bonds up to an aggregate principal amount of \$5 billion (not to exceed \$600 million per fiscal year). Through its fiscal year ended May 31, 2012, the PTC issued \$590 million of Special Revenue Bonds with an accreted value of \$604 million. Further, as disclosed in Note R to the basic financial statements, the PTC issued Special Revenue Bonds on October 17, 2012 in the amount of \$92.8 million.

**Primary Government Contingent Liability for Certain Pennsylvania Turnpike Commission Revenue Bonds Payable:** Act 44 of 2007 provides that, in the event the Pennsylvania Turnpike Commission (PTC) does not make a required payment for debt service on its Special Revenue Bonds with its bond Trustee, the Commonwealth, through its **Motor License Fund**, is liable for annual debt service payments. During the PTC’s fiscal year ending May 31, 2013, total interest due on the \$604 million of Special Revenue Bonds outstanding at May 31, 2012 amounts to \$20.3 million; no bond principal payments are due. Disclosures related to the PTC’s Special Revenue Bonds payable as of May 31, 2012 are provided in Note K to the basic financial statements. The Commonwealth is also contingently liable for debt service on the \$92.8 million Special Revenue Bonds issued on October 17, 2012 which are disclosed in Note R to the basic financial statements.

**Primary Government Commitment for the Pennsylvania Convention Center Authority:** According to a contractual arrangement (Operating Agreement) among the Commonwealth, the City of Philadelphia, and the Pennsylvania Convention Center Authority (PCCA), a discretely presented component unit, the Commonwealth is required to make payments to PCCA to finance PCCA operating deficits. Such payments are to be primarily financed using the Gaming Fund. The Gaming Fund is

**NOTE N – COMMITMENTS AND CONTINGENCIES (continued)**

used to finance a variety of programs and/or projects and the Gaming Fund itself may be unable to finance all PCCA operating deficits during the term of the Operating Agreement, which expires in 2039. In that event, primary government payments to PCCA based on the Operating Agreement must be financed using funds separate from the Gaming Fund; such amounts are subject to annual appropriation by the General Assembly.

**Primary Government Commitment for the Commonwealth Financing Authority:** According to a contractual arrangement (Service Agreement) among the Department of Community and Economic Development, the Office of the Budget and the Commonwealth Financing Authority (CFA), a discretely presented component unit, the primary government is required to request sufficient annual appropriations from the General Assembly (to be funded by the **General Fund** and the Gaming 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, 2012 the primary government paid a Service Fee in the amount of \$116 million; also, during the fiscal year the CFA used \$9 million of proceeds from bonds it issued during previous fiscal years to pay the Department of Environmental Protection (\$1 million) and the Ben Franklin Technology Development Authority (\$8 million), a discretely presented component unit, as prescribed by applicable legislation. Disclosures related to the CFA's \$1.4 billion of revenue bonds payable are provided in Note K to the basic financial statements.

**Primary Government Commitment for the Pittsburgh Penguins Arena:** A lease agreement between the Commonwealth and the Sports and Exhibition Authority of Pittsburgh and Allegheny County (SEA), created a 'subject to appropriation' obligation of the Commonwealth. In October 2007, the SEA issued \$313.3 million of Commonwealth Lease Revenue Bonds (the Arena Bonds) to finance a multi-purpose arena to serve as home of the Pittsburgh Penguins (the Penguins), a hockey team in the National Hockey League. The Arena Bonds are not debt of the Commonwealth but are limited obligations of the SEA payable solely from the Special Revenues pledged therefor. These Special Revenues include annually (1) \$4.1 million from a lease with the Penguins, (2) not less than \$7.5 million from the operator of a casino located in the City of Pittsburgh, and (3) \$7.5 million from the Commonwealth's Gaming and Economic Development and Tourism Fund. While the Special Revenues currently are projected to be adequate to pay all debt service on the Arena Bonds, to the extent such revenues are in any year inadequate to cover debt service, the Commonwealth is obligated under the Arena Lease to fund such deficiency, subject in all cases to appropriation by the General Assembly. The maximum annual amount payable by the Commonwealth under the Arena Lease is \$19.1 million.

In April 2010, the SEA issued \$17.36 million in additional Commonwealth Lease Revenue Bonds (the Supplemental Arena Bonds). The Supplemental Arena Bonds do not constitute debt of the Commonwealth but are limited obligations of the SEA payable solely from the Special Revenues pledged therefor. The Commonwealth is obligated under the Arena Lease to fund any deficiency in Special Revenues necessary to pay debt service on the supplemental Bonds, subject in all cases to appropriation by the General Assembly.

**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; in turn, the Fund pays claimants on behalf of healthcare providers. The Fund has assets of \$.2 billion at June 30, 2012. The actuarially computed liability for outstanding claims for injuries caused by alleged negligence by certain healthcare providers totaled \$1.16 billion at June 30, 2012. 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 total \$463 million and \$1,538 million respectively, at June 30, 2012. 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, 2012. The fund has assets of \$231 million at June 30, 2012. 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. Contributions for the calendar year 2011 were \$136 million.

**NOTE Q - JOINT VENTURE**

The Commonwealth and various labor unions representing Commonwealth collective bargaining employees participate in a joint venture, the Pennsylvania Employees Benefit Trust Fund (PEBTF). The PEBTF was established in 1988 through an Agreement and Declaration of Trust (Agreement), which has been modified from time to time. The PEBTF establishes and provides healthcare benefits for active Commonwealth employees and is the Commonwealth's third party administrator for paying retiree healthcare benefits for the Commonwealth Retired Employee Health Program and the Retired Pennsylvania State Police Plan. The Commonwealth has, in its collective bargaining agreements with unions participating in the Agreement, obligated itself to provide certain contributions on behalf of nearly all active collective bargaining employees. The Commonwealth also remits contractually established contributions on behalf of active non-union employees and other active employees covered by contracts between the Commonwealth and other unions. Effective July 1, 2007 nearly all active employees contribute established percentages of their salaries and wages received, constituting an 'employee share,' to finance active employee benefits. During the fiscal year ended June 30, 2012, total employer contributions for active employees amounted to approximately \$809 million; active employee contributions amounted to approximately \$90 million. Neither the Commonwealth nor the unions have an equity interest in the PEBTF.

At June 30, 2012, for the active employees benefit program, the PEBTF reported total assets of over \$428 million, total liabilities of more than \$10 million, total benefit obligations of \$101 million, and an excess of net assets over benefit obligations of \$317 million. During the fiscal year ended June 30, 2012 the PEBTF reported a decrease in net assets over benefit obligations of over \$30 million for the active employees benefit program.

Due to timing differences in the implementation and payment of the new Employer Contribution effective July 1, 2011 the PEBTF recorded \$8.5 million in contribution overpayments for the fiscal year ended June 30, 2012. It is expected that these overpayments will be offset by reductions in contribution payments as the collective bargaining agreements are adopted. This includes 16 collective bargaining units representing 4,643 or 6% of employees. This is expected to be resolved during the fiscal year ending June 30, 2013.

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

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

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

The Commonwealth issued a Bond Anticipation Note (BAN) on July 25, 2012 for \$3,185 million to repay the Federal Government amounts outstanding on a loan from the Unemployment Compensation Trust Fund. The BAN was repaid on October 17, 2012 and through the Pennsylvania Economic Development Financing Authority the Unemployment Compensation Revenue Bonds, Series 2012A-C were issued in the aggregate amount of \$3,269 million.

On July 24, 2012 the Commonwealth issued \$362 million of General Obligation Bonds, First Refunding Series of 2012, to refund all or a portion of certain maturities of seven separate issues of Commonwealth General Obligation Bonds totaling \$415 million. The net refunding bond proceeds of \$444 million (including bond premium of \$83 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. By refunding these bonds, the Commonwealth reduced its outstanding general obligation debt service by \$73 million and realized an economic gain of \$65 million.

On November 28, 2012, the Commonwealth initiated a temporary interfund advance of \$500 million from the PA Treasury Department's Short Term Investment Pool to the Capital Facilities Fund. This advance was made to remedy cash flow imbalances and to allow work to continue on state-supported construction and improvement projects. Repayment is anticipated in March of 2013 at which time a general obligation bond will be issued.

**Discretely Presented Component Units**

On July 18, 2012, the PTC Commission issued 2012 Series A Turnpike Revenue Bonds in the principal amount of \$200 million at fixed rates between 3% and 5% and maturing on December 1, 2042. The 2012 bonds are being issued for the purpose of financing the costs of various capital expenditures set forth in the Commission's current ten-year plan including, but not limited to, the reconstruction of roadbed and roadway, the widening, replacing and redecking of certain bridges and/or the rehabilitation of certain interchanges.

On October 17, 2012, the PTC Commission issued 2012 Series B Turnpike Subordinate Revenue Bonds in the principal amount of \$121 million at fixed rates between 2% and 5% and maturing on December 1, 2042. The 2012 Series B Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

On October 17, 2012, the PTC Commission issued 2012 Series B Motor License Fund Enhanced Subordinate Special Revenue Bonds in the principal amount of \$92.8 million at fixed rates between 3% and 5% and maturing on December 1, 2042. The 2012 Series B Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

On November 14, 2012, the PTC Commission issued 2012 Series B Variable Rate Turnpike Revenue Bonds in the principal amount of \$70 million maturing on December 1, 2016. The 2012 Series B bonds are being issued to provide funds to refund the December 1, 2012 maturity of the 2009 Series C bonds in the amount of \$52 million and to refund December 1, 2012 maturity of the 2011 Series D bonds in the amount of \$17.5 million.

On June 22, 2012, the Governor signed Senate Bill No. 1433 (Act 70 of 2012). This bill authorized 90% of the 'Homeowner Assistance Settlement Agreement' to be appropriated to the PHFA's HEMAP Program. HEMAP's share of these funds will total approximately \$60 million over a multi-year period. Because this appropriation provides sufficient funding to allow HEMAP to restart, a notice was published in the PA Bulletin on August 18, 2012 announcing the fact that lenders are again subject to the requirements of Act 91 effective October 2, 2012.

On November 16, 2012, PHFA issued \$230 million of Single Family Mortgage Revenue Bonds, Series 114A through 114C. These bonds are general obligations of PHFA that bear interest at fixed rates payable on each April 1 and October 1, with a final maturity date of October 1, 2042. The bonds will be primarily secured by program obligations consisting of qualifying single-family mortgage loans purchased with bond proceeds.

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2012

# 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, 2012  
(\$ amounts in millions)

<b>Funding Progress:</b>	<b>REHP</b>	<b>RPSPP</b>	<b>PA Judiciary</b>	<b>PA House of Representatives</b>	<b>PA Senate</b>	<b>Total Primary Government</b>
<b>As of and for the fiscal year ended June 30, 2012</b>						
Actuarial Valuation Date.....	July 1, 2011	July 1, 2011	July 1, 2012	July 1, 2010	July 1, 2011	
Actuarial Value of Assets.....	\$ 70.74	\$ 59.90	\$ -	\$ -	\$ -	\$ 130.64
Actuarial Accrued Liability (AAL).....	\$ 12,907.79	\$ 2,492.28	\$ 425.50	\$ 352.27	\$ 217.75	\$ 16,395.59
Unfunded Actuarial Accrued Liability (UAAL).....	\$ 12,837.05	\$ 2,432.38	\$ 425.50	\$ 352.27	\$ 217.75	\$ 16,264.95
Funded Ratio (assets as % of AAL).....	0.5%	2.4%	0.0%	0.0%	0.0%	0.8%
Estimated Annual Covered Payroll.....	\$ 3,839.00	\$ 447.00	\$ 194.50	\$ 96.16	\$ 48.45	\$ 4,625.11
UAAL as a Percentage of Covered Payroll.....	334.4%	544.2%	218.7%	366.3%	449.5%	351.7%

<b>As of and for the fiscal year ended June 30, 2011</b>						
Actuarial Valuation Date.....	July 1, 2011	July 1, 2011	July 1, 2010	July 1, 2010	July 1, 2010	
Actuarial Value of Assets.....	\$ 70.74	\$ 59.90	\$ -	\$ -	\$ -	\$ 130.64
Actuarial Accrued Liability (AAL).....	\$ 12,907.79	\$ 2,492.28	\$ 442.30	\$ 352.27	\$ 222.17	\$ 16,416.81
Unfunded Actuarial Accrued Liability (UAAL).....	\$ 12,837.05	\$ 2,432.38	\$ 442.30	\$ 352.27	\$ 222.17	\$ 16,286.17
Funded Ratio (assets as % of AAL).....	0.5%	2.4%	0.0%	0.0%	0.0%	0.8%
Estimated Annual Covered Payroll.....	\$ 3,839.00	\$ 447.00	\$ 196.30	\$ 96.16	\$ 48.45	\$ 4,626.91
UAAL as a Percentage of Covered Payroll.....	334.4%	544.2%	225.3%	366.3%	458.6%	352.0%

<b>As of and for the fiscal year ended June 30, 2010</b>						
Actuarial Valuation Date.....	July 1, 2008	July 1, 2008	July 1, 2010	July 1, 2008	July 1, 2009	
Actuarial Value of Assets.....	\$ 47.92	\$ 40.57	\$ -	\$ -	\$ -	\$ 88.49
Actuarial Accrued Liability (AAL).....	\$ 13,257.57	\$ 2,104.24	\$ 423.30	\$ 308.46	\$ 210.05	\$ 16,303.62
Unfunded Actuarial Accrued Liability (UAAL).....	\$ 13,209.65	\$ 2,063.67	\$ 423.30	\$ 308.46	\$ 210.05	\$ 16,215.13
Funded Ratio (assets as % of AAL).....	0.4%	1.9%	0.0%	0.0%	0.0%	0.5%
Estimated Annual Covered Payroll.....	\$ 4,093.00	\$ 337.00	\$ 189.60	\$ 102.70	\$ 49.71	\$ 4,772.01
UAAL as a Percentage of Covered Payroll.....	322.7%	612.4%	223.3%	300.3%	422.5%	339.8%

<b>Employer Contributions:</b>	<b>REHP</b>	<b>RPSPP</b>	<b>PA Judiciary</b>	<b>PA House of Representatives</b>	<b>PA Senate</b>	<b>Total Primary Government</b>
<b>For the fiscal year ended June 30, 2012</b>						
Annual required contribution.....	\$ 866.77	\$ 174.23	\$ 34.07	\$ 41.33	\$ 17.02	\$ 1,133.42
Percentage contributed.....	72.5%	39.5%	63.0%	31.3%	37.5%	65.1%
<b>For the fiscal year ended June 30, 2011</b>						
Annual required contribution.....	\$ 879.21	\$ 158.33	\$ 35.96	\$ 41.33	\$ 17.70	\$ 1,132.52
Percentage contributed.....	68.1%	41.9%	58.9%	29.1%	34.9%	62.2%
<b>For the fiscal year ended June 30, 2010</b>						
Annual required contribution.....	\$ 848.53	\$ 151.15	\$ 34.25	\$ 38.23	\$ 16.83	\$ 1,089.00
Percentage contributed.....	60.7%	41.0%	52.6%	26.4%	33.6%	56.1%

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

**Commonwealth of Pennsylvania**  
**Budgetary Comparison Schedule**  
 Budgeted Major Funds  
 General Fund  
 For the Fiscal Year Ended June 30, 2012  
 (Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
<b>REVENUES:</b>					
State Programs:					
Corporation taxes.....	\$ 4,924,900	\$ (440,400)	\$ 4,484,500	\$ 479,210	\$ 4,963,710
Consumption taxes.....	10,182,500	(31,564)	10,150,936	15,284	10,166,220
Other taxes.....	12,225,300	(225,900)	11,999,400	19,198	12,018,598
<b>TOTAL TAX REVENUE.....</b>	<b>27,332,700</b>	<b>(697,864)</b>	<b>26,634,836</b>	<b>513,692</b>	<b>27,148,528</b>
Nontax revenue.....	508,136	(21,036)	487,100	42,371	529,471
<b>TOTAL REVENUE STATE.....</b>	<b>27,840,836</b>	<b>(718,900)</b>	<b>27,121,936</b>	<b>556,063</b>	<b>27,677,999</b>
less: Refunds.....	(1,310,000)	-	(1,310,000)	35,000	(1,275,000)
plus: Departmental services.....	2,586,858	-	2,586,858	525,805	3,112,663
<b>TOTAL STATE PROGRAMS.....</b>	<b>29,117,694</b>	<b>(718,900)</b>	<b>28,398,794</b>	<b>1,116,868</b>	<b>29,515,662</b>
Federal programs.....	20,902,338	(58,307)	20,844,031	(947,178)	19,896,853
<b>TOTAL REVENUES.....</b>	<b>50,020,032</b>	<b>(777,207)</b>	<b>49,242,825</b>	<b>169,690</b>	<b>49,412,515</b>
<b>EXPENDITURES:</b>					
State programs.....	29,747,293	1,000	29,748,293	394,909	30,143,202
Federal programs.....	20,902,338	(58,307)	20,844,031	(947,178)	19,896,853
<b>TOTAL EXPENDITURES.....</b>	<b>50,649,631</b>	<b>(57,307)</b>	<b>50,592,324</b>	<b>(552,269)</b>	<b>50,040,055</b>
<b>REVENUES UNDER EXPENDITURES.....</b>	<b>(629,599)</b>	<b>(719,900)</b>	<b>(1,349,499)</b>	<b>721,959</b>	<b>(627,540)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Current year lapses.....	-	160,000	160,000	(160,000)	-
Prior year lapses.....	-	195,000	195,000	(972)	194,028
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>355,000</b>	<b>355,000</b>	<b>(160,972)</b>	<b>194,028</b>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES.....</b>	<b>(629,599)</b>	<b>(364,900)</b>	<b>(994,499)</b>	<b>560,987</b>	<b>(433,512)</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2011, REVISED.....</b>	<b>1,072,863</b>	<b>14,750</b>	<b>1,087,613</b>	<b>4,950</b>	<b>1,092,563</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2012, REVISED.....</b>	<b>\$ 443,264</b>	<b>\$ (350,150)</b>	<b>\$ 93,114</b>	<b>\$ 565,937</b>	<b>\$ 659,051</b>

\* Current year lapse amount in the Actual (Budgetary Basis column) is already netted out of the state expenditure amount.

For Supporting Documentation, please go to [www.budget.state.pa.us](http://www.budget.state.pa.us)

- 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, 2012  
 (Amounts in thousands)

	<u>Original Budget</u>	<u>Difference</u>	<u>Final Budget</u>	<u>Difference</u>	<u>Actual (Budgetary Basis)</u>
<b>REVENUES:</b>					
State Programs:					
Liquid fuels taxes.....	\$ 1,227,520	\$ (140)	\$ 1,227,380	\$ (3,395)	\$ 1,223,985
Motor licenses and fees.....	906,980	(8,700)	898,280	(5,694)	892,586
Other Motor License Fund revenues *.....	281,880	880	282,760	14,884	297,644
<b>TOTAL REVENUE STATE.....</b>	<b>2,416,380</b>	<b>(7,960)</b>	<b>2,408,420</b>	<b>5,795</b>	<b>2,414,215</b>
plus: Departmental services *.....	269,843	-	269,843	(213,412)	56,431
<b>TOTAL STATE PROGRAMS.....</b>	<b>2,686,223</b>	<b>(7,960)</b>	<b>2,678,263</b>	<b>(207,617)</b>	<b>2,470,646</b>
Federal programs.....	1,657,191	-	1,657,191	(185,876)	1,471,315
<b>TOTAL REVENUES.....</b>	<b>4,343,414</b>	<b>(7,960)</b>	<b>4,335,454</b>	<b>(393,493)</b>	<b>3,941,961</b>
<b>EXPENDITURES:</b>					
State programs.....	2,885,235	-	2,885,235	(213,962)	2,671,273
Federal programs.....	1,657,191	-	1,657,191	(185,876)	1,471,315
<b>TOTAL EXPENDITURES.....</b>	<b>4,542,426</b>	<b>-</b>	<b>4,542,426</b>	<b>(399,838)</b>	<b>4,142,588</b>
<b>REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(199,012)</b>	<b>(7,960)</b>	<b>(206,972)</b>	<b>6,345</b>	<b>(200,627)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Current year lapses **.....	-	11,598	11,598	(11,598)	-
Prior year lapses.....	-	25,992	25,992	9,670	35,662
<b>TOTAL OTHER FINANCING SOURCES.....</b>	<b>-</b>	<b>37,590</b>	<b>37,590</b>	<b>(1,928)</b>	<b>35,662</b>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES.....</b>	<b>(199,012)</b>	<b>29,630</b>	<b>(169,382)</b>	<b>4,417</b>	<b>(164,965)</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2011.....</b>					
	317,996	-	317,996	-	317,996
<b>UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2012.....</b>					
	<b>\$ 118,984</b>	<b>\$ 29,630</b>	<b>\$ 148,614</b>	<b>\$ 4,417</b>	<b>\$ 153,031</b>

\* Act 44 receipts are included in Other Motor License Fund Revenues.

\*\* Current year lapse amount in the Actual (Budgetary Basis column) is already netted out of the state expenditure amount.

For Supporting Documentation, please go to [www.budget.state.pa.us](http://www.budget.state.pa.us)

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

# ***NOTES TO REQUIRED SUPPLEMENTARY INFORMATION***

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## **Note 1 - Budget Preparation Process**

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

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

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

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

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

## **Note 2 – Basis of Budgeting**

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

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

## **Note 3 - Reconciliation of Budgetary to GAAP Basis Amounts**

The Commonwealth adopts formal annual budgets for two major governmental funds (**General Fund** and **Motor License Fund**, a Special Revenue Fund) and three nonmajor governmental funds (Workers' Compensation Administration, Banking Department, and Milk Marketing Special Revenue funds). The Budgetary Comparison Schedules for Budgeted Major and

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Nonmajor Funds present comparisons of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals.

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

	<u>General Fund</u>			<u>Motor License Fund</u>
	<u>General Fund (Budgeted)</u>	<u>General Fund Components (Nonbudgeted)</u>	<u>Total</u>	
<b>Budgetary basis</b> – revenues and other sources under expenditures and other uses.....	\$ (433,512)	\$ -	\$ (433,512)	\$ (164,965)
<b>Adjustments:</b>				
<b><u>Basis differences</u></b>				
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(321,939)	-	(321,939)	1,094,176
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	388,427	-	388,427	(1,232,096)
<b>Basis difference adjustments.....</b>	<u>66,488</u>	<u>-</u>	<u>66,488</u>	<u>(137,920)</u>
<b><u>Perspective differences</u></b>				
Nonbudgeted statutory funds which are financially reported as part of this fund:				
Revenues.....	-	483,028	483,028	411
Expenditures.....	-	(478,144)	(478,144)	(8,011)
<b>Perspective difference adjustments...</b>	<u>-</u>	<u>4,884</u>	<u>4,884</u>	<u>(7,600)</u>
<b>Net adjustments.....</b>	<u>66,488</u>	<u>4,884</u>	<u>71,372</u>	<u>(145,520)</u>
<b>Modified accrual basis</b> – net change in governmental fund balance.....	<u>\$ (367,024)</u>	<u>\$ 4,884</u>	<u>\$ (362,140)</u>	<u>\$ (310,485)</u>

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

### Note 4 – Budgetary Compliance – Legal Level of Budgetary Control

The General Assembly passes, and the Governor approves (or reduces or vetoes), individual appropriations as part of the annual budget adoption process. Budgetary expenditure control occurs at the appropriation level; this is the lowest level of

## ***NOTES TO REQUIRED SUPPLEMENTARY INFORMATION***

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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 \$20.0 million in appropriations decreases approved during the fiscal year ended June 30, 2012.

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, 2012. 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.

To assist the user of the Budgetary Comparison Schedule, additional supporting documentation is available at <http://www.budget.state.pa.us>. This documentation provides a step by step guide to verifying the amounts reported in the Budgetary Comparison Schedule - Actual (Budgetary Basis) column for both the **General Fund** and the **Motor License Fund**.

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2012

# Combining Financial Statements

Including  
Nonmajor Budgetary Comparison Schedules

**Commonwealth of Pennsylvania**  
**Combining Balance Sheet-Nonmajor Governmental Funds**  
 June 30, 2012

(Amounts in thousands)

	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Total</u>
<b>ASSETS</b>				
Cash.....	\$ 14,689	\$ 54,354	\$ 233	\$ 69,276
Temporary investments.....	1,637,401	32,702	582,573	2,252,676
Long-term investments.....	1,314,100	-	79,931	1,394,031
Receivables, net:				
Taxes.....	-	-	18,800	18,800
Accounts.....	376,694	3,223	-	379,917
Investment income.....	4,967	2	122	5,091
Loans.....	-	-	52,670	52,670
Lease rentals.....	-	427	-	427
Investment sale proceeds.....	14,366	-	-	14,366
Other.....	23,725	-	-	23,725
Due from other funds.....	52,967	-	16,694	69,661
Due from pension trust funds.....	516	-	-	516
Due from component units.....	8,449	-	850	9,299
Due from Federal government.....	58,920	-	-	58,920
Due from political subdivisions.....	32	-	749	781
Advances to other funds.....	4,500	-	-	4,500
<b>TOTAL ASSETS.....</b>	<u>\$ 3,511,326</u>	<u>\$ 90,708</u>	<u>\$ 752,622</u>	<u>\$ 4,354,656</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities.....	\$ 202,223	\$ -	\$ 167,637	\$ 369,860
Investment purchases payable.....	30,469	38,659	-	69,128
Securities lending obligations.....	60,185	-	1,617	61,802
Due to other funds.....	9,232	-	17,540	26,772
Due to component units.....	15,019	-	3,689	18,708
Due to pension trust funds.....	710	-	-	710
Due to political subdivisions.....	41,954	-	52,521	94,475
Due to other governments.....	575	-	-	575
Unearned revenue.....	254,351	3,649	-	258,000
<b>TOTAL LIABILITIES.....</b>	<u>614,718</u>	<u>42,308</u>	<u>243,004</u>	<u>900,030</u>
<b>Fund balances:</b>				
Restricted.....	2,497,356	-	-	2,497,356
Committed.....	402,207	48,400	509,618	960,225
Unassigned deficit.....	(2,955)	-	-	(2,955)
<b>TOTAL FUND BALANCES.....</b>	<u>2,896,608</u>	<u>48,400</u>	<u>509,618</u>	<u>3,454,626</u>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<u>\$ 3,511,326</u>	<u>\$ 90,708</u>	<u>\$ 752,622</u>	<u>\$ 4,354,656</u>

**Commonwealth of Pennsylvania**

**Combining Statement of Revenues, Expenditures, and Changes in Fund**

**Balances-Nonmajor Governmental Funds**

For the Fiscal Year Ended June 30, 2012

(Amounts in thousands)

	<b>Special Revenue Funds</b>	<b>Debt Service Funds</b>	<b>Capital Projects Funds</b>	<b>Total</b>
<b>REVENUES:</b>				
Taxes.....	\$ 1,874,634	\$ -	\$ 227,032	\$ 2,101,666
Licenses and fees.....	630,707	-	-	630,707
Intergovernmental.....	581,596	29,424	-	611,020
Charges for sales and services.....	203,229	600	2,943	206,772
Investment income.....	62,575	1,523	3,485	67,583
Interest on notes and loans.....	-	-	1,261	1,261
Other.....	357,973	8,395	-	366,368
<b>TOTAL REVENUES</b> .....	<u>3,710,714</u>	<u>39,942</u>	<u>234,721</u>	<u>3,985,377</u>
<b>EXPENDITURES:</b>				
Current:				
Direction and supportive services.....	438,220	1,395	137,278	576,893
Protection of persons and property.....	332,860	-	14,644	347,504
Health and human services.....	631,671	-	-	631,671
Public education.....	613,558	-	13,392	626,950
Recreation and cultural enrichment.....	186,381	-	49,611	235,992
Economic development.....	278,510	-	383,043	661,553
Transportation.....	715,774	-	504,674	1,220,448
Capital outlay.....	13,856	-	600,536	614,392
Debt service:				
Principal retirement.....	-	702,145	-	702,145
Interest and fiscal charges.....	-	494,188	-	494,188
<b>TOTAL EXPENDITURES</b> .....	<u>3,210,830</u>	<u>1,197,728</u>	<u>1,703,178</u>	<u>6,111,736</u>
<b>EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER) EXPENDITURES</b> .....	<u>499,884</u>	<u>(1,157,786)</u>	<u>(1,468,457)</u>	<u>(2,126,359)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Bonds issued.....	-	-	1,554,282	1,554,282
Refunding bonds issued.....	-	161,272	-	161,272
Premium on bonds/refunding bonds.....	-	31,118	222,370	253,488
Transfers in.....	163,265	1,189,146	-	1,352,411
Transfers out.....	(398,606)	-	(17,046)	(415,652)
Payment to refunded bond escrow agent.....	-	(192,390)	-	(192,390)
<b>NET OTHER FINANCING SOURCES (USES)</b> .....	<u>(235,341)</u>	<u>1,189,146</u>	<u>1,759,606</u>	<u>2,713,411</u>
<b>NET CHANGE IN FUND BALANCES</b> .....	264,543	31,360	291,149	587,052
<b>FUND BALANCES JULY 1, 2011</b> .....	<u>2,632,065</u>	<u>17,040</u>	<u>218,469</u>	<u>2,867,574</u>
<b>FUND BALANCES JUNE 30, 2012</b> .....	<u>\$ 2,896,608</u>	<u>\$ 48,400</u>	<u>\$ 509,618</u>	<u>\$ 3,454,626</u>

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2012

# Special Revenue Funds

Including  
Nonmajor Budgetary Comparison Schedules

**SPECIAL REVENUE FUNDS**  
**DESCRIPTION**  
**NONMAJOR FUNDS**

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

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

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

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

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

**Tobacco Settlement Fund** — 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. Amounts received from the Pennsylvania health insurance companies are held in a restricted account and used exclusively for Department of Insurance initiatives.

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

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

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

There are a total of forty-four individual special revenue funds; the **Motor License** special revenue fund is reported as a Major Fund in the basic financial statements.

**Commonwealth of Pennsylvania**  
**Combining Balance Sheet-Nonmajor Governmental Funds**

Special Revenue Funds  
 June 30, 2012

(Amounts in thousands)

	Budgeted Funds							Other	Total
	Banking Department	Milk Marketing	Workers' Compensation Admin.	Workers' Compensation Security	Tobacco Settlement Fund	Public Transportation Trust	Gaming		
<b>ASSETS</b>									
Cash.....	\$ 12	\$ 103	\$ -	\$ 611	\$ -	\$ 39	\$ 3,063	\$ 10,861	\$ 14,689
Temporary investments.....	4,842	3,945	107,286	103,937	210,564	81,145	830,938	294,744	1,637,401
Long-term investments.....	10,658	-	-	601,866	220,035	79,931	-	401,610	1,314,100
Receivables, net:									
Accounts.....	6,225	-	9	-	168,096	-	4	202,360	376,694
Investment income.....	1	1	-	4,285	456	21	150	53	4,967
Investment sale proceeds.....	-	-	-	12,079	2,287	-	-	-	14,366
Other.....	-	-	-	-	-	-	-	23,725	23,725
Due from other funds.....	3	1	3	-	-	36,882	2	16,076	52,967
Due from pension trust funds.....	-	-	-	-	-	-	-	516	516
Due from component units.....	-	-	-	-	-	-	8,449	-	8,449
Due from Federal government.....	-	-	-	-	32,118	-	-	26,802	58,920
Due from political subdivisions.....	32	-	-	-	-	-	-	-	32
Advances to other funds.....	-	-	-	1,500	-	-	-	3,000	4,500
<b>TOTAL ASSETS.....</b>	<b>\$ 21,773</b>	<b>\$ 4,050</b>	<b>\$ 107,298</b>	<b>\$ 724,278</b>	<b>\$ 633,556</b>	<b>\$ 198,018</b>	<b>\$ 842,606</b>	<b>\$ 979,747</b>	<b>\$ 3,511,326</b>
<b>LIABILITIES AND FUND BALANCES</b>									
<b>Liabilities:</b>									
Accounts payable and accrued liabilities.....	\$ 829	\$ 103	\$ 2,768	\$ 1,168	\$ 83,815	\$ 4,568	\$ 24,643	\$ 84,329	\$ 202,223
Investment purchases payable.....	-	-	-	28,280	2,189	-	-	-	30,469
Securities lending obligations.....	216	-	-	46,879	3,349	1,617	-	8,124	60,185
Due to other funds.....	34	46	169	309	266	5	954	7,449	9,232
Due to component units.....	-	-	-	-	-	-	15,000	19	15,019
Due to pension trust funds.....	40	2	95	-	2	3	127	441	710
Due to political subdivisions.....	1	-	1	-	2,438	4,813	30,196	4,505	41,954
Due to other governments.....	29	2	88	-	1	3	59	393	575
Unearned revenue.....	-	1,421	-	-	168,096	-	35,418	49,416	254,351
<b>TOTAL LIABILITIES.....</b>	<b>1,149</b>	<b>1,574</b>	<b>3,121</b>	<b>76,636</b>	<b>260,156</b>	<b>11,009</b>	<b>106,397</b>	<b>154,676</b>	<b>614,718</b>
<b>Fund balances:</b>									
Restricted.....	20,624	2,476	104,177	647,642	-	187,009	736,209	799,219	2,497,356
Committed.....	-	-	-	-	373,400	-	-	28,807	402,207
Unassigned deficit.....	-	-	-	-	-	-	-	(2,955)	(2,955)
<b>TOTAL FUND BALANCES.....</b>	<b>20,624</b>	<b>2,476</b>	<b>104,177</b>	<b>647,642</b>	<b>373,400</b>	<b>187,009</b>	<b>736,209</b>	<b>825,071</b>	<b>2,896,608</b>
<b>TOTAL LIABILITIES AND FUND BALANCES..</b>	<b>\$ 21,773</b>	<b>\$ 4,050</b>	<b>\$ 107,298</b>	<b>\$ 724,278</b>	<b>\$ 633,556</b>	<b>\$ 198,018</b>	<b>\$ 842,606</b>	<b>\$ 979,747</b>	<b>\$ 3,511,326</b>

**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, 2012

(Amounts in thousands)

	Budgeted Funds						Gaming	Other	Total
	Banking Department	Milk Marketing	Workers' Compensation Admin.	Workers' Compensation Security	Tobacco Settlement Fund	Public Transportation Trust			
<b>REVENUES:</b>									
Taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 408,503	\$ 1,392,700	\$ 73,431	\$ 1,874,634
Licenses and fees.....	5,636	2,197	28	16,484	-	-	60,814	545,548	630,707
Intergovernmental.....	-	-	-	-	147,309	250,000	10,096	174,191	581,596
Charges for sales and services.....	12,818	-	59,879	-	-	-	-	130,532	203,229
Investment income (loss).....	315	9	338	53,478	(6,729)	2,526	1,358	11,280	62,575
Other.....	1	-	99	896	338,291	-	-	18,686	357,973
<b>TOTAL REVENUES</b> .....	<b>18,770</b>	<b>2,206</b>	<b>60,344</b>	<b>70,858</b>	<b>478,871</b>	<b>661,029</b>	<b>1,464,968</b>	<b>953,668</b>	<b>3,710,714</b>
<b>EXPENDITURES:</b>									
Current:									
Direction and supportive services.....	-	-	5	3	-	-	437,650	562	438,220
Protection of persons and property.....	18,419	2,278	-	30,307	13,129	-	4,586	264,141	332,860
Health and human services.....	-	-	63,826	-	516,774	-	8,449	42,622	631,671
Public education.....	-	-	-	-	-	-	612,100	1,458	613,558
Recreation and cultural enrichment.....	-	-	-	-	-	-	14,928	171,453	186,381
Economic development.....	-	-	125	-	3,178	-	94,460	180,747	278,510
Transportation.....	-	-	-	-	-	715,774	-	-	715,774
Capital outlay.....	-	-	319	-	-	-	-	13,537	13,856
<b>TOTAL EXPENDITURES</b> .....	<b>18,419</b>	<b>2,278</b>	<b>64,275</b>	<b>30,310</b>	<b>533,081</b>	<b>715,774</b>	<b>1,172,173</b>	<b>674,520</b>	<b>3,210,830</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b> .....	<b>351</b>	<b>(72)</b>	<b>(3,931)</b>	<b>40,548</b>	<b>(54,210)</b>	<b>(54,745)</b>	<b>292,795</b>	<b>279,148</b>	<b>499,884</b>
<b>OTHER FINANCING SOURCES (USES):</b>									
Transfers in.....	-	-	-	-	-	106,656	-	56,609	163,265
Transfers out.....	-	-	(5,980)	-	(24,790)	-	(288,103)	(79,733)	(398,606)
<b>NET OTHER FINANCING SOURCES (USES)</b> .....	<b>-</b>	<b>-</b>	<b>(5,980)</b>	<b>-</b>	<b>(24,790)</b>	<b>106,656</b>	<b>(288,103)</b>	<b>(23,124)</b>	<b>(235,341)</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>351</b>	<b>(72)</b>	<b>(9,911)</b>	<b>40,548</b>	<b>(79,000)</b>	<b>51,911</b>	<b>4,692</b>	<b>256,024</b>	<b>264,543</b>
<b>FUND BALANCES, JULY 1, 2011</b> .....	<b>20,273</b>	<b>2,548</b>	<b>114,088</b>	<b>607,094</b>	<b>452,400</b>	<b>135,098</b>	<b>731,517</b>	<b>569,047</b>	<b>2,632,065</b>
<b>FUND BALANCES, JUNE 30, 2012</b> .....	<b>\$ 20,624</b>	<b>\$ 2,476</b>	<b>\$ 104,177</b>	<b>\$ 647,642</b>	<b>\$ 373,400</b>	<b>\$ 187,009</b>	<b>\$ 736,209</b>	<b>\$ 825,071</b>	<b>\$ 2,896,608</b>



**Commonwealth of Pennsylvania**  
**Budgetary Comparison Schedule**  
 Budgeted Nonmajor Funds  
 Special Revenue Fund-Banking Department  
 For the Fiscal Year Ended June 30, 2012

(Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
<b>REVENUES:</b>					
State Programs:					
Licenses and fees.....	\$ 16,134	\$ 88	\$ 16,222	\$ 1,205	\$ 17,427
Fines, penalties and interest.....	1,500	(200)	1,300	(110)	1,190
Investment income.....	205	80	285	(1)	284
<b>TOTAL REVENUES</b> .....	<u>17,839</u>	<u>(32)</u>	<u>17,807</u>	<u>1,094</u>	<u>18,901</u>
<b>EXPENDITURES:</b>					
State Programs.....	21,354	-	21,354	(5)	21,349
<b>REVENUES OVER (UNDER) EXPENDITURES</b> .....	<u>(3,515)</u>	<u>(32)</u>	<u>(3,547)</u>	<u>1,099</u>	<u>(2,448)</u>
<b>OTHER FINANCING SOURCES:</b>					
Prior year lapses.....	-	2,482	2,482	5	2,487
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES</b> .....	<u>(3,515)</u>	<u>2,450</u>	<u>(1,065)</u>	<u>1,104</u>	<u>39</u>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2011</b> .....	10,951	-	10,951	-	10,951
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2012</b> .....	<u>\$ 7,436</u>	<u>\$ 2,450</u>	<u>\$ 9,886</u>	<u>\$ 1,104</u>	<u>\$ 10,990</u>

**Budgetary Compliance**

A separately available budgetary report, the "Status of Appropriations" (Special Funds), demonstrates budgetary expenditure compliance for the Banking Department for the fiscal year ended June 30, 2012 and is available at the following web address:  
<http://www.portal.state.pa.us/portal/server.pt?open=512&objID=4574&&PageID=473560&mode=2> (At the website, click on June 2012.)

**Total Actual (Budgetary Basis) Expenditures of \$21,349 are traceable from page 102, Column A 'Appropriations' in the June 30, 2012 "Status of Appropriations" (Special Funds).**

**Reconciliation of Budgetary to GAAP Basis Amounts**

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

<b>Budgetary basis</b> — revenues and other sources under expenditures (from Actual column above).....	<u>\$ 39</u>
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(2,618)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	<u>2,930</u>
Net adjustments.....	<u>312</u>
<b>Modified accrual basis</b> — net change in governmental fund balance.....	<u>\$ 351</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 151 to 153 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, 2012

(Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
<b>REVENUES:</b>					
State Programs:					
Licenses and fees.....	\$ 2,550	\$ -	\$ 2,550	\$ (372)	\$ 2,178
Fines, penalties and interest.....	10	-	10	9	19
Investment income.....	7	-	7	2	9
<b>TOTAL REVENUES.....</b>	<b>2,567</b>	<b>-</b>	<b>2,567</b>	<b>(361)</b>	<b>2,206</b>
<b>EXPENDITURES:</b>					
State programs.....	2,807	-	2,807	-	2,807
<b>REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(240)</b>	<b>-</b>	<b>(240)</b>	<b>(361)</b>	<b>(601)</b>
<b>OTHER FINANCING SOURCES:</b>					
Prior year lapses.....	-	465	465	-	465
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....</b>	<b>(240)</b>	<b>465</b>	<b>225</b>	<b>(361)</b>	<b>(136)</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2011.....</b>	<b>2,063</b>	<b>-</b>	<b>2,063</b>	<b>-</b>	<b>2,063</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2012.....</b>	<b>\$ 1,823</b>	<b>\$ 465</b>	<b>\$ 2,288</b>	<b>\$ (361)</b>	<b>\$ 1,927</b>

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, 2012 and is available at the following web address:  
<http://www.portal.state.pa.us/portal/server.pt?open=512&objID=4574&&PageID=473560&mode=2> (At the website, click on June 2012.)

Total Actual (Budgetary Basis) Expenditures of \$2,807 are traceable from page 108, Column A 'Appropriations' in the June 30, 2012 "Status of Appropriations" (Special Funds).

**Reconciliation of Budgetary to GAAP Basis Amounts**

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

<b>Budgetary basis</b> — revenues and other sources over expenditures (from Actual column above).....	\$ (136)
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(465)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	529
Net adjustments.....	64
<b>Modified accrual basis</b> — net change in governmental fund balance.....	<b>\$ (72)</b>

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 151 to 153 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, 2012  
 (Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
<b>REVENUES:</b>					
State Programs:					
Taxes, net of refunds.....	\$ 72,615	\$ (10,028)	\$ 62,587	\$ (157)	\$ 62,430
Fines, penalties and interest.....	201	(181)	20	4	24
Investment income.....	20	318	338	-	338
Departmental services.....	194	-	194	-	194
Miscellaneous.....	150	(104)	46	54	100
<b>TOTAL REVENUES.....</b>	<b>73,180</b>	<b>(9,995)</b>	<b>63,185</b>	<b>(99)</b>	<b>63,086</b>
<b>EXPENDITURES:</b>					
State programs.....	75,141	11,296	86,437	-	86,437
<b>REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(1,961)</b>	<b>(21,291)</b>	<b>(23,252)</b>	<b>(99)</b>	<b>(23,351)</b>
<b>OTHER FINANCING SOURCES:</b>					
Prior year lapses.....	-	13,032	13,032	-	13,032
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....</b>	<b>(1,961)</b>	<b>(8,259)</b>	<b>(10,220)</b>	<b>(99)</b>	<b>(10,319)</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2011.....</b>	<b>95,845</b>	<b>-</b>	<b>95,845</b>	<b>-</b>	<b>95,845</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2012.....</b>	<b>\$ 93,884</b>	<b>\$ (8,259)</b>	<b>\$ 85,625</b>	<b>\$ (99)</b>	<b>\$ 85,526</b>

**Budgetary Compliance**

A separately available budgetary report, the "Status of Appropriations" (Special Funds), demonstrates budgetary expenditure compliance for the Workers' Compensation Administration Fund for the fiscal year ended June 30, 2012 and is available at the following web address:  
<http://www.portal.state.pa.us/portal/server.pt?open=512&objID=4574&&PageID=473560&mode=2> (At the website, click on June 2012)

<u>Traceability to the " Status of Appropriations " Column Totals</u>	<i>Special Funds</i> <i>"Status of</i> <i>Appropriations"</i> <b>Report Page</b>	
<u>Total State Programs-Actual (Budgetary Basis) Expenditures</u>	<b>Reference</b>	
Appropriations (Column A).....	269	\$ 85,990
plus Actual Augmentations (Column B).....	269	447
less Lapses (Column C).....	269	-
<b>TOTAL STATE PROGRAMS Actual (Budgetary Basis) Expenditures</b>		<b>\$ 86,437</b>

**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):

<b>Budgetary basis</b> — revenues and other sources under expenditures (from Actual column above).....	<b>\$ (10,319)</b>
<b>Adjustments:</b>	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(15,774)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	16,182
Net adjustments.....	408
<b>Modified accrual basis</b> — net change in governmental fund balance.....	<b>\$ (9,911)</b>

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 151 to 153 are an integral part of this schedule. -

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2012

# 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.

*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 fourteen 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, 2012

(Amounts in thousands)

	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Land and Water Development Sinking	Other	Total
<b>ASSETS</b>							
Cash.....	\$ -	\$ 54,354	\$ -	\$ -	\$ -	\$ -	\$ 54,354
Temporary investments.....	889	30,569	-	-	111	1,133	32,702
Receivables, net:							
Accounts.....	-	3,223	-	-	-	-	3,223
Investment income.....	-	2	-	-	-	-	2
Lease rentals.....	-	427	-	-	-	-	427
<b>TOTAL ASSETS.....</b>	<b>\$ 889</b>	<b>\$ 88,575</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 111</b>	<b>\$ 1,133</b>	<b>\$ 90,708</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Investment purchases payable.....	\$ -	\$ 38,659	\$ -	\$ -	\$ -	\$ -	\$ 38,659
Unearned revenue.....	-	3,649	-	-	-	-	3,649
<b>TOTAL LIABILITIES.....</b>	<b>-</b>	<b>42,308</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>42,308</b>
<b>Fund balances:</b>							
Committed.....	889	46,267	-	-	111	1,133	48,400
<b>TOTAL FUND BALANCES.....</b>	<b>889</b>	<b>46,267</b>	<b>-</b>	<b>-</b>	<b>111</b>	<b>1,133</b>	<b>48,400</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 889</b>	<b>\$ 88,575</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 111</b>	<b>\$ 1,133</b>	<b>\$ 90,708</b>

*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, 2012

(Amounts in thousands)	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Land and Water Development Sinking	Other	Total
<b>REVENUES:</b>							
Intergovernmental.....	\$ -	\$ 29,424	\$ -	\$ -	\$ -	\$ -	\$ 29,424
Charges for sales and services.....	-	600	-	-	-	-	600
Investment income.....	2	1,425	-	-	10	86	1,523
Other.....	5,585	2,810	-	-	-	-	8,395
<b>TOTAL REVENUES</b> .....	<u>5,587</u>	<u>34,259</u>	<u>-</u>	<u>-</u>	<u>10</u>	<u>86</u>	<u>39,942</u>
<b>EXPENDITURES:</b>							
Current:							
Direction and supportive services.....	-	1,395	-	-	-	-	1,395
Debt service:							
Principal retirement.....	6,075	665,575	460	1,685	230	28,120	702,145
Interest and fiscal charges.....	5,216	447,339	45	164	23	41,401	494,188
<b>TOTAL EXPENDITURES</b> .....	<u>11,291</u>	<u>1,114,309</u>	<u>505</u>	<u>1,849</u>	<u>253</u>	<u>69,521</u>	<u>1,197,728</u>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b> .....	<u>(5,704)</u>	<u>(1,080,050)</u>	<u>(505)</u>	<u>(1,849)</u>	<u>(243)</u>	<u>(69,435)</u>	<u>(1,157,786)</u>
<b>OTHER FINANCING SOURCES (USES):</b>							
Refunding bonds issued.....	-	161,272	-	-	-	-	161,272
Premium on refunding bonds.....	-	31,118	-	-	-	-	31,118
Transfers in.....	4,807	1,112,885	505	1,849	-	69,100	1,189,146
Payment to refunded bond escrow agent.....	-	(192,390)	-	-	-	-	(192,390)
<b>NET OTHER FINANCING SOURCES</b> .....	<u>4,807</u>	<u>1,112,885</u>	<u>505</u>	<u>1,849</u>	<u>-</u>	<u>69,100</u>	<u>1,189,146</u>
<b>NET CHANGE IN FUND BALANCES</b> .....	<u>(897)</u>	<u>32,835</u>	<u>-</u>	<u>-</u>	<u>(243)</u>	<u>(335)</u>	<u>31,360</u>
<b>FUND BALANCES, JULY 1, 2011</b> .....	<u>1,786</u>	<u>13,432</u>	<u>-</u>	<u>-</u>	<u>354</u>	<u>1,468</u>	<u>17,040</u>
<b>FUND BALANCES, JUNE 30, 2012</b> .....	<u>\$ 889</u>	<u>\$ 46,267</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 111</u>	<u>\$ 1,133</u>	<u>\$ 48,400</u>





Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2012

# 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.

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

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

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

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

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

**Commonwealth of Pennsylvania**  
**Combining Balance Sheet-Nonmajor Governmental Funds**

Capital Project Funds  
 June 30, 2012

(Amounts in thousands)

	Capital Facilities	Keystone Recreation, Park and Conservation	Growing Greener Bond	Water Supply and Wastewater Treatment	Land and Water Development	Public Transportation Assistance	Total
<b>ASSETS</b>							
Cash.....	\$ 188	\$ -	\$ -	\$ 42	\$ -	\$ 3	\$ 233
Temporary investments.....	512,913	14,457	18,045	29,354	428	7,376	582,573
Long-term investments.....	-	79,931	-	-	-	-	79,931
Receivables, net:							
Taxes.....	-	-	-	-	-	18,800	18,800
Investment income.....	106	3	4	6	-	3	122
Notes and loans.....	-	-	-	52,670	-	-	52,670
Due from other funds.....	3,820	5,123	-	-	-	7,751	16,694
Due from component units.....	850	-	-	-	-	-	850
Due from political subdivisions.....	749	-	-	-	-	-	749
<b>TOTAL ASSETS.....</b>	<b>\$ 518,626</b>	<b>\$ 99,514</b>	<b>\$ 18,049</b>	<b>\$ 82,072</b>	<b>\$ 428</b>	<b>\$ 33,933</b>	<b>\$ 752,622</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Accounts payable and accrued liabilities.....	\$ 159,408	\$ 5,670	\$ 2,015	\$ 539	\$ 5	\$ -	\$ 167,637
Securities lending obligations.....	-	1,617	-	-	-	-	1,617
Due to other funds.....	16,490	18	157	-	-	875	17,540
Due to component units.....	3,689	-	-	-	-	-	3,689
Due to political subdivisions.....	42,339	1,479	-	2,202	-	6,501	52,521
<b>TOTAL LIABILITIES.....</b>	<b>221,926</b>	<b>8,784</b>	<b>2,172</b>	<b>2,741</b>	<b>5</b>	<b>7,376</b>	<b>243,004</b>
<b>Fund balances:</b>							
Committed.....	296,700	90,730	15,877	79,331	423	26,557	509,618
<b>TOTAL FUND BALANCES.....</b>	<b>296,700</b>	<b>90,730</b>	<b>15,877</b>	<b>79,331</b>	<b>423</b>	<b>26,557</b>	<b>509,618</b>
<b>TOTAL LIABILITIES AND FUND BALANCES..</b>	<b>\$ 518,626</b>	<b>\$ 99,514</b>	<b>\$ 18,049</b>	<b>\$ 82,072</b>	<b>\$ 428</b>	<b>\$ 33,933</b>	<b>\$ 752,622</b>

**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, 2012

(Amounts in thousands)

	Capital Facilities	Keystone Recreation, Park and Conservation	Growing Greener Bond	Water Supply and Wastewater Treatment	Land and Water Development	Public Transportation Assistance	Total
<b>REVENUES:</b>							
Taxes.....	\$ -	\$ 51,248	\$ -	\$ -	\$ -	\$ 175,784	\$ 227,032
Charges for sales and services.....	2,943	-	-	-	-	-	2,943
Investment income.....	1,036	2,295	37	77	-	40	3,485
Interest on notes and loans.....	-	-	1	1,260	-	-	1,261
<b>TOTAL REVENUES</b> .....	<b>3,979</b>	<b>53,543</b>	<b>38</b>	<b>1,337</b>	<b>-</b>	<b>175,824</b>	<b>234,721</b>
<b>EXPENDITURES:</b>							
Current:							
Direction and supportive services.....	137,262	-	16	-	-	-	137,278
Protection of persons and property.....	-	-	14,625	-	19	-	14,644
Public education.....	-	6,844	6,548	-	-	-	13,392
Recreation and cultural enrichment.....	734	41,410	7,467	-	-	-	49,611
Economic development.....	363,813	-	5,403	13,827	-	-	383,043
Transportation.....	342,586	-	-	-	-	162,088	504,674
Capital outlay.....	589,986	5,974	4,576	-	-	-	600,536
<b>TOTAL EXPENDITURES</b> .....	<b>1,434,381</b>	<b>54,228</b>	<b>38,635</b>	<b>13,827</b>	<b>19</b>	<b>162,088</b>	<b>1,703,178</b>
<b>EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER) EXPENDITURES</b> .....	<b>(1,430,402)</b>	<b>(685)</b>	<b>(38,597)</b>	<b>(12,490)</b>	<b>(19)</b>	<b>13,736</b>	<b>(1,468,457)</b>
<b>OTHER FINANCING SOURCES (USES):</b>							
Bonds issued.....	1,529,282	-	25,000	-	-	-	1,554,282
Premium on bonds issued.....	218,531	-	3,839	-	-	-	222,370
Transfers out.....	-	-	-	-	-	(17,046)	(17,046)
<b>NET OTHER FINANCING SOURCES (USES)</b> .....	<b>1,747,813</b>	<b>-</b>	<b>28,839</b>	<b>-</b>	<b>-</b>	<b>(17,046)</b>	<b>1,759,606</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>317,411</b>	<b>(685)</b>	<b>(9,758)</b>	<b>(12,490)</b>	<b>(19)</b>	<b>(3,310)</b>	<b>291,149</b>
<b>FUND BALANCES JULY 1, 2011</b> .....	<b>(20,711)</b>	<b>91,415</b>	<b>25,635</b>	<b>91,821</b>	<b>442</b>	<b>29,867</b>	<b>218,469</b>
<b>FUND BALANCES JUNE 30, 2012</b> .....	<b>\$ 296,700</b>	<b>\$ 90,730</b>	<b>\$ 15,877</b>	<b>\$ 79,331</b>	<b>\$ 423</b>	<b>\$ 26,557</b>	<b>\$ 509,618</b>



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2012

# 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, 2012

(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
<b>ASSETS</b>									
Current assets:									
Cash .....	\$ 32,025	\$ 130	\$ 1,062	\$ 56	\$ 92	\$ 6	\$ -	\$ 164	\$ 33,535
Cash with fiscal agents.....	-	-	-	-	-	-	-	1	1
Temporary investments.....	163,539	32,374	26,038	58,023	19,744	10,331	4,076	14,004	328,129
Receivables:									
Accounts .....	17,755	-	-	-	-	-	-	241	17,996
Investment income.....	-	6	5	11	3	2	1	3	31
Interest on loans.....	-	-	240	-	-	477	-	-	717
Loans.....	-	9,992	16,733	12,432	-	7,991	849	261	48,258
Due from other funds .....	31	-	-	-	-	205	-	3,909	4,145
Due from component units.....	-	-	-	-	-	-	-	14	14
Due from Federal government.....	-	-	-	-	-	-	-	1	1
Other-Advances to other funds.....	-	-	-	-	-	1,400	-	-	1,400
Inventory.....	176,596	-	-	-	-	-	-	4	176,600
Prepaid expenses.....	2,452	-	-	-	-	-	-	-	2,452
Total current assets .....	392,398	42,502	44,078	70,522	19,839	20,412	4,926	18,602	613,279
Noncurrent assets:									
Long-term investments .....	-	53,288	31,973	58,616	74,603	53,288	-	-	271,768
Receivables:									
Loans.....	-	45,348	72,424	38,323	-	49,138	1,962	735	207,930
Non-depreciable capital assets:									
Land.....	323	-	-	-	-	-	-	-	323
Depreciable or amortizable capital assets:									
Buildings and building improvements.....	22,835	-	-	-	-	-	-	25,351	48,186
Machinery and equipment.....	80,649	-	-	-	146	-	-	4,067	84,862
Intangible assets.....	14,034	-	-	-	-	-	-	-	14,034
Less: accumulated depreciation and amortization...	(64,530)	-	-	-	(32)	-	-	(21,667)	(86,229)
Net depreciable or amortizable capital assets.....	52,988	-	-	-	114	-	-	7,751	60,853
Total noncurrent assets .....	53,311	98,636	104,397	96,939	74,717	102,426	1,962	8,486	540,874
<b>TOTAL ASSETS.....</b>	<b>445,709</b>	<b>141,138</b>	<b>148,475</b>	<b>167,461</b>	<b>94,556</b>	<b>122,838</b>	<b>6,888</b>	<b>27,088</b>	<b>1,154,153</b>



**Commonwealth of Pennsylvania**  
**Combining Statement of Net Assets-Nonmajor Proprietary Funds**  
 Enterprise Funds  
 June 30, 2012

(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
<b>LIABILITIES</b>									
Current liabilities:									
Accounts payable and accrued liabilities.....	237,323	18	-	17	278	-	7	1,458	239,101
Securities lending obligations.....	-	1,078	647	1,186	1,509	1,078	-	-	5,498
Due to other funds.....	6,590	3	12	258	4	-	1	75	6,943
Due to pension trust funds.....	949	1	-	1	5	-	-	39	995
Due to component units.....	-	-	-	-	4	-	-	-	4
Due to political subdivisions.....	-	-	-	-	-	-	-	22	22
Due to other governments.....	603	-	-	-	3	-	-	29	635
Unearned revenue.....	-	-	69	-	2,617	-	-	806	3,492
Self insurance liabilities.....	5,060	5	-	6	24	-	3	217	5,315
Compensated absences.....	5,263	-	-	-	71	-	-	319	5,653
Advances from other funds.....	110,000	3,000	-	-	-	-	-	-	113,000
Total current liabilities.....	<u>365,788</u>	<u>4,105</u>	<u>728</u>	<u>1,468</u>	<u>4,515</u>	<u>1,078</u>	<u>11</u>	<u>2,965</u>	<u>380,658</u>
Non-current liabilities:									
Insurance loss liability.....	-	-	-	-	303	-	-	-	303
Compensated absences.....	22,438	-	-	-	301	-	-	1,363	24,102
Self insurance liabilities.....	27,146	29	-	30	128	-	14	1,170	28,517
Other postemployment benefit obligations.....	47,638	71	-	82	354	-	41	3,137	51,323
Total non-current liabilities.....	<u>97,222</u>	<u>100</u>	<u>-</u>	<u>112</u>	<u>1,086</u>	<u>-</u>	<u>55</u>	<u>5,670</u>	<u>104,245</u>
<b>TOTAL LIABILITIES.....</b>	<u>463,010</u>	<u>4,205</u>	<u>728</u>	<u>1,580</u>	<u>5,601</u>	<u>1,078</u>	<u>66</u>	<u>8,635</u>	<u>484,903</u>
<b>NET ASSETS</b>									
Invested in capital assets, net of related debt.....	53,311	-	-	-	114	-	-	7,751	61,176
Restricted for:									
Health-related programs.....	-	-	-	-	-	-	-	1,340	1,340
Transportation.....	-	-	-	-	-	121,760	-	-	121,760
Economic development.....	-	136,933	-	165,881	-	-	6,822	-	309,636
Emergency support.....	-	-	147,747	-	-	-	-	-	147,747
Other purposes.....	-	-	-	-	88,841	-	-	9,362	98,203
Deficit.....	(70,612)	-	-	-	-	-	-	-	(70,612)
<b>TOTAL NET ASSETS.....</b>	<u>\$ (17,301)</u>	<u>\$ 136,933</u>	<u>\$ 147,747</u>	<u>\$ 165,881</u>	<u>\$ 88,955</u>	<u>\$ 121,760</u>	<u>\$ 6,822</u>	<u>\$ 18,453</u>	<u>\$ 669,250</u>

*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, 2012

(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
<b>OPERATING REVENUES:</b>									
Sales and services.....	\$ 1,673,027	\$ -	\$ -	\$ 41	\$ 5,321	\$ -	\$ 6	\$ 2,822	\$ 1,681,217
Interest on loans.....	-	2,464	1,922	2,211	-	1,215	92	25	7,929
Other.....	-	-	-	-	-	-	-	107	107
<b>OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTIBLE ACCOUNTS.....</b>	<b>1,673,027</b>	<b>2,464</b>	<b>1,922</b>	<b>2,252</b>	<b>5,321</b>	<b>1,215</b>	<b>98</b>	<b>2,954</b>	<b>1,689,253</b>
Provision for uncollectible accounts.....	-	1,627	38	(3,226)	-	-	(1,058)	20	(2,599)
<b>NET OPERATING REVENUES.....</b>	<b>1,673,027</b>	<b>4,091</b>	<b>1,960</b>	<b>(974)</b>	<b>5,321</b>	<b>1,215</b>	<b>(960)</b>	<b>2,974</b>	<b>1,686,654</b>
<b>OPERATING EXPENSES:</b>									
Cost of sales and services.....	1,554,873	744	-	552	3,437	-	210	7,755	1,567,571
Depreciation.....	14,987	-	-	-	9	-	-	1,690	16,686
<b>TOTAL OPERATING EXPENSES .....</b>	<b>1,569,860</b>	<b>744</b>	<b>-</b>	<b>552</b>	<b>3,446</b>	<b>-</b>	<b>210</b>	<b>9,445</b>	<b>1,584,257</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>103,167</b>	<b>3,347</b>	<b>1,960</b>	<b>(1,526)</b>	<b>1,875</b>	<b>1,215</b>	<b>(1,170)</b>	<b>(6,471)</b>	<b>102,397</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>									
Investment income.....	249	1,976	953	2,224	2,146	1,523	10	31	9,112
Grants and other revenues.....	-	8	-	-	-	42	-	396	446
Other expenses.....	(8)	-	-	-	-	-	-	(1)	(9)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)...</b>	<b>241</b>	<b>1,984</b>	<b>953</b>	<b>2,224</b>	<b>2,146</b>	<b>1,565</b>	<b>10</b>	<b>426</b>	<b>9,549</b>
<b>INCOME (LOSS) BEFORE TRANSFERS.....</b>	<b>103,408</b>	<b>5,331</b>	<b>2,913</b>	<b>698</b>	<b>4,021</b>	<b>2,780</b>	<b>(1,160)</b>	<b>(6,045)</b>	<b>111,946</b>
<b>TRANSFERS:</b>									
Transfers in.....	-	-	-	-	-	42	-	-	42
Transfers out.....	(82,070)	-	-	-	-	-	-	-	(82,070)
<b>TOTAL TRANSFERS.....</b>	<b>(82,070)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>42</b>	<b>-</b>	<b>-</b>	<b>(82,028)</b>
<b>CHANGE IN NET ASSETS.....</b>	<b>21,338</b>	<b>5,331</b>	<b>2,913</b>	<b>698</b>	<b>4,021</b>	<b>2,822</b>	<b>(1,160)</b>	<b>(6,045)</b>	<b>29,918</b>
<b>TOTAL NET ASSETS, JULY 1, 2011.....</b>	<b>(38,639)</b>	<b>131,602</b>	<b>144,834</b>	<b>165,183</b>	<b>84,934</b>	<b>118,938</b>	<b>7,982</b>	<b>24,498</b>	<b>639,332</b>
<b>TOTAL NET ASSETS, JUNE 30, 2012.....</b>	<b>\$ (17,301)</b>	<b>\$ 136,933</b>	<b>\$ 147,747</b>	<b>\$ 165,881</b>	<b>\$ 88,955</b>	<b>\$ 121,760</b>	<b>\$ 6,822</b>	<b>\$ 18,453</b>	<b>\$ 669,250</b>

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**Commonwealth of Pennsylvania**  
**Combining Statement of Cash Flows-Nonmajor Proprietary Funds**  
 Enterprise Funds  
 For the Fiscal Year Ended June 30, 2012

(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
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>									
Receipts from customers.....	\$ 1,656,440	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,962	\$ 1,659,402
Receipts from borrowers.....	-	18,326	18,270	23,201	-	9,985	708	400	70,890
Receipt of premiums.....	-	-	-	-	5,682	-	-	-	5,682
Payments to claimants.....	-	-	-	-	(1,279)	-	-	-	(1,279)
Payments to borrowers.....	-	(5,741)	(8,863)	(4,708)	-	(9,053)	(589)	(123)	(29,077)
Payments for vendors, employees and other costs.....	(1,479,552)	(733)	-	(504)	(2,055)	-	(209)	(3,001)	(1,486,054)
Other receipts.....	-	-	-	-	-	-	-	1,444	1,444
Other payments.....	-	(1,276)	-	-	-	-	-	-	(1,276)
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>176,888</b>	<b>10,576</b>	<b>9,407</b>	<b>17,989</b>	<b>2,348</b>	<b>932</b>	<b>(90)</b>	<b>1,682</b>	<b>219,732</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>									
Transfers out.....	(81,674)	-	-	-	-	-	-	-	(81,674)
Grants and other revenues.....	-	8	-	-	-	42	-	1,369	1,419
<b>NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES.....</b>	<b>(81,674)</b>	<b>8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>42</b>	<b>-</b>	<b>1,369</b>	<b>(80,255)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>									
Acquisition and construction of capital assets.....	(8,114)	-	-	-	(21)	-	-	(301)	(8,436)
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(8,114)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(21)</b>	<b>-</b>	<b>-</b>	<b>(301)</b>	<b>(8,436)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>									
Purchase of investments.....	(1,234,738)	(16,897)	(16,290)	(23,934)	(7,460)	(14,698)	(663)	(24,975)	(1,339,655)
Sales and maturities of investments.....	1,163,583	4,797	6,449	4,217	3,258	12,208	737	22,232	1,217,481
Investment income.....	249	1,412	859	1,601	1,931	1,369	10	28	7,459
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....</b>	<b>(70,906)</b>	<b>(10,688)</b>	<b>(8,982)</b>	<b>(18,116)</b>	<b>(2,271)</b>	<b>(1,121)</b>	<b>84</b>	<b>(2,715)</b>	<b>(114,715)</b>
<b>NET INCREASE (DECREASE) IN CASH.....</b>	<b>16,194</b>	<b>(104)</b>	<b>425</b>	<b>(127)</b>	<b>56</b>	<b>(147)</b>	<b>(6)</b>	<b>35</b>	<b>16,326</b>
<b>CASH AT JULY 1, 2011.....</b>	<b>15,831</b>	<b>234</b>	<b>637</b>	<b>183</b>	<b>36</b>	<b>153</b>	<b>6</b>	<b>130</b>	<b>17,210</b>
<b>CASH AT JUNE 30, 2012.....</b>	<b>\$ 32,025</b>	<b>\$ 130</b>	<b>\$ 1,062</b>	<b>\$ 56</b>	<b>\$ 92</b>	<b>\$ 6</b>	<b>\$ -</b>	<b>\$ 165</b>	<b>\$ 33,536</b>

**Commonwealth of Pennsylvania**  
**Combining Statement of Cash Flows-Nonmajor Proprietary Funds**  
 Enterprise Funds  
 For the Fiscal Year Ended June 30, 2012

(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
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>									
Operating income (loss).....	\$ 103,167	\$ 3,347	\$ 1,960	\$ (1,526)	\$ 1,875	\$ 1,215	\$ (1,170)	\$ (6,471)	\$ 102,397
Depreciation and amortization.....	14,987	-	-	-	9	-	-	1,690	16,686
Provision for uncollectible accounts.....	-	(1,627)	(38)	3,226	-	-	1,058	(20)	2,599
Other adjustments.....	-	-	-	-	-	-	-	2,884	2,884
Change in assets and liabilities:									
Accounts receivable.....	(16,587)	-	-	-	-	-	-	151	(16,436)
Interest on loans receivable.....	-	-	(23)	-	-	91	-	-	68
Loans receivable.....	-	10,119	7,519	16,023	-	(373)	20	253	33,561
Due from other funds.....	(7)	-	-	-	-	(1)	-	3,301	3,293
Due from component units.....	-	-	-	-	-	-	-	(14)	(14)
Inventory.....	89,264	-	-	-	-	-	-	-	89,264
Prepaid expenses.....	(116)	-	-	-	-	-	-	-	(116)
Accounts payable and accrued liabilities.....	(23,559)	(1,285)	-	(2)	54	-	(4)	(1,249)	(26,045)
Due to other funds.....	(2,006)	3	12	257	(3)	-	1	(1)	(1,737)
Due to pension trust funds.....	367	-	-	-	2	-	(1)	38	406
Due to component units.....	-	-	-	-	4	-	-	-	4
Due to political subdivisions.....	-	-	-	-	-	-	-	5	5
Due to other governments.....	(46)	(1)	-	(1)	-	-	(1)	24	(25)
Unearned revenue.....	-	-	(23)	-	361	-	-	-	338
Self insurance liabilities.....	474	8	-	(3)	(30)	-	(2)	(255)	192
Compensated absences.....	461	-	-	-	(1)	-	-	(47)	413
Insurance loss liability.....	-	-	-	-	(8)	-	-	-	(8)
Other postemployment benefit obligations.....	10,489	12	-	15	85	-	9	1,393	12,003
<b>Total Adjustments.....</b>	<b>73,721</b>	<b>7,229</b>	<b>7,447</b>	<b>19,515</b>	<b>473</b>	<b>(283)</b>	<b>1,080</b>	<b>8,153</b>	<b>117,335</b>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>\$ 176,888</b>	<b>\$ 10,576</b>	<b>\$ 9,407</b>	<b>\$ 17,989</b>	<b>\$ 2,348</b>	<b>\$ 932</b>	<b>\$ (90)</b>	<b>\$ 1,682</b>	<b>\$ 219,732</b>
Increase in fair value of investments during the fiscal year.....	\$ -	\$ 562	\$ 92	\$ 619	\$ 215	\$ 153	\$ -	\$ -	\$ 1,641

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, 2012

# 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, 2012

(Amounts in thousands)	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Current assets:			
Cash.....	\$ 3,570	\$ 486	\$ 4,056
Temporary investments.....	44,193	15,050	59,243
Receivables:			
Accounts.....	716	788	1,504
Investment income.....	9	3	12
Due from other funds.....	13,916	744	14,660
Due from pension trust funds.....	720	3,055	3,775
Due from component units.....	309	3	312
Due from political subdivisions.....	40	-	40
Due from other governments.....	-	12	12
Inventory.....	219	14,812	15,031
Other assets.....	-	8	8
Total current assets.....	<u>63,692</u>	<u>34,961</u>	<u>98,653</u>
Noncurrent assets:			
Long-term investments .....	-	15,986	15,986
Depreciable capital assets:			
Land improvements.....	192	1,952	2,144
Buildings and building improvements.....	-	7,533	7,533
Machinery and equipment.....	68,298	23,515	91,813
Less: accumulated depreciation.....	(56,823)	(17,682)	(74,505)
Net depreciable capital assets.....	<u>11,667</u>	<u>15,318</u>	<u>26,985</u>
Total noncurrent assets.....	<u>11,667</u>	<u>31,304</u>	<u>42,971</u>
<b>TOTAL ASSETS.....</b>	<b><u>75,359</u></b>	<b><u>66,265</u></b>	<b><u>141,624</u></b>
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable and accrued liabilities.....	23,681	6,846	30,527
Securities lending obligations.....	-	323	323
Due to other funds.....	2,679	147	2,826
Due to pension trust funds.....	27	28	55
Due to component units.....	1	-	1
Due to other governments.....	7	18	25
Self insurance liabilities.....	109	334	443
Compensated absences.....	129	341	470
Total current liabilities.....	<u>26,633</u>	<u>8,037</u>	<u>34,670</u>
Non-current liabilities:			
Installment purchase.....	397	-	397
Compensated absences.....	548	1,454	2,002
Self insurance liabilities.....	587	1,790	2,377
Other postemployment benefit obligations.....	1,429	3,066	4,495
Total non-current liabilities.....	<u>2,961</u>	<u>6,310</u>	<u>9,271</u>
<b>TOTAL LIABILITIES.....</b>	<b><u>29,594</u></b>	<b><u>14,347</u></b>	<b><u>43,941</u></b>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt..	11,270	15,318	26,588
Restricted for:			
Correctional industries and procurement.....	34,495	36,600	71,095
<b>TOTAL NET ASSETS.....</b>	<b><u>\$ 45,765</u></b>	<b><u>\$ 51,918</u></b>	<b><u>\$ 97,683</u></b>

*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, 2012

(Amounts in thousands)	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>			
Sales and services.....	\$ 16,177	\$ 62,401	\$ 78,578
<b>NET OPERATING REVENUES.....</b>	<u>16,177</u>	<u>62,401</u>	<u>78,578</u>
<b>OPERATING EXPENSES:</b>			
Cost of sales and services.....	2,125	56,730	58,855
Depreciation.....	4,155	5,485	9,640
<b>TOTAL OPERATING EXPENSES .....</b>	<u>6,280</u>	<u>62,215</u>	<u>68,495</u>
<b>OPERATING INCOME.....</b>	<u>9,897</u>	<u>186</u>	<u>10,083</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment income.....	102	490	592
Other expenses.....	(1,464)	(254)	(1,718)
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b>	<u>(1,362)</u>	<u>236</u>	<u>(1,126)</u>
<b>CHANGE IN NET ASSETS.....</b>	8,535	422	8,957
<b>TOTAL NET ASSETS, JULY 1, 2011.....</b>	<u>37,230</u>	<u>51,496</u>	<u>88,726</u>
<b>TOTAL NET ASSETS, JUNE 30, 2012.....</b>	<u>\$ 45,765</u>	<u>\$ 51,918</u>	<u>\$ 97,683</u>

**Commonwealth of Pennsylvania**  
**Combining Statement of Cash Flows-Nonmajor Proprietary Funds**  
Internal Service Funds  
For the Fiscal Year Ended June 30, 2012

(Amounts in thousands)	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers.....	\$ 17,089	\$ 67,337	\$ 84,426
Payments for vendors, employees and other costs.....	(1,756)	(58,507)	(60,263)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES.....</b>	<b>15,333</b>	<b>8,830</b>	<b>24,163</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets.....	(6,071)	(6,017)	(12,088)
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES..</b>	<b>(6,071)</b>	<b>(6,017)</b>	<b>(12,088)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of investments.....	(339,866)	(50,181)	(390,047)
Sales and maturities of investments.....	326,427	46,358	372,785
Investment income.....	97	444	541
<b>NET CASH USED FOR INVESTING ACTIVITIES.....</b>	<b>(13,342)</b>	<b>(3,379)</b>	<b>(16,721)</b>
<b>NET DECREASE IN CASH.....</b>	<b>(4,080)</b>	<b>(566)</b>	<b>(4,646)</b>
<b>CASH AT JULY 1, 2011.....</b>	<b>7,650</b>	<b>1,052</b>	<b>8,702</b>
<b>CASH AT JUNE 30, 2012.....</b>	<b>\$ 3,570</b>	<b>\$ 486</b>	<b>\$ 4,056</b>

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

Operating income.....	\$ 9,897	\$ 186	\$ 10,083
Depreciation and amortization.....	4,155	5,485	9,640
Change in assets and liabilities:			
Accounts receivable.....	676	2,145	2,821
Due from other funds.....	11,735	91	11,826
Due from pension trust funds.....	626	2,729	3,355
Due from component units.....	(34)	-	(34)
Due from political subdivisions.....	(39)	-	(39)
Due from other governments.....	-	4	4
Inventory.....	35	(4,084)	(4,049)
Other current assets.....	-	1	1
Accounts payable and accrued liabilities.....	(10,796)	1,662	(9,134)
Due to other funds.....	(1,047)	(15)	(1,062)
Due to pension trust funds.....	6	(24)	(18)
Due to component units.....	(16)	-	(16)
Due to political subdivisions.....	(88)	-	(88)
Due to other governments.....	(16)	(25)	(41)
Self insurance liabilities.....	(155)	45	(110)
Compensated absences.....	24	96	120
Other postemployment benefit obligations.....	370	534	904
<b>Total Adjustments.....</b>	<b>5,436</b>	<b>8,644</b>	<b>14,080</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES.....</b>	<b>\$ 15,333</b>	<b>\$ 8,830</b>	<b>\$ 24,163</b>
Increase in fair value of investments during the fiscal year.....	\$ -	\$ 46	\$ 46

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, 2012

# 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, 2012

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust					
	State Employees'	Deferred	Public School Employees'	Other		Total
	Retirement System (December 31, 2011)	Compensation (December 31, 2011)	Retirement System Pension	Postemployment Healthcare	Postemployment Benefits Investment Pool	
<b>ASSETS</b>						
Cash.....	\$ -	\$ 5,596	\$ 121,416	\$ -	\$ 66	\$ 127,078
Temporary investments.....	-	6,403	-	-	26,181	32,584
Long-term investments.....	-	47,541	-	-	132,221	179,762
Short-term funds.....	965,374	48,651	1,678,876	153,269	-	2,846,170
Corporate obligations.....	727,694	273,165	1,426,399	-	-	2,427,258
Collective trust funds.....	2,566,772	-	10,460,482	-	-	13,027,254
Real estate.....	2,580,907	-	6,003,753	-	-	8,584,660
Alternative.....	8,502,929	-	12,862,439	-	-	21,365,368
Securities lending collateral.....	115,484	21,925	506,804	-	-	644,213
Asset-backed securities.....	64,313	28,742	596,382	-	-	689,437
Commercial paper.....	-	-	26,808	-	-	26,808
Derivatives.....	-	-	164,476	-	-	164,476
Domestic equities.....	3,282,851	804,327	5,056,850	-	-	9,144,028
International equities.....	2,609,916	100,328	4,300,272	-	-	7,010,516
International private debt securities.....	-	-	525,749	-	-	525,749
International public debt securities.....	535,203	8,942	726,568	-	-	1,270,713
Mortgage-backed securities.....	194,232	360,473	1,983,749	-	-	2,538,454
Private placements.....	405,443	2,824	-	-	-	408,267
Repurchase agreements.....	-	-	-	69,588	-	69,588
State and municipal obligations.....	-	3,613	-	-	-	3,613
U.S. Treasury obligations.....	1,512,224	407,110	2,035,394	-	-	3,954,728
U.S. government agency debt securities.....	48,395	104,497	348,379	-	-	501,271
Receivables, net:						
Accounts.....	-	-	-	-	39	39
Investment income.....	59,960	20	284,451	-	-	344,431
Pension contributions.....	-	5,057	578,384	28,318	-	611,759
Investment sale proceeds.....	521,123	-	521,217	-	-	1,042,340
Other.....	6,206	2	572	10,103	-	16,883
Due from other funds.....	4,595	-	2,301	-	-	6,896
Due from pension trust funds.....	1,052	-	271	-	-	1,323
Due from component units.....	3,153	-	-	-	-	3,153
Due from political subdivisions.....	10,719	-	-	-	-	10,719
Due from other governments.....	-	-	-	7,494	-	7,494
Depreciable or amortizable capital assets:						
Machinery and equipment.....	-	-	12,390	-	-	12,390
Intangible assets.....	-	-	29,987	-	-	29,987
Less: accumulated depreciation and amortization.....	-	-	(20,044)	-	-	(20,044)
Net depreciable or amortizable capital assets.....	-	-	22,333	-	-	22,333
<b>TOTAL ASSETS.....</b>	<b>24,718,545</b>	<b>2,229,216</b>	<b>50,234,325</b>	<b>268,772</b>	<b>158,507</b>	<b>77,609,365</b>
<b>LIABILITIES</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities.....	55,785	1,145	105,070	1,885	46	163,931
Investment purchases payable.....	156,590	-	592,316	-	-	748,906
Securities lending obligations.....	128,991	21,925	506,804	-	26,143	683,863
Due to other funds.....	-	4	453	-	-	457
Due to pension trust funds.....	-	88	890	-	-	978
Other liabilities.....	-	-	494,996	37,104	-	532,100
<b>TOTAL LIABILITIES.....</b>	<b>341,366</b>	<b>23,162</b>	<b>1,700,529</b>	<b>38,989</b>	<b>26,189</b>	<b>2,130,235</b>
<b>NET ASSETS:</b>						
Held in trust for:						
Pension benefits.....	24,377,179	-	48,533,796	-	-	72,910,975
Postemployment healthcare benefits.....	-	-	-	229,783	132,318	362,101
Employee salary deferrals.....	-	2,206,054	-	-	-	2,206,054
<b>TOTAL NET ASSETS.....</b>	<b>\$ 24,377,179</b>	<b>\$ 2,206,054</b>	<b>\$ 48,533,796</b>	<b>\$ 229,783</b>	<b>\$ 132,318</b>	<b>\$ 75,479,130</b>

**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, 2012

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust					
	State Employees' Retirement System	Deferred Compensation	Public School Employees' Retirement System		Other Postemployment Benefits	Total
	(December 31, 2011)	(December 31, 2011)	Pension	Postemployment Healthcare	Investment Pool	
<b>ADDITIONS:</b>						
Pension contributions:						
Employer.....	\$ 391,749	\$ -	\$ 1,004,584	\$ 114,805	\$ 692,468	\$ 2,203,606
Employee.....	350,852	136,422	952,887	213,642	-	1,653,803
Transfer in from other plans.....	-	81,147	-	-	-	81,147
Total contributions.....	742,601	217,569	1,957,471	328,447	692,468	3,938,556
Investment income:						
Net appreciation/(depreciation) in fair value of investments.....	346,940	29,829	539,129	(1,543)	(2,070)	912,285
Interest income.....	165,082	33,364	342,123	2,255	5	542,829
Dividend income.....	78,823	-	258,258	-	3,803	340,884
Rental and other income.....	85,023	-	426,760	-	241	512,024
Total investment activity income.....	675,868	63,193	1,566,270	712	1,979	2,308,022
Less: investment expenses						
Investment activity expense.....	(197,505)	(3,130)	(481,234)	(52)	-	(681,921)
Net investment earnings.....	478,363	60,063	1,085,036	660	1,979	1,626,101
Securities lending activities:						
Income.....	2,376	18	9,457	-	-	11,851
Expenses.....	(294)	(2)	(1,174)	-	-	(1,470)
Total securities lending income.....	2,082	16	8,283	-	-	10,381
Total net investment income.....	480,445	60,079	1,093,319	660	1,979	1,636,482
<b>TOTAL ADDITIONS.....</b>	<b>1,223,046</b>	<b>277,648</b>	<b>3,050,790</b>	<b>329,107</b>	<b>694,447</b>	<b>5,575,038</b>
<b>DEDUCTIONS:</b>						
Benefit payments.....	2,695,732	59,732	5,655,306	310,233	692,468	9,413,471
Refunds of contributions.....	9,531	-	24,675	-	-	34,206
Transfers to other plans.....	-	82,636	2,765	-	-	85,401
Administrative expenses.....	26,706	183	34,242	22,278	21	83,430
Other expenses.....	-	2,473	-	-	335	2,808
Distributions to participants.....	-	-	-	-	-	-
<b>TOTAL DEDUCTIONS.....</b>	<b>2,731,969</b>	<b>145,024</b>	<b>5,716,988</b>	<b>332,511</b>	<b>692,824</b>	<b>9,619,316</b>
<b>CHANGE IN PLAN NET ASSETS HELD IN TRUST FOR:</b>						
Pension benefits.....	(1,508,923)	-	(2,666,198)	-	-	(4,175,121)
Postemployment healthcare benefits.....	-	-	-	(3,404)	1,623	(1,781)
Employee salary deferrals.....	-	132,624	-	-	-	132,624
<b>TOTAL CHANGE IN PLAN NET ASSETS HELD IN TRUST.....</b>	<b>(1,508,923)</b>	<b>132,624</b>	<b>(2,666,198)</b>	<b>(3,404)</b>	<b>1,623</b>	<b>(4,044,278)</b>
Net assets, July 1, 2011.....	25,886,102	2,073,430	51,199,994	233,187	130,695	79,523,408
Net assets, June 30, 2012.....	\$ 24,377,179	\$ 2,206,054	\$ 48,533,796	\$ 229,783	\$ 132,318	\$ 75,479,130





Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2012

# 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 six individual agency funds.

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

There are a total of fifteen individual agency funds.

Commonwealth of Pennsylvania  
**Combining Statement of Fiduciary Assets and Liabilities**  
 Agency Funds  
 June 30, 2012

(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, 2011)	PA Property and Casualty Insurance Guaranty Association (December 31, 2011)	Total Agency Funds
<b>ASSETS</b>											
Cash.....	\$ -	\$ 1,214	\$ 82	\$ -	\$ 159	\$ 5	\$ 14,334	\$ 13,982	\$ 2,235	\$ 1,247	\$ 33,258
Cash with fiscal agents.....	19,709	-	-	-	-	-	-	-	-	-	19,709
Temporary investments.....	233,444	151,043	14,192	28,180	249,340	78,739	18,145	36,868	107,347	84,533	1,001,831
Long-term investments.....	3,014,745	53,288	-	119,242	-	-	-	-	-	-	3,187,275
Receivables, net:											
Taxes.....	-	-	12,117	-	-	-	-	18,638	-	-	30,755
Accounts.....	35,100	1	-	13,972	-	-	6,287	1	-	23,536	78,897
Investment income.....	13,166	28	1	837	48	-	-	4	-	-	14,084
Investment sale proceeds.....	46,488	-	-	869	-	-	-	-	-	-	47,357
Other.....	-	-	-	-	-	-	-	-	-	91,085	91,085
Advances to other funds.....	-	-	-	67,500	-	-	-	-	-	-	67,500
Other assets.....	3,950,849	-	-	-	-	-	853	-	-	211	3,951,913
<b>TOTAL ASSETS.....</b>	<b>\$ 7,313,501</b>	<b>\$ 205,574</b>	<b>\$ 26,392</b>	<b>\$ 230,600</b>	<b>\$ 249,547</b>	<b>\$ 78,744</b>	<b>\$ 39,619</b>	<b>\$ 69,493</b>	<b>\$ 109,582</b>	<b>\$ 200,612</b>	<b>\$ 8,523,664</b>
<b>LIABILITIES</b>											
Accounts payable and accrued liabilities....	\$ -	\$ 159,663	\$ 210	\$ 13,355	\$ -	\$ -	\$ 10,279	\$ 13,982	\$ -	\$ -	\$ 197,489
Investment purchases payable.....	64,506	-	-	1,805	-	-	-	-	-	-	66,311
Securities lending obligations.....	1,188	1,080	-	6,509	-	-	-	-	-	-	8,777
Due to political subdivisions.....	-	-	26,182	16	249,547	78,744	-	52,321	-	-	406,810
Due to other governments.....	-	4	-	1	-	-	-	-	-	-	5
Compensated absence liability.....	-	374	-	43	-	-	-	-	-	-	417
Self insurance liabilities.....	-	387	-	72	-	-	-	-	-	-	459
Other postemployment benefit obligations	-	899	-	138	-	-	-	-	-	-	1,037
Other liabilities.....	7,247,807	43,167	-	208,661	-	-	29,340	3,190	109,582	200,612	7,842,359
<b>TOTAL LIABILITIES.....</b>	<b>\$ 7,313,501</b>	<b>\$ 205,574</b>	<b>\$ 26,392</b>	<b>\$ 230,600</b>	<b>\$ 249,547</b>	<b>\$ 78,744</b>	<b>\$ 39,619</b>	<b>\$ 69,493</b>	<b>\$ 109,582</b>	<b>\$ 200,612</b>	<b>\$ 8,523,664</b>

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

Agency Funds  
 For the Fiscal Year Ended June 30, 2012

(Amounts in thousands)	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2012</u>
<b>STATUTORY LIQUIDATOR FUND</b>				
<b>ASSETS</b>				
Cash with fiscal agents.....	\$ 21,611	\$ 1,301,416	\$ 1,303,318	\$ 19,709
Temporary investments.....	277,389	233,444	277,389	233,444
Long-term investments.....	2,959,988	2,388,234	2,333,477	3,014,745
Receivables, net:				
Accounts.....	37,295	38,475	40,670	35,100
Investment income.....	10,785	13,166	10,785	13,166
Investment sale proceeds.....	101,102	46,488	101,102	46,488
Other assets.....	3,830,636	2,854,688	2,734,475	3,950,849
<b>TOTAL ASSETS .....</b>	<b><u>\$ 7,238,806</u></b>	<b><u>\$ 6,875,911</u></b>	<b><u>\$ 6,801,216</u></b>	<b><u>\$ 7,313,501</u></b>
<b>LIABILITIES</b>				
Investment purchases payable.....	\$ 236,889	\$ 64,506	\$ 236,889	\$ 64,506
Securities lending obligations.....	2,938	1,188	2,938	1,188
Interest payable.....	13	-	13	-
Other liabilities.....	6,998,966	7,247,808	6,998,967	7,247,807
<b>TOTAL LIABILITIES .....</b>	<b><u>\$ 7,238,806</u></b>	<b><u>\$ 7,313,502</u></b>	<b><u>\$ 7,238,807</u></b>	<b><u>\$ 7,313,501</u></b>
<b>MEDICAL CARE AVAILABILITY AND REDUCTION OF ERROR FUND</b>				
<b>ASSETS</b>				
Cash.....	\$ -	\$ 1,522,582	\$ 1,521,368	\$ 1,214
Temporary investments.....	206,019	190,808	245,784	151,043
Long-term investments.....	-	53,288	-	53,288
Receivables, net:				
Accounts.....	6,916	7	6,922	1
Investment income.....	25	28	25	28
<b>TOTAL ASSETS .....</b>	<b><u>\$ 212,960</u></b>	<b><u>\$ 1,766,713</u></b>	<b><u>\$ 1,774,099</u></b>	<b><u>\$ 205,574</u></b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 7,074	\$ 727,949	\$ 575,360	\$ 159,663
Securities lending obligations.....	2,670	1,080	2,670	1,080
Due to other funds.....	-	390	390	-
Due to political subdivisions.....	-	30	30	-
Due to other governments.....	12	18	26	4
Compensated absence liability.....	418	374	418	374
Self insurance liabilities.....	470	387	470	387
Other postemployment benefit obligations.....	732	899	732	899
Other liabilities.....	201,584	52,301	210,718	43,167
<b>TOTAL LIABILITIES .....</b>	<b><u>\$ 212,960</u></b>	<b><u>\$ 783,428</u></b>	<b><u>\$ 790,814</u></b>	<b><u>\$ 205,574</u></b>

(continued)

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

Agency Funds (continued)  
 For the Fiscal Year Ended June 30, 2012

(Amounts in thousands)	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2012</u>
<b>ALLEGHENY REGIONAL ASSET DISTRICT</b>				
<b>SALES AND USE TAX FUND</b>				
<b>ASSETS</b>				
Cash.....	\$ 173	\$ 887,340	\$ 887,431	\$ 82
Temporary investments.....	13,954	170,183	169,945	14,192
Receivables, net:				
Taxes.....	9,849	12,117	9,849	12,117
Investment income.....	1	1	1	1
<b>TOTAL ASSETS</b> .....	<u>\$ 23,977</u>	<u>\$ 1,069,641</u>	<u>\$ 1,067,226</u>	<u>\$ 26,392</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 359	\$ 210	\$ 359	\$ 210
Due to political subdivisions.....	23,618	12,405	9,841	26,182
<b>TOTAL LIABILITIES</b> .....	<u>\$ 23,977</u>	<u>\$ 12,615</u>	<u>\$ 10,200</u>	<u>\$ 26,392</u>
<b>UNDERGROUND STORAGE TANK</b>				
<b>INDEMNIFICATION FUND</b>				
<b>ASSETS</b>				
Cash.....	\$ 104	\$ 573,421	\$ 573,525	\$ -
Temporary investments.....	46,064	89,709	107,593	28,180
Long-term investments.....	96,998	197,094	174,850	119,242
Receivables, net:				
Accounts.....	5	27,947	13,980	13,972
Investment income.....	734	838	735	837
Interest on notes and loans.....	-	1,564	1,564	-
Loans.....	-	37	37	-
Investment sale proceeds.....	782	1,738	1,651	869
Advances to other funds.....	67,500	67,500	67,500	67,500
<b>TOTAL ASSETS</b> .....	<u>\$ 212,187</u>	<u>\$ 959,848</u>	<u>\$ 941,435</u>	<u>\$ 230,600</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 14,641	\$ 180,339	\$ 181,625	\$ 13,355
Investment purchases payable.....	1,470	3,611	3,276	1,805
Securities lending obligations.....	12,921	6,509	12,921	6,509
Due to other funds.....	-	500	500	-
Due to political subdivisions.....	62	334	380	16
Due to other governments.....	2	28	29	1
Advances from other funds.....	-	67,500	67,500	-
Compensated absence liability.....	39	43	39	43
Self insurance liabilities.....	87	72	87	72
Other postemployment benefit obligations.....	114	138	114	138
Other liabilities.....	182,851	257,495	231,685	208,661
<b>TOTAL LIABILITIES</b> .....	<u>\$ 212,187</u>	<u>\$ 516,569</u>	<u>\$ 498,156</u>	<u>\$ 230,600</u>

(continued)

**Commonwealth of Pennsylvania**  
**Combining Statement of Changes in Fiduciary Assets and Liabilities**  
Agency Funds (continued)  
For the Fiscal Year Ended June 30, 2012

(Amounts in thousands)

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2012</u>
<b>MUNICIPAL PENSION AID FUND</b>				
<b>ASSETS</b>				
Cash.....	\$ 5	\$ 1,853,403	\$ 1,853,249	\$ 159
Temporary investments.....	355,805	265,878	372,343	249,340
Receivables, net:				
Investment income.....	62	48	62	48
<b>TOTAL ASSETS</b> .....	<u>\$ 355,872</u>	<u>\$ 2,119,329</u>	<u>\$ 2,225,654</u>	<u>\$ 249,547</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ -	\$ 2,536	\$ 2,536	\$ -
Due to political subdivisions.....	355,872	447,652	553,977	249,547
<b>TOTAL LIABILITIES</b> .....	<u>\$ 355,872</u>	<u>\$ 450,188</u>	<u>\$ 556,513</u>	<u>\$ 249,547</u>
<b>FIRE INSURANCE TAX FUND</b>				
<b>ASSETS</b>				
Cash.....	\$ -	\$ 691,825	\$ 691,820	\$ 5
Temporary investments.....	138,631	93,921	153,813	78,739
<b>TOTAL ASSETS</b> .....	<u>\$ 138,631</u>	<u>\$ 785,746</u>	<u>\$ 845,633</u>	<u>\$ 78,744</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ -	\$ 10	\$ 10	\$ -
Due to political subdivisions.....	138,631	59,886	119,773	78,744
<b>TOTAL LIABILITIES</b> .....	<u>\$ 138,631</u>	<u>\$ 59,896</u>	<u>\$ 119,783</u>	<u>\$ 78,744</u>
<b>AGENCY CUSTODIAL ACCOUNTS</b>				
<b>ASSETS</b>				
Cash.....	\$ 17,022	\$ 969	\$ 3,657	\$ 14,334
Temporary investments.....	21,810	523	4,188	18,145
Receivables, net:				
Accounts.....	5,269	1,019	1	6,287
Investment income.....	1	-	1	-
Other assets.....	1,012	34	193	853
<b>TOTAL ASSETS</b> .....	<u>\$ 45,114</u>	<u>\$ 2,545</u>	<u>\$ 8,040</u>	<u>\$ 39,619</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 11,175	\$ 61	\$ 957	\$ 10,279
Other liabilities.....	33,939	569	5,168	29,340
<b>TOTAL LIABILITIES</b> .....	<u>\$ 45,114</u>	<u>\$ 630</u>	<u>\$ 6,125</u>	<u>\$ 39,619</u>

(continued)

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

Agency Funds (continued)  
 For the Fiscal Year Ended June 30, 2012

(Amounts in thousands)	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2012</u>
<b>OTHER FUNDS</b>				
<b>ASSETS</b>				
Cash.....	\$ 308	\$ 3,583,387	\$ 3,569,713	\$ 13,982
Temporary investments.....	33,949	608,159	605,240	36,868
Receivables, net:				
Taxes.....	16,713	18,638	16,713	18,638
Accounts.....	-	1	-	1
Investment income.....	2	6	4	4
<b>TOTAL ASSETS .....</b>	<b>\$ 50,972</b>	<b>\$ 4,210,191</b>	<b>\$ 4,191,670</b>	<b>\$ 69,493</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 288	\$ 97,242	\$ 83,548	\$ 13,982
Due to other funds.....	-	284	284	-
Due to political subdivisions.....	47,495	67,377	62,551	52,321
Other liabilities.....	3,189	1	-	3,190
<b>TOTAL LIABILITIES .....</b>	<b>\$ 50,972</b>	<b>\$ 164,904</b>	<b>\$ 146,383</b>	<b>\$ 69,493</b>
<b>PENNSYLVANIA LIFE AND HEALTH</b>				
<b>INSURANCE GUARANTY ASSOCIATION*</b>				
<b>ASSETS</b>				
Cash.....	\$ 2,825	\$ 3,417	\$ 4,007	\$ 2,235
Temporary investments.....	109,638	971	3,262	107,347
<b>TOTAL ASSETS .....</b>	<b>\$ 112,463</b>	<b>\$ 4,388</b>	<b>\$ 7,269</b>	<b>\$ 109,582</b>
<b>LIABILITIES</b>				
Other liabilities.....	\$ 112,463	\$ -	\$ 2,881	\$ 109,582
<b>TOTAL LIABILITIES .....</b>	<b>\$ 112,463</b>	<b>\$ -</b>	<b>\$ 2,881</b>	<b>\$ 109,582</b>
<b>PENNSYLVANIA PROPERTY AND CASUALTY</b>				
<b>INSURANCE GUARANTY ASSOCIATION*</b>				
<b>ASSETS</b>				
Cash.....	\$ 1,968	\$ 22,670	\$ 23,391	\$ 1,247
Temporary investments.....	100,329	45,764	61,560	84,533
Receivables, net:				
Accounts.....	-	23,536	-	23,536
Other.....	141,729	-	50,644	91,085
Other assets.....	218	-	7	211
<b>TOTAL ASSETS .....</b>	<b>\$ 244,244</b>	<b>\$ 91,970</b>	<b>\$ 135,602</b>	<b>\$ 200,612</b>
<b>LIABILITIES</b>				
Other liabilities.....	\$ 244,244	\$ 43,432	\$ 87,064	\$ 200,612
<b>TOTAL LIABILITIES .....</b>	<b>\$ 244,244</b>	<b>\$ 43,432</b>	<b>\$ 87,064</b>	<b>\$ 200,612</b>

\*-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, 2012

(Amounts in thousands)	<b>Balance</b>			<b>Balance</b>
	<b>July 1, 2011</b>	<b>Additions</b>	<b>Deductions</b>	<b>June 30, 2012</b>
<b>TOTAL — AGENCY FUNDS*</b>				
<b>ASSETS</b>				
Cash.....	\$ 22,405	\$ 9,139,014	\$ 9,128,161	\$ 33,258
Cash with fiscal agents.....	21,611	1,301,416	1,303,318	19,709
Temporary investments.....	1,303,588	1,699,360	2,001,117	1,001,831
Long-term investments.....	3,056,986	2,638,616	2,508,327	3,187,275
Receivables, net:				
Taxes.....	26,562	30,755	26,562	30,755
Accounts.....	49,485	90,985	61,573	78,897
Investment income.....	11,610	14,087	11,613	14,084
Interest on notes and loans.....	-	1,564	1,564	-
Loans.....	-	37	37	-
Investment sale proceeds.....	101,884	48,226	102,753	47,357
Other.....	141,729	-	50,644	91,085
Advances to other funds.....	67,500	67,500	67,500	67,500
Other assets.....	3,831,866	2,854,722	2,734,675	3,951,913
<b>TOTAL ASSETS .....</b>	<b>\$ 8,635,226</b>	<b>\$ 17,886,282</b>	<b>\$ 17,997,844</b>	<b>\$ 8,523,664</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 33,537	\$ 1,008,347	\$ 844,395	\$ 197,489
Investment purchases payable.....	238,359	68,117	240,165	66,311
Securities lending obligations.....	18,529	8,777	18,529	8,777
Due to other funds.....	-	1,174	1,174	-
Due to component units.....	-	-	-	-
Due to political subdivisions.....	565,678	587,684	746,552	406,810
Due to other governments.....	14	46	55	5
Interest payable.....	13	-	13	-
Advances from other funds.....	-	67,500	67,500	-
Compensated absence liability.....	457	417	457	417
Self insurance liabilities.....	557	459	557	459
Other postemployment benefit obligations.....	846	1,037	846	1,037
Other liabilities.....	7,777,236	7,601,606	7,536,483	7,842,359
<b>TOTAL LIABILITIES .....</b>	<b>\$ 8,635,226</b>	<b>\$ 9,345,164</b>	<b>\$ 9,456,726</b>	<b>\$ 8,523,664</b>

(concluded)

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





Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2012

# 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, 2011 fiscal year end.

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

*Insurance Fraud Prevention Authority (IFPA)* — assists in the prevention, discovery, investigation, and prosecution of insurance fraud. The IFPA is funded through assessments paid by the insurance industry and through certain criminal and civil fines, penalties, and awards.

*Pennsylvania Higher Educational Facilities Authority (PHEFA)* — issues limited obligation revenue bonds, the proceeds of which are used to finance the construction of facilities for public/private colleges and universities. These bonds are repaid solely from lease/loan payments from the colleges and universities.

*Patient Safety Trust Authority (PSTA)* — takes steps to reduce and eliminate medical errors by identifying problems and recommending solutions that promote patient safety in hospitals, ambulatory surgical facilities, and birthing centers.

*Port of Pittsburgh Commission (PPC)* — promotes economic development throughout waterways in southwestern Pennsylvania by constructing and/or financing transportation and recreation facilities.

*Pennsylvania Industrial Development Authority (PIDA)* — collaborates with local industrial development corporations to make loans that help preserve or expand the work force, assist targeted economic areas, or assist specific companies.

*Philadelphia Regional Port Authority (PRPA)* — operates a port facility and manages port-related activities to promote commerce and economic development in southeastern Pennsylvania.

*Commonwealth Financing Authority (CFA)* — administers and funds economic stimulus programs through long-term financing arrangements.

*Pennsylvania Convention Center Authority (PCCA)* — operates the Pennsylvania Convention Center located in the City of Philadelphia.

*Thaddeus Stevens College of Technology (College)* — presents a financial burden to the PG, as the PG appropriates monies for College operations.

There are a total of twenty-three component units; seventeen are discretely presented. The State Employees' Retirement System (SERS) and Public School Employees' Retirement System (PSERS) are reported as Pension Trust Funds in the Statement of Fiduciary Net Assets, while the Pennsylvania Life and Health Insurance Guaranty Association (PLHIGA) and Pennsylvania Property and Casualty Insurance Guaranty Association (PPCIGA) are reported as Agency Funds. The *Pennsylvania Turnpike Commission (PTC)*, *Pennsylvania Housing Finance Agency (PHFA)*, *Pennsylvania Higher Education Assistance Agency (PHEAA)*, *Pennsylvania Infrastructure Investment Authority (PENNVEST)*, and *State System of Higher Education (SSHE)* are reported as major component units. The Pennsylvania Economic Development Financing Authority (PEDFA) and Pennsylvania Energy Development Authority (PEDA) are not reported because their only activities involve conduit debt.

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**Commonwealth of Pennsylvania**  
**Combining Statement of Net Assets**  
 Nonmajor Discretely Presented Component Units  
 June 30, 2012

(Amounts in thousands)

	State Public School Building Authority	Philadelphia Shipyards Development Corporation (December 31, 2011)	Ben Franklin Technology Development Authority	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority
<b>ASSETS</b>					
Current assets:					
Cash.....	\$ -	\$ 23,444	\$ -	\$ 4,850	\$ -
Temporary investments.....	4,599	-	19,793	-	-
Receivables:					
Accounts.....	35	-	-	-	32
Investment income.....	116	-	4	-	-
Interest on notes and loans.....	41	-	-	-	-
Loans.....	3,968	-	96	-	-
Lease rentals.....	-	-	-	-	-
Other.....	-	-	-	-	-
Due from primary government.....	-	-	-	-	-
Due from Federal government.....	-	-	-	-	-
Due from other governments.....	-	-	-	-	-
Inventory.....	-	-	-	-	-
Prepaid and deferred expenses.....	-	20	-	27	-
Other assets.....	-	-	-	4	-
Total current assets.....	<u>8,759</u>	<u>23,464</u>	<u>19,893</u>	<u>4,881</u>	<u>32</u>
Noncurrent assets:					
Long-term investments.....	18,000	-	-	-	-
Receivables (net):					
Loans.....	4,081	-	30,417	-	-
Due from primary government.....	-	-	-	-	-
Non-depreciable capital assets:					
Land.....	-	161	-	-	-
Construction in progress.....	-	-	-	-	-
Depreciable or amortizable capital assets:					
Land improvements.....	-	-	-	-	-
Buildings and building improvements.....	-	-	-	-	-
Machinery and equipment.....	360	4	-	85	-
Library books.....	-	-	-	-	-
Intangible assets.....	-	-	-	-	-
Less: accumulated depreciation and amortization.....	(349)	-	-	(66)	-
Net depreciable or amortizable capital assets.....	<u>11</u>	<u>4</u>	<u>-</u>	<u>19</u>	<u>-</u>
Other assets.....	-	16,605	-	-	-
Total noncurrent assets.....	<u>22,092</u>	<u>16,770</u>	<u>30,417</u>	<u>19</u>	<u>-</u>
<b>TOTAL ASSETS.....</b>	<b><u>30,851</u></b>	<b><u>40,234</u></b>	<b><u>50,310</u></b>	<b><u>4,900</u></b>	<b><u>32</u></b>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable and accrued liabilities.....	82	21,032	2,354	280	32
Due to primary government.....	-	-	1	-	-
Due to other governments.....	-	-	-	-	-
Interest payable.....	-	-	-	-	-
Unearned revenue.....	-	-	-	-	-
Notes payable.....	-	-	-	-	-
Revenue bonds payable.....	-	-	-	-	-
Self insurance.....	-	-	5	-	-
Compensated absences.....	29	-	-	-	-
Other postemployment benefit obligations.....	-	-	-	-	-
Other liabilities.....	65	-	-	-	-
Total current liabilities.....	<u>176</u>	<u>21,032</u>	<u>2,360</u>	<u>280</u>	<u>32</u>
Non-current liabilities:					
Notes payable.....	-	-	-	-	-
Revenue bond payable.....	-	-	-	-	-
Compensated absences.....	49	-	-	-	-
Self insurance.....	-	-	27	-	-
Other postemployment benefit obligations.....	227	-	45	-	-
Other liabilities.....	435	16,605	-	-	-
Total non-current liabilities.....	<u>711</u>	<u>16,605</u>	<u>72</u>	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES.....</b>	<b><u>887</u></b>	<b><u>37,637</u></b>	<b><u>2,432</u></b>	<b><u>280</u></b>	<b><u>32</u></b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt.....	11	165	-	19	-
Restricted for:					
Health-related programs.....	-	-	-	-	-
Capital projects.....	-	-	-	-	-
Debt service.....	-	-	-	-	-
Economic development.....	-	2,432	47,878	-	-
Higher Education.....	-	-	-	-	-
Other purposes.....	29,953	-	-	4,601	-
Unrestricted/(Deficit).....	-	-	-	-	-
<b>TOTAL NET ASSETS.....</b>	<b><u>\$ 29,964</u></b>	<b><u>\$ 2,597</u></b>	<b><u>\$ 47,878</u></b>	<b><u>\$ 4,620</u></b>	<b><u>\$ -</u></b>

Patient Safety Trust Authority	Port of Pittsburgh Commission	Pennsylvania Industrial Development Authority	Philadelphia Regional Port Authority	Commonwealth Financing Authority	Pennsylvania Convention Center Authority	Thaddeus Stevens College of Technology	Total
\$ -	\$ -	\$ 517	\$ 7,514	\$ 420,094	\$ 29,948	\$ 6,956	\$ 493,323
7,384	5,040	206,110	-	-	-	-	242,926
-	1	-	-	-	6,067	140	6,275
1	-	-	-	-	-	-	121
-	-	5,580	-	1,483	-	-	7,104
-	68	44,177	-	18,152	-	-	66,461
-	-	-	694	-	-	-	694
-	-	-	11	-	-	209	220
1	-	-	4,226	-	-	-	4,227
-	261	-	88	-	-	-	349
-	-	-	32	-	-	-	32
-	-	-	-	-	-	639	639
-	-	-	602	-	673	49	1,371
-	-	-	-	10,965	-	-	10,969
7,386	5,370	256,384	13,167	450,694	36,688	7,993	834,711
-	-	-	-	-	-	1,383	19,383
-	-	310,903	-	307,402	-	-	652,803
-	-	-	-	-	122,000	-	122,000
-	-	-	115,896	-	994	-	117,051
-	-	-	25,455	-	5,329	-	30,784
-	-	-	40,577	-	-	-	40,577
-	-	-	295,418	-	759,086	1,170	1,055,674
-	2,106	-	38,939	-	155,903	3,987	201,384
-	-	-	-	-	-	525	525
-	33	-	16,630	-	-	-	16,663
-	(1,067)	-	(133,861)	-	(196,203)	(4,209)	(335,755)
-	1,072	-	257,703	-	718,786	1,473	979,068
-	-	2,255	398	-	2,327	756	22,341
-	1,072	313,158	399,452	307,402	849,436	3,612	1,943,430
7,386	6,442	569,542	412,619	758,096	886,124	11,605	2,778,141
813	560	157	4,764	16	9,457	1,395	40,942
15	7	-	33	556	8,449	-	9,061
2	344	-	-	-	-	-	346
-	-	4,240	537	6,236	-	-	11,013
-	174	-	1,438	-	1,820	654	4,086
-	-	-	194	-	-	-	194
-	-	21,155	3,055	50,210	-	-	74,420
-	-	-	-	-	-	-	5
16	-	-	199	-	-	308	552
-	-	-	-	-	161	-	161
-	-	-	36	-	144	-	245
846	1,085	25,552	10,256	57,018	20,031	2,357	141,025
-	-	-	199	-	-	-	199
-	2,000	277,730	29,839	1,344,465	-	-	1,654,034
70	89	-	850	-	-	1,540	2,598
-	-	-	-	-	-	-	27
111	84	-	1,396	-	3,105	1,852	6,820
-	-	1,382	287	-	123,346	89	142,144
181	2,173	279,112	32,571	1,344,465	126,451	3,481	1,805,822
1,027	3,258	304,664	42,827	1,401,483	146,482	5,838	1,946,847
-	(947)	-	366,165	-	600,625	1,810	967,848
6,359	-	-	-	-	-	-	6,359
-	-	-	154	-	-	-	154
-	-	-	4,199	-	-	-	4,199
-	4,131	-	-	-	139,017	-	193,458
-	-	-	-	-	-	3,957	3,957
-	-	-	-	-	-	-	34,554
-	-	264,878	(726)	(643,387)	-	-	(379,235)
\$ 6,359	\$ 3,184	\$ 264,878	\$ 369,792	\$ (643,387)	\$ 739,642	\$ 5,767	\$ 831,294

**Commonwealth of Pennsylvania**  
**Combining Statement of Activities**

Nonmajor Discretely Presented Component Units  
 For the Fiscal Year Ended June 30, 2012

(Amounts in thousands)

	State Public School Building Authority	Philadelphia Shipyards Development Corporation (December 31, 2011)	Ben Franklin Technology Development Authority	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority
Expenses.....	\$ 1,385	\$ 43,686	\$ 33,596	\$ 11,944	\$ 1,322
Program revenues:					
Charges for goods and services.....	1,520	-	4,503	11,701	1,322
Operating grants and contributions.....	441	42,956	22,563	24	-
Capital grants and contributions.....	-	-	-	-	-
<b>Total program revenues.....</b>	<b>1,961</b>	<b>42,956</b>	<b>27,066</b>	<b>11,725</b>	<b>1,322</b>
<b>Net (expense) revenue.....</b>	<b>576</b>	<b>(730)</b>	<b>(6,530)</b>	<b>(219)</b>	<b>-</b>
<b>Change in net assets.....</b>	<b>576</b>	<b>(730)</b>	<b>(6,530)</b>	<b>(219)</b>	<b>-</b>
<b>Net assets, July 1, 2011 (restated).....</b>	<b>29,388</b>	<b>3,327</b>	<b>54,408</b>	<b>4,839</b>	<b>-</b>
<b>Net assets, June 30, 2012.....</b>	<b>\$ 29,964</b>	<b>\$ 2,597</b>	<b>\$ 47,878</b>	<b>\$ 4,620</b>	<b>\$ -</b>

Patient Safety Trust Authority	Port of Pittsburgh Commission	Pennsylvania Industrial Development Authority	Philadelphia Regional Port Authority	Commonwealth Financing Authority	Pennsylvania Convention Center Authority	Thaddeus Stevens College of Technology	Total
\$ 5,523	\$ 2,591	\$ 17,666	\$ 31,474	\$ 343,827	\$ 65,138	\$ 15,998	\$ 574,150
6,206	4	17,152	8,933	9,127	16,417	6,057	82,942
13	1,614	5,227	7,559	147,008	29,296	10,899	267,600
-	-	-	77,332	-	-	-	77,332
6,219	1,618	22,379	93,824	156,135	45,713	16,956	427,874
696	(973)	4,713	62,350	(187,692)	(19,425)	958	(146,276)
696	(973)	4,713	62,350	(187,692)	(19,425)	958	(146,276)
5,663	4,157	260,165	307,442	(455,695)	759,067	4,809	977,570
\$ 6,359	\$ 3,184	\$ 264,878	\$ 369,792	\$ (643,387)	\$ 739,642	\$ 5,767	\$ 831,294

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2012

# Statistical Section

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**Commonwealth of Pennsylvania**  
**Financial Trends**

Table 1  
Net Assets by Component  
Last Ten Fiscal Years as of June 30

(Accrual basis of accounting-amounts in thousands)

	2003	2004	2005	2006	2007
<b>GOVERNMENTAL ACTIVITIES (1)</b>					
Invested in capital assets, net of related debt.....	\$ 16,106,064	\$ 16,944,913	\$ 18,258,125	\$ 19,068,573	\$ 20,015,677
Restricted for:					
General government operations (1)(4).....	N/A	N/A	N/A	N/A	N/A
Health-related programs (2).....	N/A	N/A	1,215,291	1,320,703	1,454,502
Transportation.....	553,212	775,900	990,743	1,578,753	1,266,928
Capital projects.....	301,628	245,926	173,790	196,301	213,556
Debt service.....	32,685	61,029	83,885	8,118	20,474
Unemployment/worker's compensation.....	48,847	-	-	29,754	104,579
Elderly programs.....	111,659	90,713	92,531	32,327	10,808
Environmental and conservation programs.....	445,350	430,071	420,600	435,976	473,210
Economic development (2).....	N/A	N/A	N/A	18,171	16,217
Gaming licensing/regulation (2).....	N/A	N/A	N/A	2,128	299,396
Correctional industries and procurement (2).....	N/A	N/A	N/A	133,934	30,348
Emergency support (2).....	N/A	N/A	N/A	56,543	60,917
Higher education (2).....	N/A	N/A	N/A	N/A	N/A
Other purposes (2).....	1,003,117	1,366,072	303,409	82,770	87,077
Unrestricted (deficit).....	(603,472)	(228,981)	(739,160)	(372,089)	343,162
<b>TOTAL GOVERNMENTAL ACTIVITIES NET ASSETS.....</b>	<b>17,999,090</b>	<b>19,685,643</b>	<b>20,799,214</b>	<b>22,591,962</b>	<b>24,396,851</b>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Invested in capital assets, net of related debt.....	42,421	45,927	46,567	82,694	56,010
Restricted for:					
Health-related programs (2).....	N/A	N/A	-	4,814	2,413
Transportation.....	31,742	33,227	50,433	52,960	58,085
Unemployment/worker's compensation.....	1,960,499	1,506,877	1,808,170	2,397,720	2,547,726
Elderly programs.....	142,284	158,343	291,329	325,925	340,836
Economic development (2)(3).....	N/A	N/A	N/A	212,792	288,246
Emergency support (2).....	N/A	N/A	N/A	126,505	129,546
Other purposes (2).....	361,993	403,527	450,961	152,629	165,168
Unrestricted (deficit).....	(71,756)	(47,849)	(43,812)	-	-
<b>TOTAL BUSINESS-TYPE ACTIVITIES NET ASSETS.....</b>	<b>2,467,183</b>	<b>2,100,052</b>	<b>2,603,648</b>	<b>3,356,039</b>	<b>3,588,030</b>
<b>PRIMARY GOVERNMENT</b>					
Invested in capital assets, net of related debt.....	16,148,485	16,990,840	18,304,692	19,151,267	20,071,687
Restricted for:					
General government operations (1)(4).....	N/A	N/A	N/A	N/A	N/A
Health-related programs (2).....	N/A	N/A	1,215,291	1,325,517	1,456,915
Transportation.....	584,954	809,127	1,041,176	1,631,713	1,325,013
Capital projects.....	301,628	245,926	173,790	196,301	213,556
Debt service.....	32,685	61,029	83,885	8,118	20,474
Unemployment/worker's compensation.....	2,009,346	1,506,877	1,808,170	2,427,474	2,652,305
Elderly programs.....	253,943	249,056	383,860	358,252	351,644
Environmental and conservation programs.....	445,350	430,071	420,600	435,976	473,210
Economic development (2).....	N/A	N/A	N/A	230,963	304,463
Gaming licensing/regulation (2).....	N/A	N/A	N/A	2,128	299,396
Correctional industries and procurement (2).....	N/A	N/A	N/A	133,934	30,348
Emergency support (2).....	N/A	N/A	N/A	183,048	190,463
Higher education (2).....	N/A	N/A	N/A	N/A	N/A
Other purposes (2).....	1,365,110	1,769,599	754,370	235,399	252,245
Unrestricted (deficit).....	(675,228)	(276,830)	(782,972)	(372,089)	343,162
<b>TOTAL PRIMARY GOVERNMENT NET ASSETS.....</b>	<b>\$ 20,466,273</b>	<b>\$ 21,785,695</b>	<b>\$ 23,402,862</b>	<b>\$ 25,948,001</b>	<b>\$ 27,984,881</b>

**Source:** Statement of Net Assets, as presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the applicable fiscal year.

**Notes:**

(1)-For the 2011 fiscal year, the caption "General government operations" was created specifically for any net assets restrictions reported within that portion of the General Fund not associated with the 38 former Special Revenue funds which were reclassified as components of the General Fund. In past fiscal years, this portion, if not reported as a deficit, was reported within various net assets restriction categories. These changes have not been retroactively applied to prior fiscal years.

(2)-Since the 2003 fiscal year, additional restricted net assets categories have been created to provide a more refined description of the restrictions. These restrictions were not applied retroactively and are marked with N/A in the fiscal years prior to the newer creation of the restricted net asset category. These categories were created either for new funds or funds previously reported in the "Other purposes" category. The "Gaming licensing/regulation" category was created for the Gaming Fund, a governmental fund type, which was established in the 2006 fiscal year. The most significant fund where net assets were previously reported in the "Other purposes" category that is now reported in a different category is the Tobacco Settlement Fund, a governmental fund type, which beginning with the 2005 fiscal year is reported in the "Health-related programs" category. Other notable funds being reported in different categories are the Internal Service funds-reported in the "Correctional industries and procurement" category; Machinery and Equipment Loan Fund and Small Business First Fund (both Proprietary fund types)-reported in the "Economic development" category; the Volunteer Companies Loan Fund (a Proprietary fund type)-reported in the "Emergency support" category; and the Educational Assistance Program Fund (a component of the General Fund)-reported in the "Higher education" category.

(3)-In the June 30, 2009 CAFR, the beginning net assets balance for Governmental Activities was restated and decreased by \$273,654 as of July 1, 2008. Therefore, the ending net assets balance (for both Governmental and Total Primary Government Net Assets) shown in this table as of June 30, 2008 plus the change in net assets shown in Table 2 for the June 30, 2009 fiscal year will differ from the ending net assets balance (for both Governmental and Total Primary Government Net Assets) shown in this table as of June 30, 2009. Note B in the Notes to the Financial Statements in the June 30, 2009 CAFR provides additional details on this restatement.

(4)-For the 2011 fiscal year, balances in the amount of \$672,834 related to the grant ledgers were reported as restricted. For the 2012 fiscal year, those balances were reported as unrestricted/(deficit).

2008 (3)	2009 (3)	2010	2011	2012
\$ 21,482,118	\$ 22,821,832	\$ 24,102,905	\$ 25,352,588	\$ 26,580,581
N/A	N/A	N/A	672,834	-
1,410,932	1,291,318	1,048,684	61,785	18,977
1,520,801	1,342,189	1,318,358	1,000,129	670,168
-	-	11	-	-
27,458	16,834	46,853	-	-
120,181	125,515	301,372	367,006	427,934
38,264	62,183	50,213	-	-
457,726	529,274	592,672	331,102	565,891
22,530	23,576	25,312	-	-
947,145	917,466	771,616	720,578	725,468
46,541	37,701	49,467	62,868	71,095
58,063	57,324	58,209	51,926	46,793
7,023	8,985	7,715	-	-
88,580	58,842	55,616	40,078	35,614
(648,689)	(4,053,146)	(4,881,426)	(4,407,594)	(5,460,053)
25,578,673	23,239,893	23,547,577	24,253,300	23,682,468
72,668	78,561	74,392	84,065	77,259
1,942	1,059	2,837	2,323	1,340
103,274	103,652	110,987	118,938	121,760
2,378,092	342,098	-	-	-
124,351	-	-	-	-
299,924	283,012	295,502	304,767	309,636
132,837	134,685	138,884	144,834	147,747
126,799	76,573	85,177	94,985	98,203
(73,973)	(403,122)	(1,916,364)	(2,314,339)	(1,913,601)
3,165,914	616,518	(1,208,585)	(1,564,427)	(1,157,656)
21,554,786	22,900,393	24,177,297	25,436,653	26,657,840
N/A	N/A	N/A	672,834	-
1,412,874	1,292,377	1,051,521	64,108	20,317
1,624,075	1,445,841	1,429,345	1,119,067	791,928
-	-	11	-	-
27,458	16,834	46,853	-	-
2,498,273	467,613	301,372	367,006	427,934
162,615	62,183	50,213	-	-
457,726	529,274	592,672	331,102	565,891
322,454	306,588	320,814	304,767	309,636
947,145	917,466	771,616	720,578	725,468
46,541	37,701	49,467	62,868	71,095
190,900	192,009	197,093	196,760	194,540
7,023	8,985	7,715	-	-
215,379	135,415	140,793	135,063	133,817
(722,662)	(4,456,268)	(6,797,790)	(6,721,933)	(7,373,654)
\$ 28,744,587	\$ 23,856,411	\$ 22,338,992	\$ 22,688,873	\$ 22,524,812

Commonwealth of Pennsylvania

Financial Trends

Table 2  
Changes in Net Assets  
For the Last Ten Fiscal Years Ended June 30  
(Accrual basis of accounting-amounts in thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>GOVERNMENTAL ACTIVITIES</b>										
<b>Expenses:</b>										
Direction and supportive services.....	\$ 1,024,071	\$ 2,034,883	\$ 2,229,850	\$ 2,162,552	\$ 1,208,409	\$ 1,479,962	\$ 1,492,541	\$ 1,950,908	\$ 2,052,743	\$ 2,243,649
Protection of persons and property .....	3,921,413	3,873,972	4,244,332	4,439,794	4,487,633	4,922,684	5,480,770	5,682,950	5,384,710	5,541,681
Public education.....	10,219,211	10,571,307	11,428,452	11,816,608	12,464,663	13,107,648	14,045,890	14,520,733	14,864,360	13,394,225
Health and human services.....	20,454,323	21,750,153	24,166,791	24,139,762	24,264,933	25,215,388	26,615,566	28,321,389	30,388,529	30,680,717
Economic development.....	1,455,272	1,340,015	1,314,636	1,409,506	1,738,172	1,720,992	1,614,214	1,580,654	1,598,596	1,537,068
Transportation.....	2,998,824	3,164,086	3,261,642	3,229,351	3,922,517	4,182,916	4,278,022	4,951,010	4,465,639	4,382,503
Recreation and cultural enrichment.....	435,864	394,273	448,585	520,330	569,510	571,009	602,365	559,311	491,082	514,309
Interest.....	370,284	341,455	296,267	337,142	344,557	371,249	382,065	395,305	440,428	475,545
<b>Total expenses.....</b>	<b>40,879,262</b>	<b>43,470,144</b>	<b>47,390,555</b>	<b>48,055,045</b>	<b>49,000,394</b>	<b>51,571,848</b>	<b>54,511,433</b>	<b>57,962,260</b>	<b>59,686,087</b>	<b>58,769,697</b>
<b>Program revenues:</b>										
Charges for sales and services:										
Direction and supportive services.....	347,910	1,097,730	1,377,293	991,541	143,290	143,933	74,320	216,188	252,572	277,492
Protection of persons and property .....	627,529	925,502	831,785	1,080,708	1,309,256	1,214,038	1,083,889	1,331,281	1,034,481	1,302,020
Public education.....	-	3,514	1,702	13,161	14,793	17,641	15,756	18,201	14,928	4,776
Health and human services.....	2,049,640	1,297,338	2,871,487	1,913,377	1,730,965	1,800,212	1,559,638	1,134,144	1,597,599	1,658,657
Economic development.....	142,914	1,011	11,028	16,373	12,277	11,379	15,553	12,317	11,812	8,205
Transportation.....	914,129	1,008,886	1,029,406	949,533	952,866	945,536	944,486	910,721	976,705	970,026
Recreation and cultural enrichment.....	143,221	138,750	153,641	166,750	162,168	162,013	312,287	416,053	181,373	245,405
Operating grants and contributions.....	14,574,283	16,556,717	16,773,012	16,532,924	17,229,000	17,936,693	20,370,216	25,620,597	26,071,112	22,816,711
Capital grants and contributions.....	136,140	30,473	14,944	55,761	23,495	4,610	47,320	57,628	221,195	67,866
<b>Total program revenues.....</b>	<b>18,935,766</b>	<b>21,059,921</b>	<b>23,064,298</b>	<b>21,720,128</b>	<b>21,578,110</b>	<b>22,236,055</b>	<b>24,423,465</b>	<b>29,717,130</b>	<b>30,361,777</b>	<b>27,351,158</b>
<b>Total governmental activities net program revenues/(expenses).....</b>	<b>(21,943,496)</b>	<b>(22,410,223)</b>	<b>(24,326,257)</b>	<b>(26,334,917)</b>	<b>(27,422,284)</b>	<b>(29,335,793)</b>	<b>(30,087,968)</b>	<b>(28,245,130)</b>	<b>(29,324,310)</b>	<b>(31,418,539)</b>
<b>General revenues and other changes in net assets:</b>										
<b>General revenues:</b>										
<b>Taxes:</b>										
Personal income.....	6,691,957	7,352,877	8,312,440	9,093,338	9,951,585	10,438,976	9,553,538	9,414,864	9,771,269	10,022,285
Sales and use.....	7,511,233	7,654,405	7,917,396	8,381,262	8,629,815	8,779,768	8,417,292	8,309,905	8,610,603	8,977,379
Corporation.....	3,418,599	4,004,112	4,400,995	5,074,730	4,985,031	5,157,589	4,209,705	4,146,477	4,469,094	4,504,105
Liquid fuels and motor carriers.....	1,666,795	1,723,816	1,863,223	2,033,227	2,072,442	2,024,045	1,975,678	2,045,505	2,092,645	2,096,222
Gaming (1).....	N/A	N/A	N/A	N/A	251,059	769,064	999,247	1,232,829	1,409,388	1,487,729
Inheritance.....	634,365	726,605	668,992	793,279	716,788	802,865	733,405	698,980	783,824	803,573
Cigarette (2).....	N/A	933,973	811,578	1,033,099	983,580	1,026,125	1,000,987	1,088,405	1,104,355	1,081,587
Realty transfer (2).....	N/A	N/A	N/A	646,870	583,991	500,786	348,003	346,094	328,997	343,015
Other (2).....	1,616,368	893,589	992,343	418,110	475,197	592,744	492,420	1,035,935	1,167,804	1,306,395
<b>Total taxes.....</b>	<b>21,539,317</b>	<b>23,289,377</b>	<b>24,966,967</b>	<b>27,473,915</b>	<b>28,649,488</b>	<b>30,091,962</b>	<b>27,730,275</b>	<b>28,318,994</b>	<b>29,737,979</b>	<b>30,622,290</b>
Investment income.....	115,829	199,151	131,629	188,750	320,342	128,722	(137,831)	15,099	52,129	14,979
<b>Total general revenues.....</b>	<b>21,655,146</b>	<b>23,488,528</b>	<b>25,098,596</b>	<b>27,662,665</b>	<b>28,969,830</b>	<b>30,220,684</b>	<b>27,592,444</b>	<b>28,334,093</b>	<b>29,790,108</b>	<b>30,637,269</b>
Transfers from business-type activities.....	551,807	422,786	341,232	465,000	257,343	296,931	430,398	218,721	239,925	210,438
<b>Net general revenues and transfers.....</b>	<b>22,206,953</b>	<b>23,911,314</b>	<b>25,439,828</b>	<b>28,127,665</b>	<b>29,227,173</b>	<b>30,517,615</b>	<b>28,022,842</b>	<b>28,552,814</b>	<b>30,030,033</b>	<b>30,847,707</b>
<b>Total governmental activities change in net assets.....</b>	<b>\$ 263,457</b>	<b>\$ 1,501,091</b>	<b>\$ 1,113,571</b>	<b>\$ 1,792,748</b>	<b>\$ 1,804,889</b>	<b>\$ 1,181,822</b>	<b>\$ (2,065,126)</b>	<b>\$ 307,684</b>	<b>\$ 705,723</b>	<b>\$ (570,832)</b>

Commonwealth of Pennsylvania

Financial Trends

Table 2

Changes in Net Assets

For the Last Ten Fiscal Years Ended June 30

(Accrual basis of accounting—amounts in thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>BUSINESS-TYPE ACTIVITIES</b>										
<b>Expenses</b>										
State lottery.....	\$ 1,827,306	\$ 2,051,646	\$ 2,298,417	\$ 2,704,265	\$ 3,100,523	\$ 3,157,593	\$ 3,173,322	\$ 3,079,381	\$ 3,155,903	\$ 3,429,773
State workers' insurance.....	225,483	435,429	449,880	412,104	553,512	616,256	388,424	338,229	306,318	268,388
Tuition payment.....	288,118	293,737	192,802	138,275	267,941	224,791	100,028	235,876	259,069	236,342
Unemployment compensation (3).....	3,470,257	2,563,318	1,774,676	1,998,613	2,074,382	2,289,977	6,250,213	8,741,990	7,460,707	6,031,968
Liquor control.....	954,763	1,024,365	1,088,875	1,178,434	1,277,871	1,318,503	1,437,168	1,478,971	1,504,517	1,569,868
Economic development and other.....	12,663	13,980	16,456	18,433	14,470	3,148	14,171	13,706	23,635	16,997
<b>Total expenses.....</b>	<b>6,778,590</b>	<b>6,382,475</b>	<b>5,821,106</b>	<b>6,450,124</b>	<b>7,288,699</b>	<b>7,610,268</b>	<b>11,363,326</b>	<b>13,888,153</b>	<b>12,710,149</b>	<b>11,553,336</b>
<b>Program revenues</b>										
Charges for sales and services:										
State lottery.....	2,103,644	2,349,644	2,644,407	3,047,978	3,076,013	3,100,962	3,088,231	3,052,097	3,206,933	3,476,953
State workers' insurance.....	180,664	266,551	355,883	427,970	374,088	384,301	291,677	223,458	173,571	157,579
Tuition payment.....	234,460	206,739	141,817	113,831	151,121	138,361	153,892	157,336	165,157	185,947
Unemployment compensation (3).....	1,532,213	1,628,215	1,961,085	2,373,163	2,172,900	2,061,780	2,423,125	2,328,099	2,579,252	3,447,659
Liquor control.....	1,025,813	1,121,853	1,183,667	1,272,101	1,364,524	1,428,638	1,507,512	1,527,998	1,586,394	1,673,027
Economic development and other.....	15,878	21,467	17,201	17,585	20,068	20,149	19,067	22,254	24,449	17,478
Operating grants and contributions.....	1,223,591	840,763	361,874	414,887	619,319	350,892	1,760,824	4,970,529	4,858,476	3,211,902
Capital grants and contributions.....	6,706	1,121	-	-	-	-	-	-	-	-
<b>Total program revenues.....</b>	<b>6,322,969</b>	<b>6,436,353</b>	<b>6,665,934</b>	<b>7,667,515</b>	<b>7,778,033</b>	<b>7,485,083</b>	<b>9,244,328</b>	<b>12,281,771</b>	<b>12,594,232</b>	<b>12,170,545</b>
<b>Total business-type activities net program revenues/(expenses).....</b>	<b>(455,621)</b>	<b>53,878</b>	<b>844,828</b>	<b>1,217,391</b>	<b>489,334</b>	<b>(125,185)</b>	<b>(2,118,998)</b>	<b>(1,606,382)</b>	<b>(115,917)</b>	<b>617,209</b>
<b>Other changes in net assets</b>										
Transfers to governmental activities.....	(551,807)	(422,786)	(341,232)	(465,000)	(257,343)	(296,931)	(430,398)	(218,721)	(239,925)	(210,438)
<b>Total business-type activities change in net assets.....</b>	<b>(1,007,428)</b>	<b>(368,908)</b>	<b>503,596</b>	<b>752,391</b>	<b>231,991</b>	<b>(422,116)</b>	<b>(2,549,396)</b>	<b>(1,825,103)</b>	<b>(355,842)</b>	<b>406,771</b>
<b>Total primary government change in net assets.....</b>	<b>\$ (743,971)</b>	<b>\$ 1,132,183</b>	<b>\$ 1,617,167</b>	<b>\$ 2,545,139</b>	<b>\$ 2,036,880</b>	<b>\$ 759,706</b>	<b>\$ (4,614,522)</b>	<b>\$ (1,517,419)</b>	<b>\$ 349,881</b>	<b>\$ (164,061)</b>

Source: Statement of Activities, as presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the applicable fiscal year.

Notes:

(1)-During the 2007 fiscal year, the first licensed gaming facilities opened and the resulting taxes from their activities were reported in the Gaming Fund, a special revenue fund.

(2)-Since the 2003 fiscal year, additional captions were created in the Statement of Activities to provide a more refined description of the Commonwealth's taxes. In the 2003 fiscal year, cigarette and realty transfer taxes were reported within the "Other" taxes category. Beginning with the 2004 fiscal year, cigarette taxes were reported separately; and in the 2006 fiscal year, realty transfer taxes were reported separately. These captions are marked with N/A in the fiscal years prior to when the particular tax was reported separate from the "Other" taxes category. Beginning with the June 30, 2010 CAFR, the "Real estate" taxes caption reported in previous CAFRS has been changed to "Realty transfer" to better reflect the nature of the tax.

(3)-In the Unemployment Compensation Fund, the June 30, 2010 fiscal year amounts for expenses and program revenues were reduced by \$3,008,615 in order to present a reclassification made in the June 30, 2011 fiscal year. The June 30, 2010 CAFR was not restated to reflect these amounts.

Commonwealth of Pennsylvania

Financial Trends

Table 3

Governmental Fund Type Fund Balances

Last Ten Fiscal Years as of June 30

(Modified accrual basis of accounting-amounts in thousands)

	2003	2004	2005	2006	2007	2008 (4)	2009 (4)	2010	2011	2012
<b>GENERAL FUND (1)(2)(3)</b>										
Reserved for:										
Encumbrances.....	\$ 341,881	\$ 259,178	\$ 617,861	\$ 709,115	\$ 570,027	\$ 568,678	\$ 785,864	\$ 806,181	N/A	N/A
Advances.....	114,108	114,108	114,108	114,108	114,108	114,108	139,108	139,108	N/A	N/A
Loans receivable.....	9,470	6,283	4,496	10,953	11,113	8,358	9,924	9,989	N/A	N/A
Budget Stabilization Reserve.....	-	-	70,303	171,362	538,764	745,949	745,949	-	N/A	N/A
Other.....	307,974	501,901	621,004	454,639	844,229	1,148,218	1,375,432	764,206	N/A	N/A
Unreserved:										
Designated for:										
Budget Stabilization Reserve Fund.....	-	70,303	-	-	-	-	-	-	N/A	N/A
Other.....	269,775	421,415	514,174	719,414	923,966	379,169	-	-	N/A	N/A
Undesignated.....	1,314,505	1,633,326	927,163	789,958	368,659	9,621	(2,541,099)	(1,434,681)	N/A	N/A
Nonspendable.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	123,156	240,975
Restricted (5).....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	756,141	-
Committed.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,063,613	1,276,671
Unassigned/(deficit) (5).....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(321,475)	(258,351)
<b>TOTAL GENERAL FUND.....</b>	<b>2,357,713</b>	<b>3,006,514</b>	<b>2,869,109</b>	<b>2,969,549</b>	<b>3,370,866</b>	<b>2,974,101</b>	<b>515,178</b>	<b>284,803</b>	<b>1,621,435</b>	<b>1,259,295</b>
<b>ALL OTHER GOVERNMENTAL FUNDS (1)(2)(3)</b>										
Reserved for:										
Encumbrances.....	1,168,535	1,444,875	1,454,129	1,630,382	1,927,151	2,057,615	2,085,395	2,329,299	N/A	N/A
Advances.....	3,000	223,000	210,000	3,000	3,000	3,000	3,000	3,000	N/A	N/A
Loans receivable.....	38,186	39,804	32,065	32,684	39,859	73,628	83,100	79,315	N/A	N/A
Other.....	445,411	560,284	817,668	857,253	1,329,707	940,263	916,713	907,005	N/A	N/A
Unreserved:										
Designated for, reported in:										
Highways.....	215,946	209,647	218,885	203,118	235,730	689,288	700,018	768,710	N/A	N/A
Special Revenue funds.....	-	-	4,355	4,528	11,268	9,341	8,666	2,218	N/A	N/A
Debt Service funds.....	32,685	61,029	83,885	8,118	20,474	27,458	16,834	46,853	N/A	N/A
Capital Projects funds.....	54,026	96,787	133,024	131,026	65,455	54,631	33,527	32,879	N/A	N/A
Unreserved: Undesignated, reported in:										
Special Revenue funds.....	1,703,534	1,520,236	1,631,980	2,412,047	1,971,829	2,630,277	2,448,383	2,421,257	N/A	N/A
Capital Projects funds (deficit).....	(398,644)	(368,295)	(473,110)	(601,823)	(449,622)	(629,686)	(721,365)	(524,465)	N/A	N/A
Restricted reported in:										
Special Revenue funds.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	3,711,994	3,690,354
Committed reported in:										
Special Revenue funds.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	426,391	402,207
Debt Service funds.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	17,040	48,400
Capital Projects funds.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	239,180	509,618
Unassigned reported in:										
Special Revenue funds (deficit).....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(2,837)	(2,955)
Capital Projects funds (deficit).....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(20,711)	-
<b>TOTAL ALL OTHER GOVERNMENTAL FUNDS.....</b>	<b>\$ 3,262,679</b>	<b>\$ 3,787,367</b>	<b>\$ 4,112,881</b>	<b>\$ 4,680,333</b>	<b>\$ 5,154,851</b>	<b>\$ 5,855,815</b>	<b>\$ 5,574,271</b>	<b>\$ 6,066,071</b>	<b>\$ 4,371,057</b>	<b>\$ 4,647,624</b>

Source: The Balance Sheet-Governmental Funds statement, as presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the applicable fiscal year.

Notes:

(1)-The Commonwealth implemented GASB Statement 54 for the 2011 fiscal year. To implement GASB Statement 54, it was necessary to reclass 41 Special Revenue funds. 38 of these were reclassified as components of the General Fund, and the remaining three were reclassified as Capital Project funds. This reclassification required the restatement of the General Fund fund balance from the \$284,803 shown in this schedule at the end of the 2010 fiscal year to \$565,223 which was reported at July 1, 2010. Likewise, the fund balance for All Other Governmental Funds was restated from the \$6,066,071 shown at the end of the 2010 fiscal year to \$5,785,651 at July 1, 2010.

(2)-In addition to the restatement described in note (1), existing categories were changed from Reserved and Unreserved fund balances to Nonspendable and Spendable (Restricted, Committed, Assigned and Unassigned) fund balances. Details of the Commonwealth's implementation of GASB Statement 54, including the restatement described in Note (1), are described in Notes A and B of the Commonwealth's June 30, 2011 CAFR.

(3)-The changes described in Notes (1) and (2) above were not retroactively applied. Therefore, governmental fund balances through the 2010 fiscal year are reported as reserved and unreserved, with the 38 funds described above included in the fund balances for All Other Governmental Funds, rather than the General Fund.

(4)-In the June 30, 2009 CAFR, the beginning fund balance for the Motor License fund (a governmental fund type) was restated and increased by \$30,059 as of July 1, 2008. Therefore, the combined ending fund balance (for the General Fund and all other governmental fund types) shown in this table as of June 30, 2008 plus the change in fund balances shown in Table 4 for the June 30, 2009 fiscal year will differ from the combined ending fund balance (for the General Fund and all other governmental fund types) shown in this table as of June 30, 2009. Note B in the Notes to the Financial Statements in the June 30, 2009 CAFR provides additional details on this restatement.

(5)-For the 2011 fiscal year, balances in the amount of \$756,141 related to the grant ledgers were reported as restricted. For the 2012 fiscal year, those balances were reported as unassigned/(deficit).



**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)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>REVENUES BY SOURCE</b>										
Taxes, net of refunds.....	\$ 21,469,170	\$ 23,237,117	\$ 24,973,125	\$ 27,117,823	\$ 28,548,280	\$ 29,909,880	\$ 27,773,110	\$ 28,229,235	\$ 30,007,455	\$ 30,775,017
Licenses and fees.....	1,350,016	1,475,948	1,568,659	1,611,868	1,954,788	1,913,154	1,674,804	1,951,683	1,806,751	2,070,914
Intergovernmental.....	14,575,716	16,379,096	16,585,336	16,347,975	16,891,212	17,911,839	20,619,848	25,256,164	26,029,290	22,804,215
Charges for sales and services.....	2,019,842	2,068,019	4,027,745	2,970,585	1,598,564	1,641,937	1,597,751	1,501,109	1,688,449	1,763,586
Investment income.....	249,791	402,132	322,199	425,356	769,820	166,522	(306,524)	344,936	326,021	116,945
Other (1).....	837,918	957,494	552,422	576,180	607,201	752,308	715,425	686,069	632,670	709,810
<b>TOTAL REVENUES</b> .....	<b>40,502,453</b>	<b>44,519,806</b>	<b>48,029,486</b>	<b>49,049,787</b>	<b>50,369,865</b>	<b>52,295,640</b>	<b>52,074,414</b>	<b>57,969,196</b>	<b>60,490,636</b>	<b>58,240,487</b>
<b>EXPENDITURES BY FUNCTION</b>										
Direction and supportive services .....	914,794	1,538,729	2,134,421	2,337,112	1,104,793	1,385,760	1,375,399	1,779,748	1,622,374	1,578,240
Protection of persons and property.....	3,882,843	3,886,666	3,892,572	4,410,969	4,621,119	4,861,363	5,169,377	5,359,792	5,307,198	5,089,854
Health and human services.....	20,510,849	21,689,392	24,118,288	24,103,077	24,293,011	25,141,836	26,549,790	28,340,751	30,435,510	30,662,493
Public education.....	10,198,076	10,529,504	11,400,985	11,731,884	12,439,920	13,076,308	14,019,470	14,492,845	14,836,658	13,363,316
Recreation and cultural enrichment.....	471,920	382,179	442,783	447,264	544,117	557,387	570,177	506,737	463,501	482,065
Economic development.....	1,507,584	1,334,071	1,310,093	1,413,995	1,736,388	1,721,634	1,605,513	1,582,097	1,596,548	1,405,895
Transportation.....	3,935,785	2,310,434	2,607,793	2,448,165	3,089,544	3,292,279	3,321,647	3,833,745	3,129,306	3,264,969
Capital outlay.....	407,080	2,008,141	1,805,913	2,082,644	2,121,632	2,273,290	2,812,788	3,144,349	3,248,174	3,389,801
Debt service:										
Principal retirement.....	998,396	455,890	478,112	492,355	521,773	555,337	598,850	626,090	697,510	711,875
Interest and fiscal charges.....	313,681	311,686	320,887	348,418	361,088	388,722	402,653	406,414	477,751	510,783
<b>TOTAL EXPENDITURES</b> .....	<b>43,141,008</b>	<b>44,446,692</b>	<b>48,511,847</b>	<b>49,815,883</b>	<b>50,833,385</b>	<b>53,253,916</b>	<b>56,425,664</b>	<b>60,072,568</b>	<b>61,814,530</b>	<b>60,459,291</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(2,638,555)</b>	<b>73,114</b>	<b>(482,361)</b>	<b>(766,096)</b>	<b>(463,520)</b>	<b>(958,276)</b>	<b>(4,351,250)</b>	<b>(2,103,372)</b>	<b>(1,323,894)</b>	<b>(2,218,804)</b>
<b>OTHER FINANCING SOURCES/(USES)</b>										
Bonds issued.....	1,324,167	625,247	401,816	914,000	1,008,104	913,119	1,064,103	1,900,401	650,000	1,600,303
Refunding bonds issued.....	837,991	459,223	1,468,439	-	250,557	194,471	155,642	695,945	-	161,272
Premium on bonds/refunding bonds issued.....	-	88,006	197,291	54,420	58,166	61,277	88,921	203,601	37,739	259,314
Discount on bonds issued.....	-	-	-	-	(157)	-	-	(2,924)	(4,724)	-
Transfers in.....	1,729,539	1,337,090	1,276,443	1,408,351	1,463,620	1,614,938	1,693,343	2,251,986	2,344,796	1,777,033
Transfers out.....	(1,177,733)	(914,304)	(1,035,211)	(943,351)	(1,188,779)	(1,318,226)	(1,257,945)	(1,888,368)	(2,062,410)	(1,580,564)
Payment to refunded bond escrow agent.....	(837,991)	(511,884)	(1,639,510)	-	(253,892)	(203,633)	(166,978)	(795,844)	-	(192,390)
Capital lease and installment purchase obligations.....	4,656	1,535	1,202	568	1,736	529	3,638	-	111	108,263
<b>TOTAL OTHER FINANCING SOURCES/(USES).....</b>	<b>1,880,629</b>	<b>1,084,913</b>	<b>670,470</b>	<b>1,433,988</b>	<b>1,339,355</b>	<b>1,262,475</b>	<b>1,580,724</b>	<b>2,364,797</b>	<b>965,512</b>	<b>2,133,231</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>\$ (757,926)</b>	<b>\$ 1,158,027</b>	<b>\$ 188,109</b>	<b>\$ 667,892</b>	<b>\$ 875,835</b>	<b>\$ 304,199</b>	<b>\$ (2,770,526)</b>	<b>\$ 261,425</b>	<b>\$ (358,382)</b>	<b>\$ (85,573)</b>
Debt Service as a Percentage of Noncapital Expenditures (2).....	3.07%	1.81%	1.71%	1.76%	1.81%	1.85%	1.87%	1.81%	2.01%	2.14%

**Source:** The Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds statement, as presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the applicable fiscal year.  
**Notes:**  
 (1)-Other revenues include immaterial amounts of lease rentals revenues and interest on notes and loans.  
 (2)-Ratio is calculated as Principal Retirement plus Interest and Fiscal Charges expenditures divided by Total Expenditures less Capital Outlay expenditures. There are no expenditures for capitalized assets contained within the functional expenditure categories.

**Commonwealth of Pennsylvania**  
**Revenue Capacity-Personal Income Tax**

Table 5  
 Personal Income by Industry  
 For the Last Ten Calendar Years

(Amounts in millions)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>TOTAL PERSONAL INCOME BY INDUSTRY (1)(2)</b>										
<b>Workplace Earnings:</b>										
<b>Farm Earnings</b> .....	\$ 622	\$ 1,213	\$ 1,484	\$ 1,342	\$ 1,053	\$ 1,230	\$ 1,200	\$ 906	\$ 1,191	\$ 1,623
<b>Nonfarm Earnings:</b>										
<b>Private earnings:</b>										
Forestry, fishing/hunting, agriculture.....	415	394	403	414	438	455	443	425	526	549
Mining.....	1,342	1,455	1,714	1,911	2,250	2,156	3,214	2,154	2,820	3,626
Utilities.....	3,138	2,972	2,853	2,750	2,901	2,953	3,226	2,941	3,023	3,277
Construction.....	18,604	19,788	21,040	22,044	23,206	23,007	22,703	20,232	20,838	21,780
Manufacturing.....	42,928	41,835	42,107	42,627	44,190	43,786	44,221	39,347	40,150	41,839
Wholesale trade.....	13,739	14,448	15,683	16,645	17,850	19,009	19,289	18,231	18,615	19,845
Retail trade.....	19,927	20,904	21,068	21,624	21,908	22,187	21,377	21,294	21,813	22,484
Transportation and warehousing.....	10,917	11,223	12,023	12,408	12,777	12,951	12,736	12,549	12,921	13,631
Broadcasting/publishing/internet technology.....	8,124	8,619	8,754	8,942	9,356	9,697	10,775	10,157	11,297	11,680
Finance and insurance.....	19,772	20,558	21,890	22,793	24,440	25,020	25,400	24,382	25,096	25,812
Real estate and rental and leasing.....	5,815	6,173	6,405	6,219	6,082	5,168	5,553	4,708	5,402	5,527
Professional and technical services.....	24,927	25,565	27,621	29,437	31,852	34,310	36,999	34,683	35,268	36,621
Management of companies and enterprises.....	5,445	7,098	8,034	9,355	10,590	13,156	13,086	13,405	13,761	15,234
Administrative services.....	9,307	9,221	9,954	10,399	10,958	11,358	11,636	10,946	11,629	12,445
Educational services.....	7,575	7,959	8,546	8,876	9,425	9,906	10,588	11,484	11,587	12,063
Health care and social assistance.....	34,514	36,633	39,563	40,772	43,386	45,765	49,192	51,305	53,219	55,032
Arts, entertainment, and recreation.....	2,658	2,924	3,021	3,071	3,288	3,596	3,648	3,711	3,977	4,322
Accommodation and food services.....	7,143	7,311	7,658	7,883	8,065	8,794	8,655	8,451	8,864	9,300
Other services, except public administration.....	11,954	11,780	12,279	13,124	13,544	13,488	13,040	13,068	13,481	13,891
<b>Total private earnings</b> .....	<b>248,244</b>	<b>256,860</b>	<b>270,616</b>	<b>281,294</b>	<b>296,506</b>	<b>306,762</b>	<b>315,781</b>	<b>303,473</b>	<b>314,287</b>	<b>328,958</b>
<b>Government:</b>										
Federal, civilian.....	7,973	8,198	8,810	9,164	9,545	9,846	10,084	10,446	10,856	10,799
Military.....	1,189	1,595	1,677	1,855	1,822	1,809	1,921	2,089	2,069	1,945
State government.....	7,939	8,413	8,555	8,690	9,033	9,646	9,839	10,302	10,466	10,630
Local government.....	20,537	21,655	22,677	23,389	24,007	25,013	26,211	27,000	27,501	27,535
<b>Total government earnings</b> .....	<b>37,638</b>	<b>39,861</b>	<b>41,719</b>	<b>43,098</b>	<b>44,407</b>	<b>46,314</b>	<b>48,055</b>	<b>49,837</b>	<b>50,892</b>	<b>50,909</b>
<b>Total nonfarm earnings</b> .....	<b>285,882</b>	<b>296,721</b>	<b>312,335</b>	<b>324,392</b>	<b>340,913</b>	<b>353,076</b>	<b>363,836</b>	<b>353,310</b>	<b>365,179</b>	<b>379,867</b>
<b>Total workplace earnings</b> .....	<b>286,504</b>	<b>297,934</b>	<b>313,819</b>	<b>325,734</b>	<b>341,966</b>	<b>354,306</b>	<b>365,036</b>	<b>354,216</b>	<b>366,370</b>	<b>381,490</b>
<b>Other earnings/deductions (3)</b> .....	<b>101,160</b>	<b>101,613</b>	<b>103,971</b>	<b>106,514</b>	<b>120,738</b>	<b>134,770</b>	<b>147,956</b>	<b>142,448</b>	<b>147,982</b>	<b>157,419</b>
<b>Total personal income</b> .....	<b>\$ 387,664</b>	<b>\$ 399,547</b>	<b>\$ 417,790</b>	<b>\$ 432,248</b>	<b>\$ 462,704</b>	<b>\$ 489,076</b>	<b>\$ 512,992</b>	<b>\$ 496,664</b>	<b>\$ 514,352</b>	<b>\$ 538,909</b>
<b>Total personal income subject to the direct personal income tax rate (4)(5)</b> .....	<b>\$ 229,685</b>	<b>\$ 237,961</b>	<b>\$ 250,921</b>	<b>266,800</b>	<b>288,043</b>	<b>317,393</b>	<b>314,872</b>	<b>294,893</b>	<b>N/A</b>	<b>N/A</b>
<b>Direct personal income tax rate</b> .....	<b>2.80%</b>	<b>2.80%</b>	<b>3.07%</b>	<b>3.07%</b>	<b>3.07%</b>	<b>3.07%</b>	<b>3.07%</b>	<b>3.07%</b>	<b>3.07%</b>	<b>3.07%</b>

**Sources:**

Personal income by industry is provided by the Bureau of Economic Analysis, US Department of Commerce ([www.bea.gov/index.htm](http://www.bea.gov/index.htm)) through estimates released September 2012. Total personal income subject to the direct tax rate was obtained from the Pennsylvania Department of Revenue. The information for the 2009 calendar year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium-October 2011 (Fiscal Year 2010-11). The direct personal income tax rate was obtained from the Pennsylvania Tax Compendium for December 2010. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

**Notes:**

- (1)-Various calendar years differ from the totals shown in the Commonwealth's Comprehensive Annual Financial Report for June 30, 2011. The amounts shown in the prior year were based on estimates released by the Bureau of Economic Analysis, U.S. Department of Commerce in September 2011. These estimates have subsequently been revised (as provided in the September 2012 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 2010 and 2011 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  
 2000 and 2009 Tax Years

Liability amounts in thousands					Liability amounts in thousands				
2000 Tax Year (1)(2)(3)					2009 Tax Year (1)(2)(3)				
Taxable Income Level	Number of Filers	Percentage of Total (6)	Personal Income Tax Liability(4)	Percentage of Total	Taxable Income Level	Number of Filers	Percentage of Total (6)	Personal Income Tax Liability(4)	Percentage of Total
\$0	60,793	1.07%	\$ -	0.00%	\$0	154,771	2.60%	\$ -	0.00%
\$1-999	343,584	6.05%	4,270	0.06%	\$1-999	416,530	6.99%	4,761	0.05%
\$1,000-2,999	445,457	7.84%	24,672	0.37%	\$1,000-2,999	406,212	6.81%	24,176	0.27%
\$3,000-4,999	344,461	6.06%	38,748	0.58%	\$3,000-4,999	310,031	5.20%	37,684	0.42%
\$5,000-6,999	278,062	4.89%	47,104	0.71%	\$5,000-6,999	256,289	4.30%	46,931	0.52%
\$7,000-8,999	227,879	4.01%	51,576	0.78%	\$7,000-8,999	213,507	3.58%	52,232	0.58%
\$9,000-10,999	198,932	3.50%	56,378	0.85%	\$9,000-10,999	188,926	3.17%	57,874	0.64%
\$11,000-12,999	181,981	3.20%	61,948	0.93%	\$11,000-12,999	170,185	2.85%	62,634	0.69%
\$13,000-14,999	172,759	3.04%	68,520	1.03%	\$13,000-14,999	159,533	2.68%	68,496	0.76%
\$15,000-16,999	164,852	2.90%	74,707	1.13%	\$15,000-16,999	151,035	2.53%	74,097	0.82%
\$17,000-18,999	159,156	2.80%	81,088	1.22%	\$17,000-18,999	139,203	2.33%	76,888	0.85%
\$19,000-21,999	228,295	4.02%	132,203	1.99%	\$19,000-21,999	201,378	3.38%	126,693	1.40%
\$22,000-24,999	210,902	3.71%	139,784	2.11%	\$22,000-24,999	194,586	3.26%	140,337	1.55%
\$25,000-29,999	316,691	5.57%	244,897	3.69%	\$25,000-29,999	300,569	5.04%	253,262	2.80%
\$30,000-34,999	276,718	4.87%	252,688	3.81%	\$30,000-34,999	270,448	4.54%	269,365	2.98%
\$35,000-39,999	244,958	4.31%	257,990	3.89%	\$35,000-39,999	237,664	3.99%	273,247	3.02%
\$40,000-49,999	412,953	7.27%	519,959	7.83%	\$40,000-49,999	395,613	6.63%	544,012	6.01%
\$50,000-74,999	681,654	12.00%	1,170,112	17.63%	\$50,000-74,999	690,120	11.57%	1,301,593	14.38%
\$75,000-99,999	328,562	5.78%	791,580	11.93%	\$75,000-99,999	417,238	7.00%	1,107,100	12.23%
\$100,000-149,999	228,945	4.03%	767,329	11.56%	\$100,000-149,999	385,564	6.47%	1,426,346	15.76%
\$150,000 or more	173,986	3.06%	1,852,403	27.91% (5)	\$150,000-249,999	195,573	3.28%	1,119,467	12.37%
					(\$250,000 or more)	107,970	1.81%	1,986,014	21.94%
<b>Total (6)</b>	<b>5,681,580</b>	<b>100.00%</b>	<b>\$ 6,637,956</b>	<b>100.00%</b>	<b>Total</b>	<b>5,962,945</b>	<b>100.00%</b>	<b>\$ 9,053,208</b>	<b>100.00%</b>

**Sources:**

For the 2000 tax year, all of the information was provided directly by the Pennsylvania Department of Revenue. For the 2009 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-October 2011 (Fiscal Year 2010-11). The direct personal income tax rate was obtained from the Pennsylvania Tax Compendium for December 2010. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at [www.revenue.state.pa.us](http://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 2000 or 2009 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 2010 and 2011 tax years. This compilation is used in the calculation of the estimated personal income tax liability. Therefore, the 2000 and 2009 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 2000 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)-Beginning with the 2009 tax year, the caption "\$150,000 or more" has been split into two captions: "\$150,000-249,999" and "\$250,000 or more". The amounts for the 2000 tax year are reported within the original caption; whereas the amounts reported in the 2009 tax year are reported within the two new captions.
- (6)-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)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011(3)
<b>Estimated Taxable Sales by Industry (1)(2)</b>										
Manufacturing.....	\$ 5,712,633	\$ 6,222,633	\$ 6,386,100	\$ 6,858,033	\$ 7,107,483	\$ 7,083,150	\$ 7,199,717	\$ 6,952,853	\$ 6,310,433	\$ 7,182,250
Public utilities.....	3,920,667	3,981,383	4,229,717	4,473,817	4,667,117	4,816,533	4,763,633	4,832,233	4,750,250	5,002,200
Wholesale trade.....	9,687,583	7,625,950	7,987,583	9,112,350	11,407,750	12,320,033	12,239,917	10,215,170	10,492,100	11,590,333
Building materials.....	6,969,217	7,216,967	8,209,967	8,719,850	9,607,267	9,263,467	8,908,483	8,422,183	8,140,533	8,714,367
General merchandise.....	16,724,483	17,595,700	18,383,833	18,243,083	18,766,300	19,275,267	18,959,267	19,171,045	18,601,350	19,740,617
Food and beverage stores.....	5,353,500	5,602,267	5,770,967	5,764,533	5,859,017	6,090,033	6,023,083	6,197,422	6,416,383	6,437,433
Automotive dealers.....	3,163,400	3,329,383	3,487,217	3,691,150	3,761,500	3,865,533	3,834,950	3,709,158	3,753,567	3,997,233
Furniture and appliances.....	5,231,483	5,553,117	5,844,450	6,338,250	6,148,383	6,334,000	6,018,133	5,572,460	4,931,917	5,336,583
Other retail stores.....	5,054,200	5,022,117	5,212,517	5,376,183	5,529,683	5,802,417	5,764,733	5,598,740	5,580,450	6,095,250
Agriculture and mining.....	509,467	484,717	559,400	644,983	717,950	726,367	666,967	685,577	773,133	838,867
Construction.....	2,076,850	2,171,750	2,342,833	2,742,150	3,010,383	3,077,033	3,050,933	2,880,480	2,595,217	2,953,350
Service.....	34,221,217	35,405,917	35,164,650	37,378,583	39,336,950	41,230,817	41,914,783	40,875,482	40,899,250	43,579,383
Transportation, delivery, and warehousing..	272,833	275,150	312,250	330,783	420,617	363,450	374,133	356,542	365,150	371,317
Government.....	264,517	280,250	278,833	296,717	294,600	289,767	211,100	285,217	383,150	411,450
Unclassified.....	1,911,367	2,538,850	2,228,010	1,472,017	1,442,950	1,532,250	1,627,583	2,036,060	1,363,333	1,254,633
Motor vehicle.....	19,362,581	20,764,773	21,144,925	20,506,470	19,484,594	19,481,964	18,346,914	15,992,425	16,595,200	17,714,383
Liquor sales.....	1,105,526	1,254,926	1,265,798	1,383,587	1,341,449	1,627,333	1,704,846	1,808,735	1,868,083	1,950,633
<b>Total sales tax estimated base (4).....</b>	<b>\$ 121,541,524</b>	<b>\$ 125,325,849</b>	<b>\$ 128,809,049</b>	<b>\$ 133,332,540</b>	<b>\$ 138,903,993</b>	<b>\$ 143,179,414</b>	<b>\$ 141,609,177</b>	<b>\$ 135,591,782</b>	<b>\$ 133,819,500</b>	<b>\$ 143,170,283</b>
<b>Total direct sales tax rate.....</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>

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 2011 fiscal year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium-October 2011 (Fiscal Year 2010-11). The total direct sales tax rate was obtained from the Pennsylvania Tax Compendium for December 2010. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at [www.revenue.state.pa.us](http://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)-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 2012 fiscal year. Therefore, fiscal years 2002 through 2011 are presented as an alternative comparison.
- (4)-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, 2002 and June 30, 2011

(Amounts in thousands)

June 30, 2002 (1)(2)			June 30, 2011 (1)(2)		
Industry (4)	Sales(3) Tax Remittances Liability	Percentage of Total	Industry (4)	Sales(3) Tax Remittances Liability	Percentage of Total
Manufacturing.....	\$ 342,758	4.70%	Manufacturing.....	\$ 430,935	5.02%
Public utilities.....	235,240	3.23%	Public utilities.....	300,132	3.49%
Wholesale trade.....	581,255	7.97%	Wholesale trade.....	695,420	8.10%
Building materials.....	418,153	5.73%	Building materials.....	522,862	6.09%
General merchandise.....	1,003,469	13.76%	General merchandise.....	1,184,437	13.79%
Food and beverage stores.....	321,210	4.40%	Food and beverage stores.....	386,246	4.50%
Automotive dealers.....	189,804	2.60%	Automotive dealers.....	239,834	2.79%
Furniture and appliances.....	313,889	4.30%	Furniture and appliances.....	320,195	3.73%
Other retail stores.....	303,252	4.16%	Other retail stores.....	365,715	4.26%
Agriculture and mining.....	30,568	0.42%	Agriculture and mining.....	50,332	0.59%
Construction.....	124,611	1.71%	Construction.....	177,201	2.06%
Service.....	2,053,273	28.16%	Service.....	2,614,763	30.44%
Transportation, delivery, and warehousing.....	16,370	0.22%	Transportation, delivery, and warehousing.....	22,279	0.26%
Government.....	15,871	0.22%	Government.....	24,687	0.29%
Unclassified.....	114,682	1.57%	Unclassified.....	75,278	0.88%
Motor vehicle.....	1,161,755	15.93%	Motor vehicle.....	1,062,863	12.37%
Liquor sales.....	66,332	0.91%	Liquor sales.....	117,038	1.36%
Total (5).....	<u>\$ 7,292,491</u>	100.00%	Total (5).....	<u>\$ 8,590,217</u>	100.00%
Sales Tax Licenses (6).....	247,928		Sales Tax Licenses (6).....	234,152	

**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 2011 fiscal year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium-October 2011 (Fiscal Year 2010-11). This publication was obtained from the Pennsylvania Department of Revenue's website which is located at [www.revenue.state.pa.us](http://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 2012 fiscal year. Therefore, fiscal years 2002 and 2011 are presented as an alternative comparison.
- (3)-Sales tax liability is based on sales tax remittances made with tax returns processed during the fiscal year. The direct sales tax rate applicable to both years is 6%.
- (4)-Sales tax remittances are organized by major industrial activity of the vendor and does not represent sales by product type. Both years are presented using the North American Industry Classification System (N.A.I.C.S.) Group.
- (5)-Totals may not foot due to rounding.
- (6)-The Commonwealth does not maintain a list of sales tax filers by the N.A.I.C.S. standard industry grouping, and as noted in Note (1), can not disclose the names of the ten largest sales tax filers. Therefore, the number of sales tax licenses is presented to indicate the potential number of filers during the applicable fiscal year.

**Commonwealth of Pennsylvania**  
**Revenue Capacity-Corporate Tax**

Table 9  
 Corporate Net Income Tax  
 For the Last Ten Tax Years

	2000	2001	2002	2003	2004	2005	2006	2007 (6)	2008 (6)	2009 (6)
<b>ESTIMATED CORPORATE NET INCOME TAXABLE BASE (1)(2)</b>										
Corporate Tax Report Compilation (amounts in thousands).....	\$ 14,164,465	\$ 12,367,911	\$ 13,280,711	\$ 13,446,684	\$ 17,648,755	\$ 20,312,660	\$ 23,247,419	\$ 20,787,641	\$ 19,277,637	\$ 17,889,437
<b>NUMBER OF FILERS BY CORPORATE NET INCOME TAX LIABILITY RANGE (3)</b>										
\$0.....	98,121	96,637	102,333	97,391	95,306	94,827	94,119	97,811	91,526	89,318
\$1-300.....	11,746	11,128	10,832	10,625	10,096	9,830	8,668	8,152	7,744	7,118
\$301-500.....	3,038	2,900	2,875	2,694	2,660	2,662	2,319	2,235	2,035	1,936
\$501-1,000.....	5,808	4,768	4,345	4,279	4,119	3,981	3,417	3,375	3,118	2,803
\$1,001-5,000.....	12,354	11,060	10,665	10,173	10,355	10,277	8,577	8,367	7,786	7,096
\$5,001-10,000.....	4,058	3,741	3,456	3,301	3,596	3,600	3,334	3,168	2,816	2,486
\$10,001-25,000.....	3,116	2,751	2,760	2,695	2,863	3,022	2,884	2,894	2,629	2,416
\$25,001-50,000.....	1,480	1,413	1,319	1,384	1,489	1,550	1,582	1,519	1,417	1,333
\$50,001-100,000.....	1,053	903	945	943	1,086	1,208	1,244	1,190	1,152	1,006
\$100,001-250,000.....	880	756	763	797	954	1,005	1,082	1,050	993	880
\$250,001-500,000.....	332	313	309	395	443	475	520	499	477	455
\$500,001-1,000,000.....	201	162	178	177	264	294	344	311	276	285
>\$1,000,000.....	201	184	192	220	262	307	341	326	299	259
<b>Total corporate net income tax filers (4)(5).....</b>	<b>142,388</b>	<b>136,716</b>	<b>140,972</b>	<b>135,074</b>	<b>133,493</b>	<b>133,038</b>	<b>128,431</b>	<b>130,897</b>	<b>122,268</b>	<b>117,391</b>
<b>Total direct corporate net income tax rate.....</b>	<b>9.99%</b>	<b>9.99%</b>	<b>9.99%</b>	<b>9.99%</b>	<b>9.99%</b>	<b>9.99%</b>	<b>9.99%</b>	<b>9.99%</b>	<b>9.99%</b>	<b>9.99%</b>

**Sources:**  
 Information provided by the Pennsylvania Department of Revenue. The number of filers by corporate net income tax liability range for the 2007-2009 tax years can be found in the Statistical Supplement for the Pennsylvania Tax Compendium-October 2011 (Fiscal Year 2010-11). The direct corporate net income tax rate was obtained from the Pennsylvania Tax Compendium for December 2010. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at [www.revenue.state.pa.us](http://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 2010 and 2011 tax years. Therefore, tax years 2000 through 2009 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 2000 through 2007, the amounts presented are actual. The amounts presented for the 2007 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, 2011 fiscal year, since that amount was an estimate. For the 2008 tax year, the amounts presented are a revised estimate from what was presented in the June 30, 2011 CAFR. And for the 2009 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

	2000	2001	2002	2003	2004	2005	2006	2007 (6)	2008 (6)	2009 (6)
<b>CAPITAL STOCK AND FRANCHISE TAXABLE BASE (1)(2)</b>										
Apportioned Capital Stock Value Compilation (expressed in thousands).....	\$ 123,400,000	\$ 128,540,000	\$ 137,650,000	\$ 147,450,000	\$ 157,310,000	\$ 167,566,590	\$ 189,755,093	\$ 207,628,892	\$ 226,458,414	\$ 234,403,411
<b>NUMBER OF FILERS BY CAPITAL STOCK/ FOREIGN FRANCHISE TAX LIABILITY RANGE (3)</b>										
\$0-300.....	199,147	212,381	224,961	237,922	250,253	262,888	278,843	301,231	313,160	312,327
\$301-500.....	6,294	7,234	7,282	7,482	7,973	8,853	10,198	10,497	11,231	11,211
\$501-1,000.....	12,337	12,523	12,580	12,911	13,730	14,778	15,754	15,688	15,734	15,845
\$1,001-5,000.....	26,701	26,440	28,484	29,532	30,487	30,883	30,246	28,604	26,370	26,253
\$5,001-10,000.....	7,152	6,883	7,139	7,440	7,519	7,435	7,293	6,617	5,769	5,871
\$10,001-25,000.....	5,783	5,219	5,348	5,603	5,876	5,708	5,401	5,015	4,220	4,231
\$25,001-50,000.....	2,369	2,112	2,171	2,244	2,402	2,284	2,196	2,020	1,712	1,734
\$50,001-100,000.....	1,222	1,103	1,140	1,205	1,305	1,264	1,213	1,113	908	937
\$100,001-250,000.....	814	686	711	793	838	816	769	675	528	541
\$250,001-500,000.....	275	253	274	263	312	282	278	225	178	207
\$500,001-1,000,000.....	114	100	112	147	144	142	126	113	83	78
>\$1,000,000.....	117	103	97	98	106	101	93	81	66	68
<b>Total capital stock and franchise tax filers (4)(5).....</b>	<b>262,325</b>	<b>275,037</b>	<b>290,299</b>	<b>305,640</b>	<b>320,945</b>	<b>335,434</b>	<b>352,410</b>	<b>371,879</b>	<b>379,959</b>	<b>379,303</b>
<b>Total direct capital stock and franchise tax rate.....</b>	<b>8.99 mills</b>	<b>7.49 mills</b>	<b>7.24 mills</b>	<b>7.24 mills</b>	<b>6.99 mills</b>	<b>5.99 mills</b>	<b>4.89 mills</b>	<b>3.89 mills</b>	<b>2.89 mills</b>	<b>2.89 mills</b>

Sources:

Information provided by the Pennsylvania Department of Revenue. The number of filers by capital stock/foreign franchise tax liability range for the 2007-2009 tax years can be found in the Statistical Supplement for the Pennsylvania Tax Compendium-October 2011 (Fiscal Year 2010-11). The direct capital stock/foreign franchise tax rate was obtained from the Pennsylvania Tax Compendium for December 2010. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at [www.revenue.state.pa.us](http://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.
- (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 2010 and 2011 tax years. Therefore, tax years 2000 through 2009 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 2000 through 2007, the amounts presented are actual. The amounts presented for the 2007 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, 2011 fiscal year, since that amount was an estimate. For the 2008 tax year, the amounts presented are revised estimates from the amounts presented in the June 30, 2011 CAFR. And for the 2009 tax year, the amounts presented are an estimate.

Commonwealth of Pennsylvania

Debt Capacity

Table 11

Outstanding Debt and Outstanding Debt Ratios  
For the Last Ten Fiscal Years Ended June 30

(Expressed in Thousands, Except Debt per Capita)

<b>PRIMARY GOVERNMENT (1)(2)</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Governmental activities:</b>										
General obligation bonds.....	\$ 7,030,618	\$ 7,225,165	\$ 7,150,667	\$ 7,657,674	\$ 8,245,673	\$ 8,632,609	\$ 9,150,362	\$ 10,498,794	\$ 10,443,190	\$ 11,538,799
Capital leases/installment purchase obligations.....	62,131	53,951	47,276	42,059	40,649	37,646	36,730	31,958	26,907	129,757
Other financing obligations.....	-	100,000	90,000	82,500	76,500	70,500	67,500	67,500	67,500	334,230
<b>Total governmental</b> .....	<u>7,092,749</u>	<u>7,379,116</u>	<u>7,287,943</u>	<u>7,782,233</u>	<u>8,362,822</u>	<u>8,740,755</u>	<u>9,254,592</u>	<u>10,598,252</u>	<u>10,537,597</u>	<u>12,002,786</u>
<b>Business-type activities:</b>										
Capital leases/installment purchase obligations.....	-	-	-	28,259	17,375	5,939	-	-	-	-
<b>TOTAL PRIMARY GOVERNMENT</b> .....	<u>\$ 7,092,749</u>	<u>\$ 7,379,116</u>	<u>\$ 7,287,943</u>	<u>\$ 7,810,492</u>	<u>\$ 8,380,197</u>	<u>\$ 8,746,694</u>	<u>\$ 9,254,592</u>	<u>\$ 10,598,252</u>	<u>\$ 10,537,597</u>	<u>\$ 12,002,786</u>
<b>Debt as a Percentage of Personal Income (3)(4)....</b>	1.83%	1.85%	1.74%	1.81%	1.81%	1.79%	1.80%	2.13%	2.05%	2.23%
<b>Amount of Debt per Capita (3)(4).....</b>	\$ 575	\$ 596	\$ 587	\$ 627	\$ 670	\$ 696	\$ 734	\$ 837	\$ 829	\$ 942

**Source:** Statement of Net Assets, as presented in the Commonwealth's Comprehensive Annual Financial Report for the applicable fiscal year.

**Notes:**

(1)-Each caption includes the reported current and noncurrent amounts of the outstanding debt.

(2)-Details on the Commonwealth's total outstanding debt for June 30, 2012 can be found in Note K.

(3)-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, 2011 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, 2011 CAFR.

(4)-Debt ratios use total outstanding debt which is presented by fiscal year ended June 30, while the personal income and population data used in the calculations are presented by calendar year.



**Commonwealth of Pennsylvania**

**Debt Capacity**

Table 12

Ratios of General Obligation Bonded Debt Outstanding  
Last Ten Fiscal Years Ended as of June 30

(Amounts in thousands)

<b>Fiscal Year</b>	<b>(1) General Obligation Bonds</b>	<b>(2) Percentage of Actual Tax Revenues</b>	<b>(3) Per Capita</b>
<b>2003</b>	\$ 7,030,618	32.64%	\$ 568
<b>2004</b>	7,225,165	31.02%	579
<b>2005</b>	7,150,667	28.64%	569
<b>2006</b>	7,657,674	27.87%	614
<b>2007</b>	8,245,673	28.78%	657
<b>2008</b>	8,632,609	28.69%	685
<b>2009</b>	9,150,362	33.00%	724
<b>2010</b>	10,498,794	37.07%	825
<b>2011</b>	10,443,190	35.12%	820
<b>2012</b>	11,538,799	37.68%	902

**Sources:**

Information was obtained from the Commonwealth's Comprehensive Annual Financial Report for the applicable fiscal year. General obligation bonds can be found in the Statement of Net Assets, and the tax revenues used in the percentage of actual tax revenues can be found in the Statement of Activities.

**Notes:**

(1)-General obligation bonds amounts include the reported current and noncurrent amounts.

(2)-The Commonwealth's general obligation bonds are expected to be repaid with general tax revenues. Therefore, the total taxes shown in the Governmental Activities section of the Statement of Activities are used in this calculation.

(3)-General obligation bond amounts used in the per capita calculation are presented as of the fiscal year end. The population data used in the calculation is shown in Table 15, and is as of July 1 of the applicable fiscal year.

Commonwealth of Pennsylvania

Debt Capacity

Table 13

Computation of Legal Debt Margin

As of August 31 for the Last Ten Years

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Average annual tax revenues deposited in the previous five fiscal years.....	\$ 24,285,747,191	\$ 25,091,013,830	\$ 26,141,233,164	\$ 27,536,515,720	\$ 29,300,406,649	\$ 31,088,316,012	\$ 32,044,066,363	\$ 32,604,981,495	\$ 33,234,462,394	\$ 33,742,407,887
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)...	42,500,057,585	43,909,274,203	45,747,158,037	48,188,902,510	51,275,711,636	54,404,553,021	56,077,116,135	57,058,717,616	58,160,309,190	59,049,213,802
Less outstanding net debt (non-electorate approved).....	6,021,247,141	6,230,365,064	6,146,947,312	6,399,655,454	6,839,080,189	7,068,178,522	7,497,271,800	8,553,447,438	8,520,640,376	9,194,240,832
<b>Legal debt margin (B).....</b>	<b>\$ 36,478,810,444</b>	<b>\$ 37,678,909,139</b>	<b>\$ 39,600,210,725</b>	<b>\$ 41,789,247,056</b>	<b>\$ 44,436,631,447</b>	<b>\$ 47,336,374,499</b>	<b>\$ 48,579,844,335</b>	<b>\$ 48,505,270,178</b>	<b>\$ 49,639,668,814</b>	<b>\$ 49,854,972,970</b>
<b>Total outstanding net debt applicable to the constitutional limit as a percentage of the constitutional limit.....</b>	14.17%	14.19%	13.44%	13.28%	13.34%	12.99%	13.37%	14.99%	14.65%	15.57%

Source: The Governor's Budget Office

Notes:

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

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

(1) Debt may be incurred without limit to suppress insurrection, rehabilitate areas affected by man-made or natural disaster, or to implement unissued authority by the electors prior to the adoption of this article.

(2) The Governor, State Treasurer and Auditor General, acting jointly, may (i) issue tax anticipation notes having a maturity within the fiscal year of issue and payable exclusively from revenues received in the same fiscal year, and (ii) incur debt for the purpose of refunding other debt, if such refunding debt matures within the term of the original debt.

(3) Debt may be incurred without limit for purposes specifically itemized in the law authorizing such debt, if the question whether the debt shall be incurred has been submitted to the electors and approved by a majority of those voting on the question.

(4) Debt may be incurred without the approval of the electors for capital projects specifically itemized in a capital budget if such debt will not cause the amount of all net debt outstanding to exceed one and three-quarters times the average of the annual tax revenues deposited in the previous five fiscal years as certified by the Auditor General. For the purposes of this subsection, debt outstanding shall not include debt incurred under clauses (1) and (2)(i), or debt incurred under clause (2)(ii) if the original debt would not be so considered, or debt incurred under subsection (3) unless the General Assembly shall so provide in the law authorizing such debt.

(B)-Each of the above figures used in the calculation of the legal debt margin are abstracted from a certification of the Auditor General dated August 31 of the subsequent fiscal year.

**Commonwealth of Pennsylvania**

**Demographic and Economic**

Table 14

Employment by Nonfarm Related Industry  
For the Last Ten Calendar Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Employment by nonfarm related industry (1)(2):</b>										
<b>Total nonfarm:</b>										
<b>Private earnings:</b>										
<b>Goods producing:</b>										
Natural resources and mining.....	18,800	17,900	18,600	19,700	20,300	21,100	22,200	22,300	26,500	33,500
Construction.....	248,500	246,000	250,200	255,700	261,000	262,300	254,600	224,600	215,900	221,800
Manufacturing.....	759,800	712,400	690,700	679,400	670,400	659,100	643,800	574,100	560,000	563,900
<b>Total goods producing.....</b>	<b>1,027,100</b>	<b>976,300</b>	<b>959,500</b>	<b>954,800</b>	<b>951,700</b>	<b>942,500</b>	<b>920,600</b>	<b>821,000</b>	<b>802,400</b>	<b>819,200</b>
<b>Service providing:</b>										
Trade.....	1,112,900	1,108,200	1,113,600	1,120,300	1,125,800	1,133,900	1,125,900	1,080,800	1,080,000	1,093,500
Information.....	128,400	120,600	112,200	109,500	108,200	107,500	105,900	99,600	93,300	90,200
Financial activities.....	336,800	338,500	336,200	335,700	335,000	332,800	329,800	318,400	311,000	309,500
Professional and business services.....	605,700	610,500	638,100	660,500	685,300	705,700	709,400	674,800	689,900	709,900
Education and health services.....	965,000	980,500	999,200	1,030,000	1,054,400	1,075,100	1,101,000	1,119,600	1,135,000	1,156,700
Leisure and hospitality.....	466,700	471,000	477,300	484,800	491,800	499,900	503,300	494,300	500,600	509,600
Other services.....	259,300	260,100	263,700	261,500	258,300	255,800	254,200	249,900	250,200	254,400
<b>Total service providing.....</b>	<b>3,874,800</b>	<b>3,889,400</b>	<b>3,940,300</b>	<b>4,002,300</b>	<b>4,058,800</b>	<b>4,110,700</b>	<b>4,129,500</b>	<b>4,037,400</b>	<b>4,060,000</b>	<b>4,123,800</b>
<b>Total private earnings.....</b>	<b>4,901,900</b>	<b>4,865,700</b>	<b>4,899,800</b>	<b>4,957,100</b>	<b>5,010,500</b>	<b>5,053,200</b>	<b>5,050,100</b>	<b>4,858,400</b>	<b>4,862,400</b>	<b>4,943,000</b>
<b>Government.....</b>	<b>741,600</b>	<b>748,300</b>	<b>747,100</b>	<b>747,800</b>	<b>748,300</b>	<b>747,500</b>	<b>752,000</b>	<b>759,600</b>	<b>761,200</b>	<b>744,100</b>
<b>Total nonfarm.....</b>	<b>5,643,500</b>	<b>5,614,000</b>	<b>5,646,900</b>	<b>5,704,900</b>	<b>5,758,800</b>	<b>5,800,700</b>	<b>5,802,100</b>	<b>5,618,000</b>	<b>5,623,600</b>	<b>5,687,100</b>

**Source:** Information obtained from the Pennsylvania Department of Labor and Industry-Center for Workforce Information & Analysis website ([www.paworkstats.state.pa.us](http://www.paworkstats.state.pa.us)).

**Notes:**

(1)-Due to statutory requirements (confidentiality provisions), the Commonwealth can not disclose the number employed by the ten largest employers. As an alternative comparison, this schedule presents the number employed by nonfarm related industries. The ten largest employers are nonfarm related; therefore, the number employed by those employers could be expected to fall within this schedule. Farming related employment is not included on this schedule because most farms are not large enough to be required to provide the necessary data to the Pennsylvania Department of Labor and Industry.

(2)-Various calendar years may differ from the totals presented in the same table in the June 30, 2011 CAFR, as a result of revised data provided on the Center for Workforce Information & Analysis website.

**Commonwealth of Pennsylvania**

**Demographic and Economic**

Table 15

Population and Per Capita Personal Income  
For the Last Ten Calendar Years

Calendar Year	Population (1) (Expressed in thousands)			Personal Income (2) (Expressed in millions)			Per Capita (3) Personal Income		
	Pennsylvania	United States	Pennsylvania as % of U.S.	Pennsylvania	United States	Pennsylvania as % of U.S.	Pennsylvania	United States	Pennsylvania percentage above/(below) U.S.
2002	12,331	287,625	4.29%	\$ 387,664	\$ 9,054,702	4.28%	\$ 31,438	\$ 31,481	-0.14%
2003	12,375	290,108	4.27%	399,547	9,369,072	4.26%	32,288	32,295	-0.02%
2004	12,411	292,805	4.24%	417,790	9,928,790	4.21%	33,664	33,909	-0.72%
2005	12,450	295,517	4.21%	432,248	10,476,669	4.13%	34,719	35,452	-2.07%
2006	12,511	298,380	4.19%	462,704	11,256,516	4.11%	36,984	37,725	-1.96%
2007	12,564	301,231	4.17%	489,076	11,900,562	4.11%	38,927	39,506	-1.47%
2008	12,612	304,094	4.15%	512,992	12,451,660	4.12%	40,674	40,947	-0.67%
2009	12,667	306,772	4.13%	496,664	11,852,715	4.19%	39,210	38,637	1.48%
2010	12,718	309,330	4.11%	514,352	12,308,496	4.18%	40,444	39,791	1.64%
2011	12,743	311,592	4.09%	538,909	12,949,905	4.16%	42,291	41,560	1.76%

**Sources:** Population data is obtained from the Bureau of Economic Analysis, U.S. Department of Commerce website at <http://www.bea.gov/index.htm>, whose source is the U.S. Bureau of Census' mid-year population estimate. Personal income details can be found in Table 5.

**Notes:**

(1)-Population data is presented as of July 1 of the calendar year. The U.S. Bureau of Census' mid-year population estimate include revisions to the annual population estimate back to the calendar year of the most recent Census (2010 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, 2011 fiscal year.

(2)-Personal income data is provided as of the calendar year. Various calendar years differ from the totals presented in the June 30, 2011 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, 2011 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	
2002	6,218	5,869	349	5.6	144,863	136,485	8,378	5.8	-3.45%
2003	6,145	5,796	349	5.7	146,510	137,736	8,774	6.0	-5.00%
2004	6,197	5,860	337	5.4	147,401	139,252	8,149	5.5	-1.82%
2005	6,270	5,958	312	5.0	149,320	141,730	7,591	5.1	-1.96%
2006	6,308	6,021	287	4.5	151,428	144,427	7,001	4.6	-2.17%
2007	6,330	6,054	276	4.4	153,124	146,047	7,078	4.6	-4.35%
2008	6,448	6,103	345	5.4	154,287	145,362	8,924	5.8	-6.90%
2009	6,404	5,895	509	8.0	154,142	139,877	14,265	9.3	-13.98%
2010	6,390	5,849	541	8.5	153,889	139,064	14,825	9.6	-11.46%
2011	6,386	5,879	507	7.9	153,617	139,869	13,747	8.9	-11.24%

**Sources:** Information was obtained from the Center for Workforce Information & Analysis, Pennsylvania Department of Labor and Industry website at [www.paworkstats.state.pa.us/](http://www.paworkstats.state.pa.us/).

**Notes:**

(1)-Various calendar years may differ from the totals presented in the same table in the June 30, 2011 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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Direction and supportive services</b>										
Legislative.....	3,161	3,206	3,268	3,336	3,339	3,346	3,327	3,133	2,959	2,844
Revenue.....	2,382	2,272	2,322	2,377	2,385	2,374	2,254	2,058	1,965	1,934
Executive Offices.....	2,513	1,986	1,962	1,990	1,966	2,012	2,004	1,906	1,767	1,715
General Services.....	1,313	1,242	1,255	1,295	1,305	1,251	1,244	1,145	1,115	1,030
Auditor General.....	770	768	736	740	711	730	708	670	606	598
Treasurer.....	524	511	497	534	565	552	492	420	408	396
Other.....	361	425	379	376	327	327	281	274	270	273
<b>Total direction and supportive services.....</b>	<b>11,024</b>	<b>10,410</b>	<b>10,419</b>	<b>10,648</b>	<b>10,598</b>	<b>10,592</b>	<b>10,310</b>	<b>9,606</b>	<b>9,090</b>	<b>8,790</b>
<b>Protection of persons and property</b>										
Corrections.....	14,323	14,384	14,826	15,301	15,441	15,722	16,139	16,232	15,740	15,751
State Police.....	5,705	5,790	6,039	6,191	6,272	6,249	6,193	5,989	6,015	5,978
Liquor Control Board.....	4,205	4,407	4,580	4,772	4,704	4,835	5,031	5,082	4,847	4,952
Environmental Protection.....	2,938	2,836	2,831	2,890	2,799	2,793	2,786	2,590	2,609	2,648
Judiciary.....	2,031	2,100	2,102	2,140	2,130	2,136	2,141	2,197	2,154	2,176
Transportation.....	-	1,208	1,253	1,251	1,253	1,235	1,185	1,125	1,129	1,194
Agriculture.....	950	997	968	1,032	1,056	1,187	1,112	995	962	919
Probation and Parole Board.....	966	972	1,001	1,008	967	1,084	1,141	1,114	1,105	1,162
Attorney General.....	952	944	886	919	935	985	955	897	814	821
Public Utility Commission.....	494	467	469	529	485	519	535	547	506	508
Military and Veterans Affairs.....	-	459	489	529	517	538	529	478	450	468
Other.....	1,310	2,012	2,025	2,106	2,088	2,085	2,014	1,955	1,850	1,905
<b>Total protection of persons and property.....</b>	<b>33,874</b>	<b>36,576</b>	<b>37,469</b>	<b>38,668</b>	<b>38,647</b>	<b>39,368</b>	<b>39,761</b>	<b>39,201</b>	<b>38,181</b>	<b>38,482</b>
<b>Public education</b>										
Education.....	852	624	672	674	665	693	578	544	503	521
Other.....	20	20	18	18	18	18	16	15	15	-
<b>Total public education.....</b>	<b>872</b>	<b>644</b>	<b>690</b>	<b>692</b>	<b>683</b>	<b>711</b>	<b>594</b>	<b>559</b>	<b>518</b>	<b>521</b>
<b>Health and human services</b>										
Public Welfare.....	20,189	19,773	19,769	19,655	18,786	19,082	18,399	18,300	17,169	16,995
Labor and Industry.....	5,821	4,431	4,370	4,462	4,277	3,960	4,740	4,887	4,632	4,599
Military and Veterans Affairs.....	2,262	1,939	2,015	2,060	2,095	2,128	1,965	2,033	2,049	2,023
Health.....	1,444	1,404	1,429	1,524	1,465	1,511	1,490	1,384	1,364	1,461
Other.....	104	99	109	112	107	102	98	193	206	220
<b>Total health and human services.....</b>	<b>29,820</b>	<b>27,646</b>	<b>27,692</b>	<b>27,813</b>	<b>26,730</b>	<b>26,783</b>	<b>26,692</b>	<b>26,797</b>	<b>25,420</b>	<b>25,298</b>
<b>Economic development</b>										
Labor and Industry.....	-	923	911	960	927	911	930	934	912	942
Community and Economic Development.....	296	298	324	336	346	349	352	334	311	302
<b>Total economic development.....</b>	<b>296</b>	<b>1,221</b>	<b>1,235</b>	<b>1,296</b>	<b>1,273</b>	<b>1,260</b>	<b>1,282</b>	<b>1,268</b>	<b>1,223</b>	<b>1,244</b>
<b>Transportation</b>										
Transportation.....	12,086	10,645	10,578	10,810	10,509	10,770	10,655	10,626	10,486	10,696
<b>Total transportation.....</b>	<b>12,086</b>	<b>10,645</b>	<b>10,578</b>	<b>10,810</b>	<b>10,509</b>	<b>10,770</b>	<b>10,655</b>	<b>10,626</b>	<b>10,486</b>	<b>10,696</b>
<b>Recreation and cultural enrichment</b>										
Conservation and Natural Resources.....	2,707	2,632	2,608	2,639	2,573	2,632	2,493	2,279	2,219	2,335
Game Commission.....	754	758	734	732	734	725	706	734	735	774
Fish and Boat Commission.....	468	482	492	497	514	508	485	486	486	481
Historical and Museum Commission.....	503	488	444	435	419	399	347	228	213	231
Other.....	20	116	111	114	113	111	92	56	50	51
<b>Total recreation and cultural enrichment.....</b>	<b>4,452</b>	<b>4,476</b>	<b>4,389</b>	<b>4,417</b>	<b>4,353</b>	<b>4,375</b>	<b>4,123</b>	<b>3,783</b>	<b>3,703</b>	<b>3,872</b>
<b>Total Commonwealth Employees.....</b>	<b>92,424</b>	<b>91,618</b>	<b>92,472</b>	<b>94,344</b>	<b>92,793</b>	<b>93,859</b>	<b>93,417</b>	<b>91,840</b>	<b>88,621</b>	<b>88,903</b>

**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 2003 fiscal year, employee data was only available by agency. For purposes of this table, the complement for the 2003 fiscal year 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

	2003	2004	2005	2006	2007	2008	2009	2010	2011(6)	2012(6)
<b>Direction and supportive services:</b>										
<b>Executive Offices</b>										
<b>Office of the Budget</b>										
Number of invoices processed.....	N/A	N/A	N/A	N/A	N/A	1,471,951	1,500,134	1,421,469	1,450,000	1,450,000
<b>Office of Inspector General-Welfare Fraud</b>										
Fraud prevention - investigations.....	N/A	N/A	21,073	22,051	20,582	21,392	25,802	27,645	25,893	27,000
Fraud prevention - ineligibility determinations.....	N/A	N/A	10,898	11,500	10,793	10,762	10,897	12,902	12,420	12,500
<b>Protection of persons and property:</b>										
<b>Corrections</b>										
Inmates (1).....	40,090	40,817	40,965	42,446	44,365	46,028	49,307	51,321	51,638	49,127
Inmates enrolled in academic educational programs (1).....	11,286	11,749	11,680	13,457	14,453	15,017	14,551	13,152	12,064	12,265
<b>Environmental Protection</b>										
Permits applications or request for authorizations processed.....	N/A	N/A	N/A	N/A	N/A	N/A	46,584	47,787	43,754	50,000
<b>Revenue</b>										
Personal Income Tax:										
Total - electronic.....	N/A	2,272,861	2,520,663	2,813,228	3,040,325	3,347,123	3,544,248	3,709,651	3,699,817	4,000,000
Total - paper.....	N/A	3,494,305	3,288,166	3,994,634	2,076,124	3,239,502	2,842,447	2,137,790	2,299,575	2,100,000
Total personal income tax returns processed.....	5,862,231	5,767,166	5,808,829	6,807,862	5,116,449	6,586,625	6,386,695	5,847,441	5,999,392	6,100,000
<b>State Police</b>										
Traffic citations issued.....	484,602	438,328	451,160	479,086	506,844	500,820	564,582	567,116	560,063	568,500
Background Checks:										
Firearms checks conducted for the purchase of a firearm.....	N/A	10,406	514,287	512,686	503,013	505,500	681,516	596,879	688,564	698,200
<b>Judiciary</b>										
Caseload (cases filed/reopened/appeals) (1).....	3,789,239	3,598,042	3,790,068	3,783,987	3,816,270	3,768,167	3,884,107	3,825,045	3,761,142	3,604,482
<b>Public education:</b>										
<b>Education</b>										
PreK-12 EDUCATION (BASIC EDUCATION):										
Public school enrollment (preK-12) (2).....	1,816,747	1,821,146	1,828,089	1,830,684	1,810,430	1,797,520	1,800,314	1,780,413	1,781,206	1,739,000
HIGHER EDUCATION:										
Full-Time Equivalent Enrollments at State-Supported Institutions of Higher Education:										
State System of Higher Education.....	96,235	95,523	98,657	100,392	102,445	103,356	105,566	109,636	112,030	111,769
Community Colleges.....	80,874	86,935	88,494	88,150	91,161	92,526	98,988	106,270	106,164	106,797
State-Related Universities.....	140,375	140,806	140,697	139,894	144,993	148,272	152,678	156,435	157,939	158,115
Non-State Related Universities and Colleges.....	39,741	41,678	43,106	43,662	48,078	48,607	49,532	888	840	789
<b>Health and human services:</b>										
<b>Aging and Long Term Living</b>										
Comprehensive PACE/PACENET Program:										
Older Pennsylvanians enrolled (average).....	223,119	242,755	290,482	306,138	390,207	313,643	312,916	309,329	307,585	304,130
Total prescriptions per year.....	10,672,686	10,888,090	12,794,090	13,253,256	13,025,489	11,173,934	11,605,980	10,773,967	10,341,180	10,331,535
<b>Health</b>										
Vital events (births, deaths, fetal deaths) registered and processed.....	272,860	274,664	273,432	274,105	275,261	280,928	273,381	268,788	270,194	269,500
Total number of encounters by State Health Care Centers.....	N/A	N/A	N/A	375,240	511,736	550,083	555,584	523,874	561,140	589,167
<b>Public Welfare</b>										
<b>MEDICAL ASSISTANCE</b>										
Persons participating in Medical Assistance (monthly average).....	1,533,024	1,621,901	1,747,615	1,833,760	1,883,235	1,907,396	1,972,559	2,072,461	2,135,477	2,161,905
Persons receiving cash assistance (monthly average).....	225,396	250,581	278,474	278,496	250,687	225,846	221,744	240,650	248,173	252,585
Children participating in subsidized child care (unduplicated).....	182,102	185,971	195,211	200,650	212,112	239,550	234,899	251,347	257,735	253,005
Total persons provided mental health services (3).....	202,460	208,345	398,590	418,749	517,440	525,991	525,136	530,387	649,375	651,870
Persons receiving Intellectual Disability services during fiscal year (4).....	85,000	89,985	72,538	45,414	50,139	51,375	53,284	53,399	53,455	53,416
<b>Economic development:</b>										
<b>Community and Economic Development</b>										
Businesses assisted.....	9,113	22,305	19,781	16,215	18,454	15,805	17,852	18,439	21,004	16,229
Persons receiving Customized Job Training.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	45,376	51,334	35,200
Persons participating in Community Services Block Grant.....	270,006	324,436	339,564	339,564	339,564	348,829	325,322	387,055	444,529	460,921

Commonwealth of Pennsylvania

Operating Information

Table 18  
Operating Indicators by Function and Agency  
For the Last Ten Fiscal Years Ended June 30

	2003	2004	2005	2006	2007	2008	2009	2010	2011(6)	2012(6)
<b>Labor and Industry</b>										
Total public health and safety inspections performed.....	134,352	122,584	117,056	82,123	80,408	75,223	76,253	76,136	77,142	71,800
Vocational Rehabilitation-Eligible participants with active plans.....	N/A	N/A	N/A	N/A	N/A	N/A	41,316	43,644	48,652	45,000
<b>Transportation:</b>										
<b>Transportation</b>										
Miles of State maintained highways.....	39,906	39,893	39,890	39,890	39,843	39,872	39,861	39,845	39,793	39,768
Passengers carried by State-assisted operators (millions annually).....	302	304	310	401	390	427	434	423	432	430
Safety and Emissions inspections.....	13,617,103	15,000,000	17,100,000	17,388,858	17,470,970	17,470,125	17,972,890	17,720,432	17,707,480	17,800,000
Registrations:										
Registrations-Total New and Renewed.....	10,099,000	9,978,000	10,017,000	9,864,461	9,708,974	9,724,462	9,550,413	9,389,974	9,206,015	9,350,000
Licensed drivers-Total New and Renewed.....	2,302,100	2,476,213	2,377,057	2,345,311	2,274,866	2,432,976	2,402,935	2,407,963	2,364,145	2,400,000
<b>Recreation and cultural enrichment:</b>										
<b>Conservation and Natural Resources</b>										
State park attendance (visitor days per calendar year).....	36,031,000	34,692,000	35,095,476	36,295,873	35,800,000	33,200,000	37,000,000	38,400,000	37,600,000	38,500,000
<b>Fish and Boat Commission</b>										
Fishing licenses sold.....	907,313	909,053	834,877	843,302	864,416	905,806	839,172	883,932	810,050	871,000
<b>Game Commission</b>										
Hunting licenses sold.....	1,017,154	1,018,248	1,007,613	964,158	945,892	924,448	926,892	946,497	927,527	930,000
<b>Historical and Museum Commission</b>										
Records maintained by the State Records Center (in thousands) (5).....	N/A	709,821	726,747	753,354	791,553	812,175	811,000	811,000	239,540	240,000
Annual visits to commission historical sites and museums (in thousands)..	1,517	1,528	1,477	1,516	1,420	1,450	1,425	1,425	1,283	1,300

**Sources:** Governor's Office of the Budget, Comptroller Offices, various agencies

**Notes:**

(1)-Amounts are presented as of December 31.

(2)-PreK enrollment is not included for the 2003 fiscal year.

(3)-Beginning with the 2005 fiscal year, this amount was revised to include individuals receiving services from community mental health funds, Medical Assistance expenditures, and BHSI funds.

(4)-Beginning with the 2005 fiscal year, this amount was revised to remove those receiving Early Intervention services.

(5)-Beginning with the 2011 fiscal year, this amount was revised to reflect the number of boxes maintained. Previous years reflected the actual number of records.

(6)-For the 2012 fiscal year, a majority of the indicators presented are estimates. For the 2011 fiscal year, the amounts that were presented as estimates in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2011 fiscal year have been revised. Therefore, the amounts shown may differ from what was presented in the June 30, 2011 CAFR.

Commonwealth of Pennsylvania

Operating Information

Table 19

Capital Asset Information by Function and Agency  
For the Last Ten Fiscal Years Ended June 30

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>GOVERNMENTAL ACTIVITIES</b>										
<b>Direction and Supportive Services</b>										
<b>Department of General Services</b>										
Number of buildings (1).....	36	36	36	85	85	87	85	119	116	116
Total pieces of machinery and equipment.....	164	137	137	137	139	133	148	394	139	155
Capital and Agency projects in design and/or construction.....	389	375	500	409	440	385	425	638	725	764
Vehicles in fleet.....	N/A	N/A	16,544	16,337	16,384	16,307	16,307	15,808	16,353	15,821
<b>Protection of persons and property</b>										
<b>Department of Corrections</b>										
State Correctional Institutions (2).....	26	26	27	26	26	27	27	27	27	27
<b>State Police</b>										
Patrol vehicles.....	2,207	2,188	2,282	2,316	2,173	2,189	2,189	2,182	2,182	2,182
Police stations and/or troop headquarters (2).....	20	21	23	23	23	23	24	25	25	25
<b>Department of Military and Veterans Affairs</b>										
Number of National Guard readiness centers.....	97	96	117	117	117	117	117	100	100	99
<b>Public education</b>										
<b>State System of Higher Education (SSHE)-Component Unit (3)</b>										
Number of SSHE universities using Commonwealth owned buildings and land.....	14	14	14	14	14	14	14	14	14	14
<b>Health and human services</b>										
<b>Department of Public Welfare</b>										
Total number of hospital or treatment center complexes (1)(2).....	22	22	21	19	19	19	18	19	17	17
<b>Transportation</b>										
<b>Department of Transportation</b>										
Total pieces of equipment (4).....	21,281	21,256	7,070	7,495	7,923	7,316	7,969	7,707	7,722	7,792
Total lane miles of highways (state or locally maintained).....	116,570	115,402	116,055	116,100	116,716	116,998	117,187	117,385	117,499	117,668
<b>Recreational and cultural enrichment</b>										
<b>Department of Conservation and Natural Resources</b>										
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
<b>Game Commission</b>										
Acres of game lands (in millions).....	1.41	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
<b>Fish Commission</b>										
Public boat launches.....	N/A	N/A	N/A	178	153	153	271	271	271	271
Total number of fish hatcheries.....	15	15	15	15	15	15	15	15	15	15
<b>Historical and Museum Commission</b>										
Museums and historic sites.....	26	26	26	25	25	25	25	23	23	23
<b>Economic Development</b>										
<b>Department of Labor and Industry</b>										
Square footage of rehabilitation centers owned by the Commonwealth.....	444,035	444,035	444,035	444,035	444,035	444,035	444,035	444,035	444,035	444,035

Sources: Governor's Office of the Budget, Comptroller Offices and various agencies.

Notes:

- (1)-Beginning with the 2006 fiscal year, the control of the Harrisburg State Hospital was transferred from the Department of Public Welfare (reducing the reported number of hospital complexes) to the Department of General Services (increasing the reported number of buildings). Also, beginning with the 2010 fiscal year this amount includes buildings that were leased to non-Primary Government entities but owned by the Commonwealth. These were not reported in the totals for the other fiscal years.
- (2)-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.).
- (3)-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.
- (4)-Through the 2004 fiscal year, this total includes equipment that did not meet the capitalization thresholds.