

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2006



**Commonwealth of Pennsylvania**  
**Edward G. Rendell**  
**Governor**

**Prepared By:**

**Office of the Budget**  
*Michael J. Masch, Secretary*

**Comptroller Operations**  
*Harvey C. Eckert, Commonwealth Comptroller*

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

Harvey C. Eckert, Commonwealth Comptroller, Room 207, Finance Building,  
Harrisburg, Pennsylvania 17120

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**Commonwealth of Pennsylvania  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2006**

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COMMONWEALTH OF PENNSYLVANIA  
GOVERNOR'S OFFICE  
HARRISBURG

December 22, 2006

MICHAEL J. MASCH  
SECRETARY  
OFFICE OF THE BUDGET

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

We are pleased to present this Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 2006. The Office of the Budget, Office of Comptroller Operations, prepared this report, which includes the Basic Financial Statements (BFS), pursuant to the power vested in the Governor under Section 701 of the Administrative Code and delegated to the Secretary of the Budget by Executive Order No. 1984-3, dated October 11, 1984.

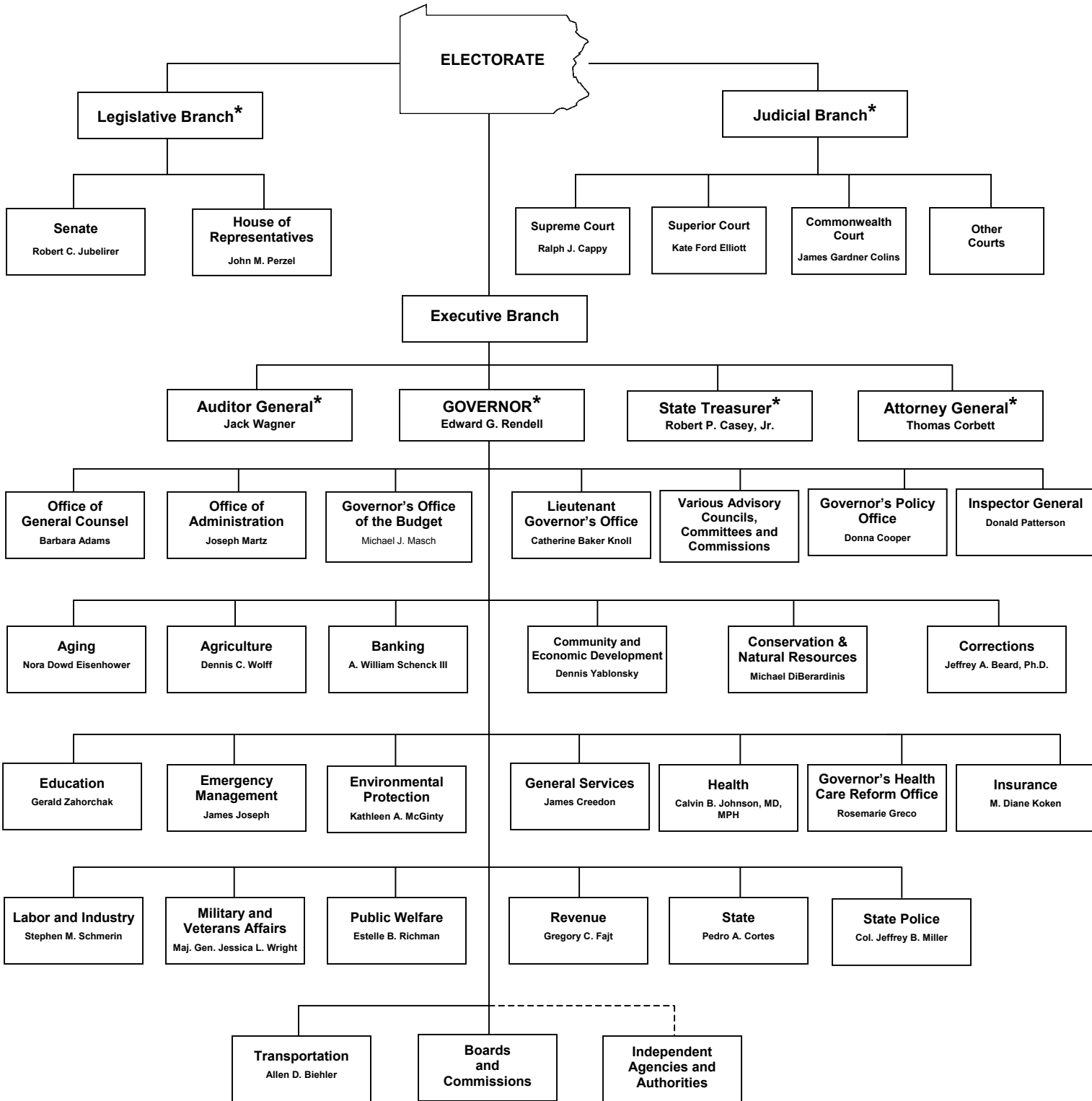
The BFS were prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). We believe the financial statements are fairly stated in all material respects; that they are presented in a manner designed to fairly report the Commonwealth's financial position, results of operations, and changes in net assets/fund balances. 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. The BFS include information about discretely presented component units, which are legally separate organizations for which the Commonwealth is financially accountable. Responsibility for the completeness and fairness of the presentation, including all disclosures, rests with the Commonwealth of Pennsylvania, Office of the Budget, Office of Comptroller Operations. The Commonwealth relies on its comprehensive framework of internal control in the preparation of basic financial statements. The Commonwealth has established a cost-effective system of internal controls; that is however, subject to inherent limitations, as is in any system of internal controls, in that there is reasonable, but not absolute, assurance as to the effectiveness of the internal control system.

Management's Discussion and Analysis (MD&A) precedes the June 30, 2006 BFS, provides an overview of the Commonwealth's financial position and activities thus helping readers to understand the government-wide statements. This section immediately follows the auditors' opinion. In addition to the MD&A and BFS, this CAFR includes: budgetary comparison schedules, combining fund financial statements; supporting schedules; certain narrative information describing individual funds; and statistical tables presenting financial trends, revenue capacity, debt capacity, demographic and economic information, capital asset and operating information about the Commonwealth.

### **PROFILE OF THE GOVERNMENT**

The formal title, the Commonwealth of Pennsylvania, emphasizes that the government of Pennsylvania is devoted to serving the *common* consent of the people. Its central location among the original thirteen colonies gained Pennsylvania its nickname of "The Keystone State" since it holds together all the surrounding states. For the 12.5 million who call it home, these two characteristics help lay a strong foundation for a state and a government that strives to better the lives of its citizens. Pennsylvania's government consists of three branches which operate through a system of checks and balances. The legislative branch is composed of the Senate and the House of Representatives. The executive branch is comprised of the Governor, Auditor General, State Treasurer, and the Attorney General. The judicial branch consists of the Supreme Court, Superior Court, Commonwealth Court, and other Courts. The following organization charts identify specific Commonwealth officials and staff within Comptroller Operations, at June 30, 2006:

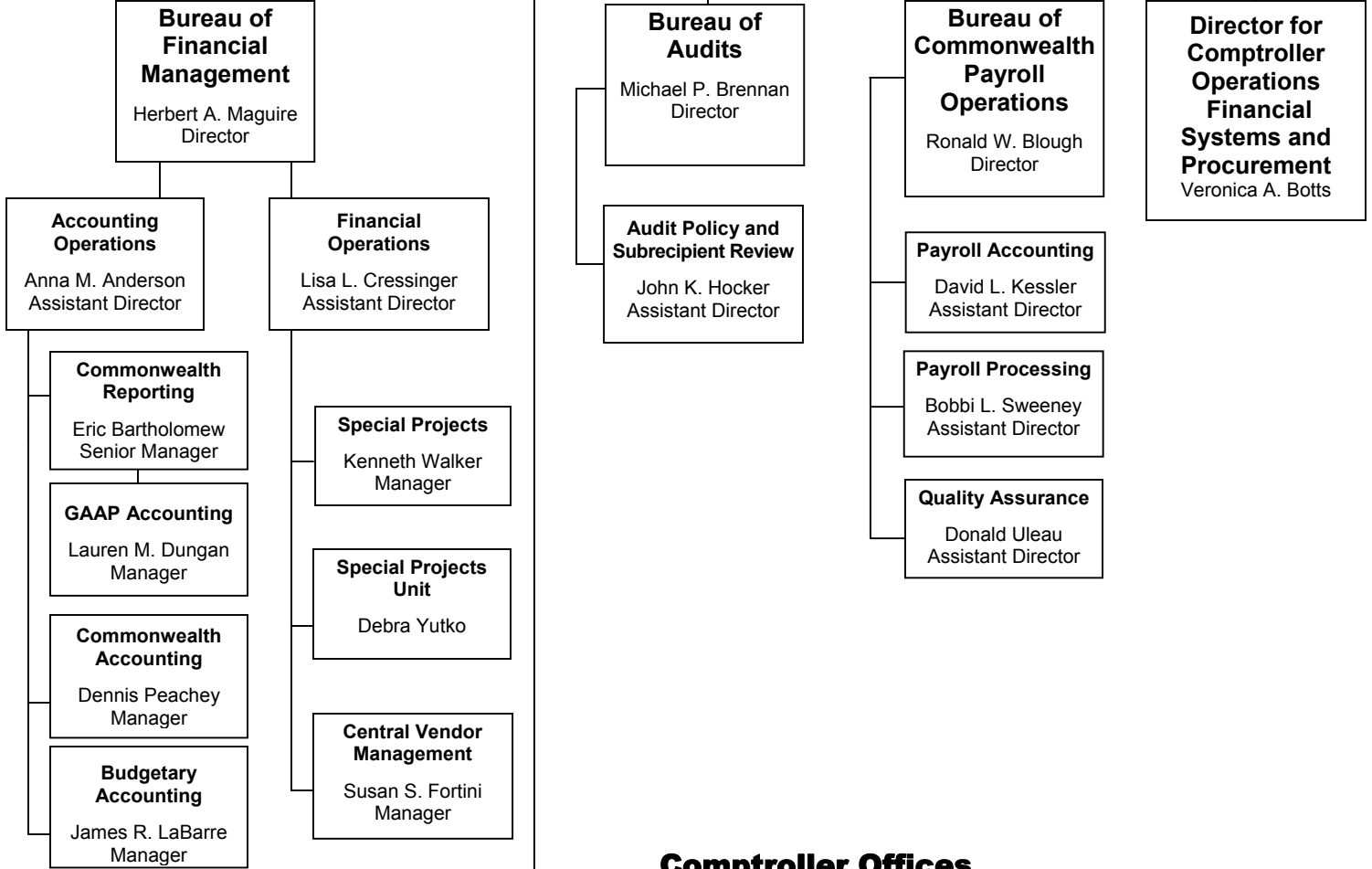
**COMMONWEALTH OF PENNSYLVANIA**  
**ORGANIZATION AND OFFICIALS CHART**  
 June 30, 2006



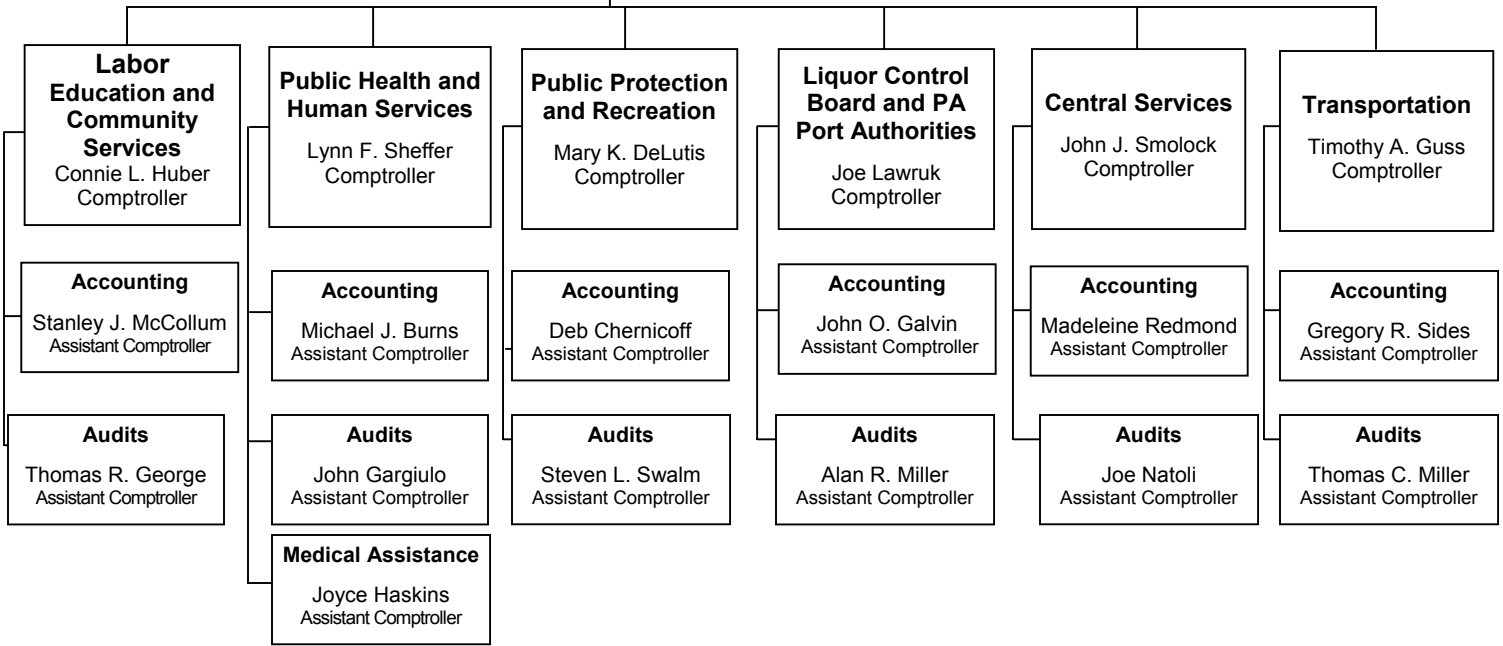
\* Independently Elected

**Commonwealth  
Comptroller  
Harvey C. Eckert**

**Bureaus**



**Comptroller Offices**



## THE GENERAL FUND

The General Fund, the Commonwealth's largest operating fund, may be used to assess Pennsylvania's financial position and activities for the fiscal year ended June 30, 2006. 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 55.9 percent of the General Fund budgetary basis revenues. General Fund expenditures are reported in the following functional assignments, along with the related percentage of state-funded expenditures: direction and supportive services (3.64), protection of persons and property (11.50), health and human services (40.85), public education (36.40), recreation and cultural enrichment (1.08), economic development (2.52), transportation (1.43) and transfers to debt service funds (2.58) for all obligations except those incurred for highway or other special revenue fund purposes.

### BUDGET ADOPTION AND LEGAL COMPLIANCE/BUDGETARY RESULTS

A discussion of the Commonwealth's annual budget process is included as Required Supplementary Information (RSI) following the notes to the financial statements. The adopted budget provides legal control over spending. Under Commonwealth law, expenditures cannot exceed amounts appropriated. Budgetary control is exercised by specific, line-item appropriation. The Budgetary Comparison Schedule, included as RSI, provides original budget, final budget and actual budgetary results for the fiscal year ended June 30, 2006.

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

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

<b>General Fund <u>At June 30</u></b>	<b>Unreserved/ Undesignated <u>Fund Balance</u></b>	<b>Budgetary Basis Increase <u>(Decrease)</u></b>
2002 (restated)	\$ 142.5	\$ (193.9)
2003 (restated)	196.2	53.7
2004 (restated)	77.5	(118.7)
2005	364.8	287.3
2006	514.1	149.3

During the fiscal year ended June 30, 2006, total General Fund revenues and other sources exceeded expenditures and other uses by \$149.3 and, at June 30, 2006, the Commonwealth reported an unreserved/undesignated fund balance (budgetary basis) of \$514.1 in the General Fund. This compares to a budgetary basis fund balance of \$364.8 at June 30, 2005. The budgetary basis results for the fiscal year ended June 30, 2006 include revenue collections totaling \$43,546.7, less appropriation authorizations totaling \$43,392, less other net financing uses totaling \$5.4. Included in the \$43,392 appropriation authorizations are \$342.4 of state supplemental appropriations and a negative \$112.8 in Federal supplemental appropriations authorized during the fiscal year ended June 30, 2006 (amounts in millions).

### ECONOMIC OUTLOOK

The national economy slowed dramatically during the second quarter of 2006. This slowdown was juxtaposed on continued gains in employment both nationally and within the Pennsylvania economy. Despite the

slowdown, improvements in personal income, government finances, and jobs growth were recorded during the recently completed fiscal year.

From mid-2006 to mid-2007, growth in the national economy, as measured by gross domestic product, is expected to average 2.2 percent, below recent performances. An overall downturn in the housing market likely will lead to slower growth in the economy. Significant decreases in oil prices will beneficially impact the economy and reduce inflationary pressures. More cautious consumer spending and weakened foreign trade will adversely impact the national and Pennsylvania economies in late 2006 and early 2007. Overall, slow economic growth is forecasted for the nation and Pennsylvania.

### **LONG-TERM FINANCIAL PLANNING**

Based on the Governor's Executive Budget for 2006-2007, during each of the five fiscal years ending June 30, 2011, the Commonwealth expects General Fund revenues of between \$25 billion and \$28 billion along with similar, but lower, expenditures during each of the five fiscal years, resulting in modest surpluses of less than \$25 million for each fiscal year. For all Funds included in the Executive Budget, total revenues of between \$55 billion and \$60 billion are expected, along with corresponding but lower expenditures. Transfers to the Budget Stabilization Reserve Fund are expected to be between \$1 million and \$8 million for each of the five years. The next Executive Budget will be available in February 2007 and includes planned revenues and expenditures for fiscal periods ending June 30, 2012.

### **RISK MANAGEMENT**

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

### **INDEPENDENT AUDIT**

The Commonwealth's June 30, 2006 Basic Financial Statements have been jointly audited by the Department of the Auditor General and Ernst & Young LLP, an independent public accounting firm. The independent auditors' opinion is included in the beginning of the Financial Section of this CAFR. The auditors' opinion provides a reasonable basis for users to rely on the information included in the BFS.



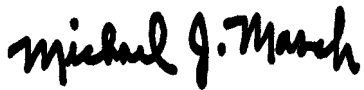
## CERTIFICATE OF ACHIEVEMENT

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, 2005. This represents the twentieth consecutive year the Commonwealth of Pennsylvania has received this award.

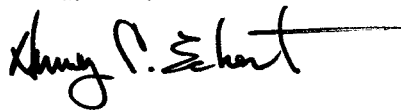
To merit a certificate of achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, which conforms to GFOA standards and satisfies both generally accepted accounting principles and applicable legal requirements. A certificate of achievement 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, 2006 conforms to the GFOA's award criteria.

## ACKNOWLEDGMENTS

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



Michael J. Masch  
Secretary  
Office of the Budget



Harvey C. Eckert  
Commonwealth Comptroller  
Office of the Budget

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# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Commonwealth of Pennsylvania

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2005

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



President

Executive Director

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# Financial Section



*Horseshoe Curve, Altoona*  
*Blair County*



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

**ERNST & YOUNG LLP**

Two Commerce Square  
Suite 4000  
2001 Market Street  
Philadelphia, Pennsylvania  
19103-7096

## Report of Independent Auditors

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

We have jointly audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania, as of and for the year ended June 30, 2006, 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 Tuition Payment Fund, a major Enterprise Fund, and of certain component units which represent 99 percent of total assets, 99 percent of total net assets, and 99 percent of total revenues of the aggregate discretely presented component units, and certain agencies which represent 1 percent of expenditures of the General Fund and 1 percent of expenses of Governmental Activities. We did not jointly audit 100 percent of the total assets, 100 percent of total net assets, and 100 percent of the total revenues of the Pension (and Other Employee Benefit) Trust Funds. This comprises 91 percent of total assets, 96 percent of total net assets and 85 percent of total revenues of the aggregate remaining fund information. The financial statements of the Tuition Payment Fund and these component units, agencies, and Pension (and Other Employee Benefit) Trust Funds were audited by other auditors, including Ernst & Young LLP acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Tuition Payment Fund and those component units, agencies, and the Pension (and Other Employee Benefit) Trust Funds, are based solely on the reports of the other auditors. Ernst & Young LLP has audited, separately, 100 percent of the Tuition Payment Fund, and 17 percent of total assets, 28 percent of total net assets, and 17 percent of total operating revenues of the discretely presented component units, as well as 1 percent of expenditures of the General Fund and 1 percent of expenses of Governmental Activities.

The transactions of the Department of the Auditor General are included in the basic financial statements and are immaterial to the overall presentation of the basic financial statements. The expenses of the Department of the Auditor General equal less than 1 percent of the expenses reported for Governmental Activities on the Statement of Activities and less than 1 percent of the expenditures reported for the General Fund on the Statement of Revenues, Expenditures and Changes in Fund Balance. Agency Fund assets and liabilities of the Department of the Auditor General equal less than 1 percent and less than 2 percent, respectively, of the total assets and liabilities reported for the aggregate remaining fund information. The Auditor General is the Commonwealth's independently-elected auditing officer. Article VIII, § 7, of the Pennsylvania Constitution mandates the Auditor General to act jointly with the Governor and State Treasurer to vote on the incurrence of debt. Title 72 of the Pennsylvania Statutes, § 1102, mandates the Department of the Auditor General to approve the disposition of petitions for corporation tax resettlements filed with the Pennsylvania Department of Revenue's Board of Appeals, which may be appealed to the Board of Finance and Revenue. Title 71 of the Pennsylvania Statutes, § 115, mandates the Auditor General to be one of the six members of the Board of Finance and Revenue, which is an independent board whose decisions may be appealed to Commonwealth Court. The above-mandated responsibilities are performed by personnel separate from those involved in the performance of the audit of the Commonwealth's basic financial statements, and are being disclosed as required by and in accordance with auditing standards generally accepted in the United States.

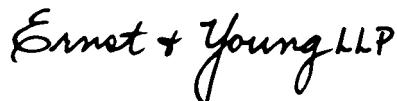
We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

As described in Note A to the financial statements, the Commonwealth has implemented Governmental Accounting Standards Board (GASB) Statements No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, No. 44, *Economic Condition Reporting: The Statistical Section*, No. 46, *Net Assets Restricted by Enabling Legislation*, and No. 47, *Accounting for Termination Benefits*, and the immediately-effective provisions of GASB Technical Bulletin No. 2006-1, *Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D*.

Management's discussion and analysis and budgetary comparison information on pages 18 through 34 and 122 through 126 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



December 22, 2006



# Management's Discussion and Analysis



*Rice's Bridge*

*Perry County*

The Management's Discussion and Analysis (MD&A) of the Commonwealth of Pennsylvania's Comprehensive Annual Financial Report (CAFR) presents a review and analysis of the Commonwealth's financial performance for the fiscal year ended June 30, 2006. The MD&A should be reviewed in conjunction with the Letter of Transmittal, which begins on page 4 of this report, and with the Commonwealth's financial statements, which follow.

## **Executive Summary**

### **Government-wide Statements at-a-glance**

Net Assets – Governmental activities net assets totaled \$22.6 billion at June 30, 2006, compared to \$20.8 billion at June 30, 2005. This represents a year over year increase of \$1.8 billion, an improvement compared to a \$1.1 billion year over year increase reported in the prior fiscal year. For business-type activities, net assets were \$3.3 billion at June 30, 2006, an increase of \$0.7 billion compared to \$2.6 billion at June 30, 2005. This represents a year over year increase in Total Net Assets of \$2.5 billion for the primary government.

General Obligation Bonds – During the fiscal year, total general obligation bond indebtedness increased by \$.5 billion (\$1.0 billion issued and \$.5 billion repaid) from \$7.2 billion to \$7.7 billion, while total governmental activities liabilities increased by \$.2 billion.

### **Fund Statements at-a-glance**

Governmental Funds – Fund Balances – Were \$7.6 billion at June 30, 2006 compared to \$6.9 billion at June 30, 2005, for a year-over-year increase of \$.7 billion.

General Fund – Fund Balance – Was \$3.0 billion at June 30, 2006, compared to \$2.9 billion at June 30, 2005, for a year over year increase of \$0.1 billion.

## **Overview and discussion of basic financial statements**

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

### **Government-wide financial statements**

Government-wide financial statements portray the Commonwealth's overall financial position (Statement of Net Assets) at June 30, 2006 and its aggregate revenues and expenses (Statement of Activities) for the fiscal year ended June 30, 2006. The Statement of Net Assets presents the assets, liabilities, and net assets for the Commonwealth as a whole. The Statement of Activities presents, by function or program, the expenses, offsetting revenues, and changes in net assets. Both statements classify amounts by Governmental Activities, Business-Type Activities, and Component Units. The component units are organizations that are legally separate from the Commonwealth's primary government. Information related to component units is not included in the MD&A. Each component unit is identified and described in Note A – Summary of Significant Accounting Policies. Audited financial statements for component units are available through the Commonwealth Comptroller.

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

### **Fund financial statements – governmental funds**

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

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

**Government-wide financial analysis**

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

	Governmental Activities			Business-Type Activities			Total		
	2006	2005	Change	2006	2005	Change	2006	2005	Change
<b>Assets:</b>									
Cash and investments.....	\$ 11.1	\$ 10.0	\$ 1.1	\$ 6.2	\$ 5.5	\$ 0.7	\$ 17.3	\$ 15.5	\$ 1.8
Capital assets (net).....	22.8	21.9	0.9	-	-	-	22.8	21.9	0.9
All other assets.....	6.1	6.1	-	1.4	1.2	0.2	7.6	7.3	0.3
<b>Total assets.....</b>	<b>40.0</b>	<b>38.0</b>	<b>2.0</b>	<b>7.6</b>	<b>6.7</b>	<b>0.9</b>	<b>47.6</b>	<b>44.7</b>	<b>2.9</b>
<b>Liabilities:</b>									
Accounts payable.....	4.1	3.8	0.3	0.5	0.4	0.1	4.6	4.2	0.4
All other current liabilities.....	4.0	4.2	(0.2)	1.4	1.4	-	5.4	5.6	(0.2)
<b>Total current liabilities.....</b>	<b>8.1</b>	<b>8.0</b>	<b>0.1</b>	<b>1.9</b>	<b>1.8</b>	<b>0.1</b>	<b>10.0</b>	<b>9.8</b>	<b>0.2</b>
Bonds payable.....	7.1	6.6	0.5	-	-	-	7.1	6.6	0.5
All other long-term liabilities.....	2.2	2.6	(0.4)	2.4	2.3	0.1	4.6	4.9	(0.3)
<b>Total long-term liabilities.....</b>	<b>9.3</b>	<b>9.2</b>	<b>0.1</b>	<b>2.4</b>	<b>2.3</b>	<b>0.1</b>	<b>11.7</b>	<b>11.5</b>	<b>0.2</b>
<b>Total Liabilities.....</b>	<b>17.4</b>	<b>17.2</b>	<b>0.2</b>	<b>4.3</b>	<b>4.1</b>	<b>0.2</b>	<b>21.7</b>	<b>21.3</b>	<b>0.4</b>
<b>Net assets:</b>									
Invested in capital assets, net of related debt.....	19.1	18.2	0.9	-	-	-	19.1	18.2	0.9
Restricted.....	3.9	3.3	0.6	3.3	2.6	0.7	7.2	5.9	1.3
Unrestricted.....	(0.4)	(0.7)	0.3	-	-	-	(0.4)	(0.7)	0.3
<b>Total net assets.....</b>	<b>\$ 22.6</b>	<b>\$ 20.8</b>	<b>\$ 1.8</b>	<b>\$ 3.3</b>	<b>\$ 2.6</b>	<b>\$ 0.7</b>	<b>\$ 25.9</b>	<b>\$ 23.4</b>	<b>\$ 2.5</b>

**Changes in assets and liabilities**

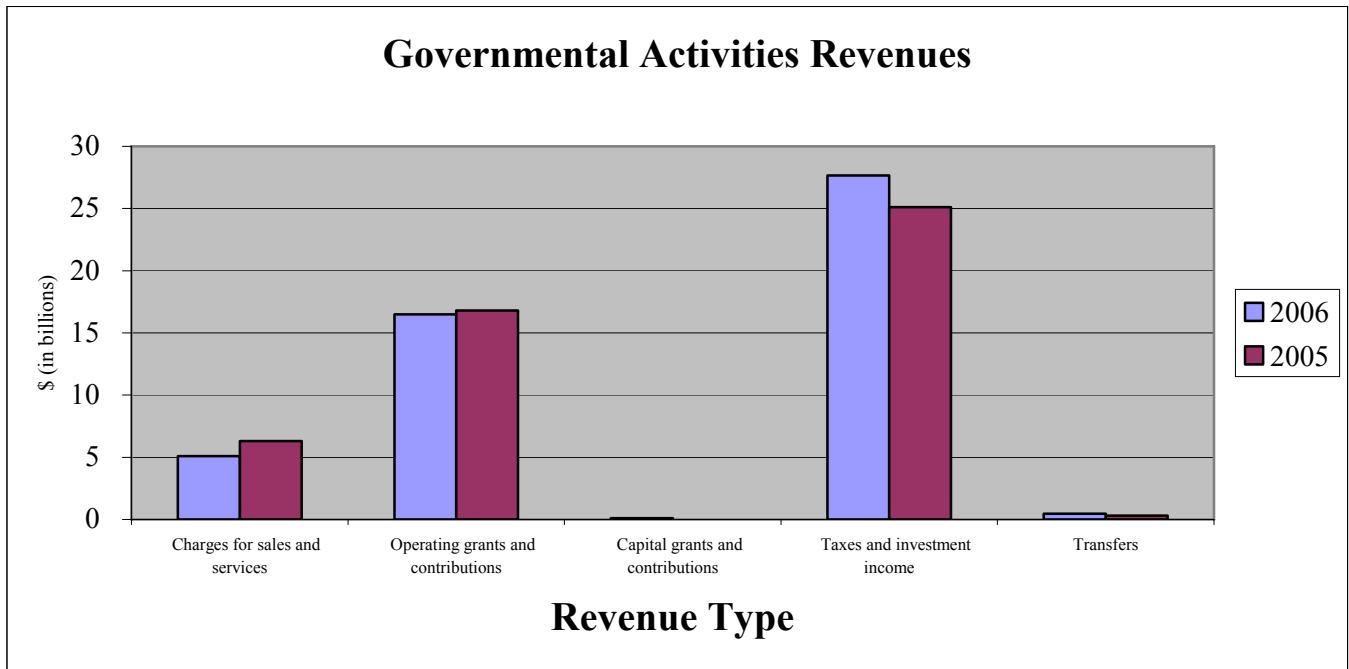
At June 30, 2006, total governmental activities cash and investments increased by \$1.1 billion, primarily as a result of increases in governmental activities revenues, caused by improving economic conditions during the fiscal year and much smaller increases in governmental activities expenses. The net capital assets increase of \$0.9 billion follows a \$1.3 billion increase in the prior year and reflects an expansion of, and improvements to, the Commonwealth's reported highway and bridge infrastructure. Governmental activities current liabilities, accounts payable and accrued liabilities, increased by \$3 billion due

to the timing of voucher payment requests. Other governmental activities current liabilities decreased by \$0.2 billion, net, resulting from relatively smaller Treasury securities lending program obligations (\$0.3 billion) and an increase in amounts due to political subdivisions for public education and health and human services (over \$0.1 billion) at June 30, 2006. General obligation bonds payable, non-current portion, increased by \$0.5 billion over the prior year; roughly \$1.0 billion were issued, as \$0.5 billion was repaid during the fiscal year. Year over year changes in business-type activities assets and liabilities resulted in an increase in net assets of \$0.7 billion. This increase is the result of an increase in total assets of \$0.9 billion and an increase in total liabilities of \$0.2 billion. Total assets increased primarily as a result of increases in investments reported by the Unemployment Compensation Fund, the State Workers' Insurance Fund and the State Lottery Fund. Among these three Funds, the Unemployment Compensation Fund reported an increase in net assets of over \$0.5 billion.

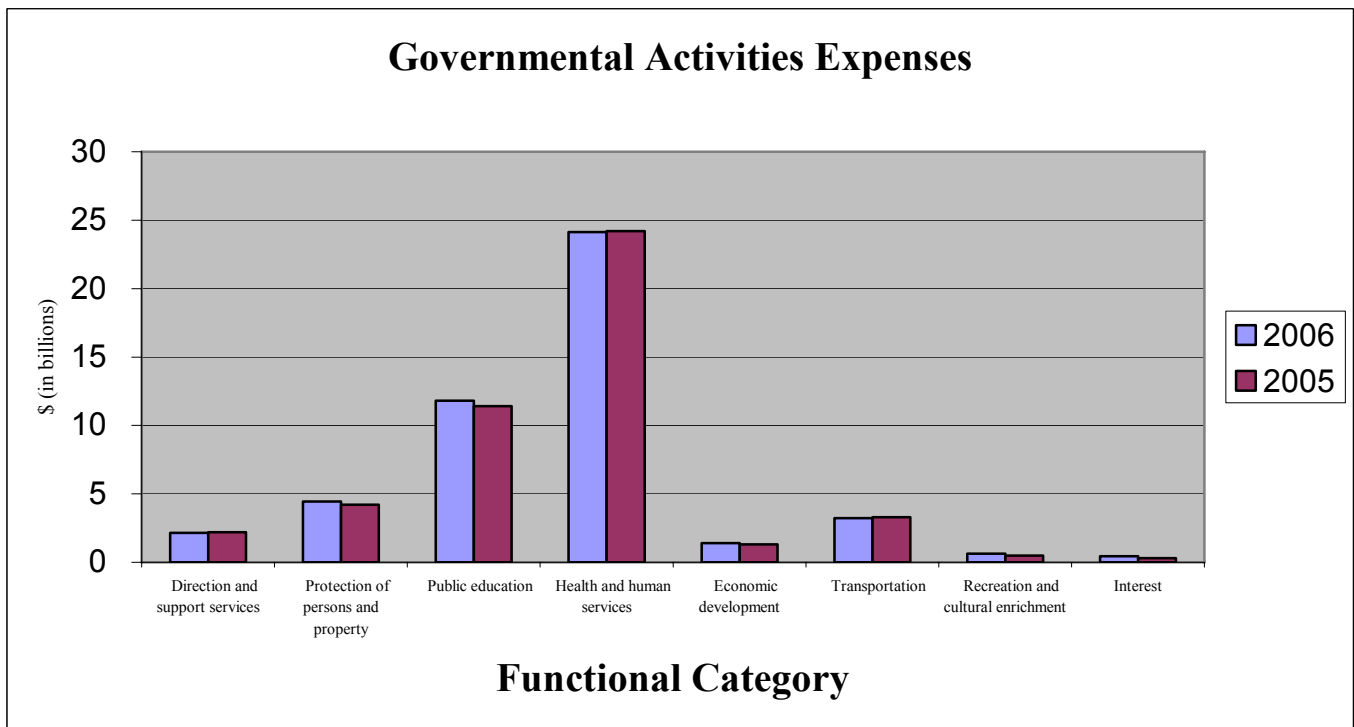
The following presents condensed, financial statement information from the Statement of Activities (amounts in billions):

	<b>Governmental Activities</b>			<b>Business-Type Activities</b>			<b>Total</b>		
	<b>2006</b>	<b>2005</b>	<b>Change</b>	<b>2006</b>	<b>2005</b>	<b>Change</b>	<b>2006</b>	<b>2005</b>	<b>Change</b>
<b>Revenues:</b>									
<b>Program revenues:</b>									
Charges for sales and services.....	\$ 5.1	\$ 6.3	\$ (1.2)	\$ 7.2	\$ 6.3	\$ 0.9	\$ 12.3	\$ 12.6	\$(0.3)
Operating grants and contributions.....	16.5	16.8	(0.3)	0.4	0.3	0.1	16.9	17.1	(0.2)
Capital grants and contributions.....	0.1	-	0.1	-	-	-	0.1	-	0.1
<b>Total program revenues.....</b>	<b>21.7</b>	<b>23.1</b>	<b>(1.4)</b>	<b>7.6</b>	<b>6.6</b>	<b>1.0</b>	<b>29.3</b>	<b>29.7</b>	<b>(0.4)</b>
<b>General revenues:</b>									
Taxes and investment income.....	27.7	25.1	2.6	-	-	-	27.7	25.1	2.6
<b>Total general revenues.....</b>	<b>27.7</b>	<b>25.1</b>	<b>2.6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27.7</b>	<b>25.1</b>	<b>2.6</b>
<b>Total revenues.....</b>	<b>49.4</b>	<b>48.2</b>	<b>1.2</b>	<b>7.6</b>	<b>6.6</b>	<b>1.0</b>	<b>57.0</b>	<b>54.8</b>	<b>2.2</b>
<b>Expenses:</b>									
<b>Governmental activities:</b>									
Direction and support services.....	2.2	2.2	-	-	-	-	2.2	2.2	-
Protection of persons and property.....	4.4	4.2	0.2	-	-	-	4.4	4.2	0.2
Public education.....	11.8	11.4	0.4	-	-	-	11.8	11.4	0.4
Health and human services.....	24.1	24.2	(0.1)	-	-	-	24.1	24.2	(0.1)
Economic development.....	1.4	1.3	0.1	-	-	-	1.4	1.3	0.1
Transportation.....	3.2	3.3	(0.1)	-	-	-	3.2	3.3	(0.1)
Recreation and cultural enrichment.....	0.6	0.5	0.1	-	-	-	0.6	0.5	0.1
Interest.....	0.4	0.3	0.1	-	-	-	0.4	0.3	0.1
<b>Business-type activities:</b>									
State lottery.....	-	-	-	2.7	2.3	0.4	2.7	2.3	0.4
Unemployment compensation.....	-	-	-	2.0	1.8	0.2	2.0	1.8	0.2
Liquor control.....	-	-	-	1.2	1.1	0.1	1.2	1.1	0.1
Workers' compensation.....	-	-	-	0.4	0.4	-	0.4	0.4	-
Tuition payment.....	-	-	-	0.1	0.2	(0.1)	0.1	0.2	(0.1)
<b>Total expenses.....</b>	<b>48.1</b>	<b>47.4</b>	<b>0.7</b>	<b>6.4</b>	<b>5.8</b>	<b>0.6</b>	<b>54.5</b>	<b>53.2</b>	<b>1.3</b>
Excess before transfers.....	1.3	0.8	0.5	1.2	0.8	0.4	2.5	1.6	0.9
Transfers.....	0.5	0.3	0.2	(0.5)	(0.3)	(0.2)	-	-	-
Increase in net assets.....	1.8	1.1	0.7	0.7	0.5	0.2	2.5	1.6	0.9
Net assets, beginning.....	20.8	19.7		2.6	2.1		23.4	21.8	
<b>Net assets, ending.....</b>	<b>\$ 22.6</b>	<b>\$ 20.8</b>		<b>\$ 3.3</b>	<b>\$ 2.6</b>		<b>\$ 25.9</b>	<b>\$ 23.4</b>	

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



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



**Overall changes in net assets**

During the fiscal year ended June 30, 2006, the overall financial position (net assets) of the Commonwealth, including both governmental and business-type activities, increased by \$2.5 billion or nearly 10.7% of total beginning net assets of \$23.4 billion. For governmental activities, the net increase in net assets was \$1.8 billion or 8.6% of beginning net assets of \$20.8 billion. Total investments, excluding the State Employees' Retirement Fund and all other fiduciary funds, totaled over \$15.6 billion and total cash balances were over \$1.6 billion. These amounts represent considerable liquidity for the current and future fiscal years. The increase in governmental activities net assets (\$1.8 billion) significantly exceeded the prior year change, where revenues, transfers and special items exceeded expenses by \$1.1 billion. These increases represent year-over-year improvements in the Commonwealth's overall financial position, during the two fiscal years ended June 30, 2006 and 2005.

The \$.7 billion increase in total net assets for business-type activities follows a \$.5 billion increase during the prior fiscal year. This \$.2 billion improvement is primarily attributable to a net assets increase of \$0.5 billion in the unemployment compensation program, where the prior year net assets increase was \$0.3 billion. During the current fiscal year, unemployment compensation revenues and expenses increased; in the prior year revenues increased and expenses decreased by a large amount. Statutory contribution increases occurred during each of the fiscal years. Such increases are intended to eliminate or avoid net assets decreases in the unemployment compensation program. During the fiscal year ended June 30, 2006, aggregate increases in net assets of the State Workers' Insurance Fund, the State Lottery Fund and the Tuition Payment Fund amounted to over \$190 million, after net transfers to other Funds.

**Changes in revenues and expenses**

For governmental activities, general revenues increased by \$2.6 billion, largely as a result of large increases in General Fund tax revenues during the fiscal year ended June 30, 2006. Such increases were the result of improving overall economic conditions in the Commonwealth. Program revenues for charges for sales and services decreased significantly (\$1.2 billion) because of decreases in several program charges, including medical assistance (where nursing home assessments and intergovernmental transfers decreased). Federal participation in specific General Fund and other programs, reported as part of operating grants and contributions, decreased by \$.5 billion during the fiscal year, while Federal participation in Motor License Fund programs increased by \$.2 billion. Program charges for business-type activities increased by \$.9 billion primarily because of state lottery (\$.4 billion) and increases in unemployment compensation (\$.4 billion). Operating grants and contributions for business-type activities increased by \$.1 billion due to small increases in Federal participation (\$50 million) and investment income (\$50 million).

For governmental activities, total expenses increased \$0.7 billion (less than 1.5%) largely because of spending control and amounts appropriated for the General Fund and other governmental Funds. During the fiscal year, there were increases in expenses for both protection of persons and property and public education, offset by decreases in health and human services for medical and other assistance in the General Fund; Motor License Fund expenses increased by over \$300 million, in line with revenue growth.

During the current fiscal year, total business-type activities revenues exceeded total expenses by \$1.2 billion; and in the prior fiscal year total revenues \$.8 billion higher than expenses. Including the effects of net transfers to other funds of \$.5 billion (\$.3 billion in the prior year), business-type activities net assets increased by \$.7 billion versus a \$.5 billion increase in the prior year. The primary reason for this increase was a \$.2 billion improvement in Unemployment Compensation Fund net assets. Current-year Fund revenues increased by more than \$.4 billion and expenses increased \$.2 billion compared to the fiscal year ended June 30, 2005.

Overall, expenses for business-type activities increased by \$.6 billion, a 10.3% over the prior fiscal year. Expenses for state lottery increased (\$.4 billion) along with higher ticket sales, while a change in complement funding for Lottery Fund employees also occurred during the current fiscal year. Unemployment compensation expenses increased \$.2 billion due to an increased number of unemployment compensation claims.

**General Fund – economic factors during the fiscal year ended June 30, 2006**

A moderately growing national economy that achieved preliminary estimates for growth resulted in improved economic conditions within significant portions of the national and Pennsylvania economies. Gains in government revenues, corporate profits, job creation and personal income were experienced. However, economic growth proved erratic as growth was 1.7% in the fourth quarter of 2005 but rebounded to reach 5.6% in the first quarter of 2006. The end of the fiscal year saw growth in real gross domestic product slow significantly, from 5.6% to 2.6% on a seasonally adjusted annual rate basis during the second quarter of 2006. A downturn in the housing market and a more cautious consumer were the prime drivers of the economic slowdown. Continued elevation of energy prices adversely impacted spending, which dropped significantly during the second half of the fiscal year ended June 30, 2006 while personal incomes continued to grow modestly. Job growth continued during the fiscal year and the unemployment rate continued to drop throughout the fiscal year. Overall, economic conditions positively impacted state revenue growth, as revenues exceeded the budget estimate. These additional revenues were used in part to replenish portions of reserve funds and to support an increased demand for governmental goods and services, particularly in the area of health care costs.

**Budgetary Comparison**

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

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

The Budgetary Comparison Schedule for the General Fund for the fiscal year ended June 30, 2006 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 2005-06 supplemental appropriations passed on July 2, 2006 by Act 2A.

Final budgeted revenues for total state programs exceed the original budget by \$283 million. This increase includes a net \$407 million increase in tax revenues resulting from a \$367 million adjustment for supplemental appropriations referred to in the preceding paragraph and a \$40 million change in revenue refunds from original to final budget. The \$283 million increase also includes a net decrease of \$99 million in departmental services revenue. This decrease is attributable primarily to a \$520 million decrease in the Department of Public Welfare's Health Care Provider Retention program where original budgeted revenues were not realized, and transfers of \$418 million in augmenting revenues from the Motor License Fund for State Police protection of Commonwealth highways (in this case there is no true increase in funds available to the State Police).

The General Fund Schedule also discloses that the final budget includes \$418 million more expenditures than the original budget. The \$418 million increase includes \$304 million in state program expenditure increases and \$114 million of increased Federal participation in various programs. Of the \$304 million net state program difference, a \$469 million increase in Protection of Persons and Property expenditures results primarily from a \$418 million increase in spending authority for State Police protection of Commonwealth highways. Further, a \$192 million decrease in Health and Human Services expenditures includes \$520 million reported as estimated augmentations in the original budget for the Department of Public Welfare's Health Care Provider Retention program for which no actual augmentations were received. The increase of \$114 million in Federal programs relates primarily to additional appropriations and executive authorizations passed or authorized throughout the fiscal year.

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

Actual budgetary State Program revenues exceeded the final budgeted State Program revenues by \$522 million. The \$522 million net increase results primarily from a \$559 million increase in tax revenues related primarily to improving national and state economic conditions. Budgetary lapses for a variety of specific appropriations and executive authorizations in the amount of \$16 million were also posted to reduce State Program spending authority. Actual Federal revenues and corresponding expenditures were \$149 million lower than budgeted for the following agencies: Health, \$52 million; Public Welfare, \$38 million; Executive Offices, \$34 million; Aging, \$12 million; and all other affected agencies, \$13 million.

**Measurement focus and basis of accounting – governmental funds**

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

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

**Discussion of individual funds, balances, and transactions**

**General Fund**

Condensed comparative General Fund balance sheets at June 30, 2006 and 2005 are as follows (amounts in millions):

	<u>2006</u>	<u>2005</u>	<b>Increase (Decrease)</b>	
			<u>Change</u>	<u>Percent</u>
<b>Assets:</b>				
Cash and investments.....	\$ 5,192	\$ 4,911	\$ 281	6%
Receivables, net.....	3,419	3,082	337	11%
Due from other funds/governments/advances/other.....	1,789	1,870	(81)	-4%
<b>Total assets.....</b>	<b><u>\$ 10,400</u></b>	<b><u>\$ 9,863</u></b>	<b><u>\$ 537</u></b>	<b>5%</b>
<b>Liabilities:</b>				
Accounts payable and tax refunds payable.....	\$ 3,787	\$ 3,593	194	5%
Securities lending obligations.....	569	787	(218)	-28%
Due to other funds/governments/advances/other.....	1,177	1,066	111	10%
Unearned revenue.....	1,897	1,548	349	23%
<b>Total liabilities.....</b>	<b><u>7,430</u></b>	<b><u>6,994</u></b>	<b><u>436</u></b>	<b>6%</b>
<b>Fund Balance:</b>				
Reserved.....	1,460	1,428	32	2%
<b>Unreserved:</b>				
Designated.....	720	514	206	40%
Undesignated.....	790	927	(137)	-15%
<b>Total fund balance.....</b>	<b><u>2,970</u></b>	<b><u>2,869</u></b>	<b><u>101</u></b>	<b>4%</b>
<b>Total liabilities and fund balance.....</b>	<b><u>\$ 10,400</u></b>	<b><u>\$ 9,863</u></b>	<b><u>\$ 537</u></b>	

During the fiscal year ended June 30, 2006, cash and investments increased by \$281 million (6%) compared to the prior year. On a gross basis, a smaller Treasury Department securities lending program (\$218 million), higher unearned revenue (\$349 million) and an overall increase in revenues over expenditures (\$101 million) were the primary causes of the net increase. Receivables increased by \$337 million, primarily due to larger taxes due balances at June 30, 2006. Unearned revenue increased by \$349 million due to higher Federal draw downs in comparison to the prior year-end. Relatively minor changes in both accounts payable and amounts owed to school districts were caused by the timing of posted vouchers.



Fund balance designations increased \$206 million due primarily to changes in specific designations as follows: \$78.6 million increase for health benefits and life insurance, \$24 million increase agency construction projects, \$15 million increase for a judicial computer system, \$24.5 million for job creation tax credits, \$46 million of new Corrections programs and a new \$25 million volunteer fire companies program. Overall fund balance increased by \$101 million during the fiscal year ended June 30, 2006, and unreserved/undesignated fund balance decreased by \$137 million, as a result of the higher aforementioned changes in fund balance designations.

Condensed, comparative, General Fund operating statements for the fiscal years ended June 30, 2006 and 2005 follow (amounts in millions):

	2006	2005	Increase (Decrease)	
			Change	Percent
<b>Revenues:</b>				
Taxes, net of refunds.....	\$ 24,783	\$ 22,841	\$ 1,942	9%
Intergovernmental.....	14,663	15,102	(439)	-3%
Charges for sales and services.....	2,751	3,732	(981)	-26%
Licenses/fees/investment and other income.....	515	623	(108)	-17%
<b>Total revenues.....</b>	<b>42,712</b>	<b>42,298</b>	<b>414</b>	<b>1%</b>
<b>Expenditures:</b>				
Direction and supportive services.....	2,062	2,048	14	1%
Protection of persons and property.....	3,279	3,014	265	9%
Health and human services.....	23,135	23,362	(227)	-1%
Public education.....	11,667	11,382	285	3%
Recreation and cultural enrichment.....	298	293	5	2%
Economic development.....	957	988	(31)	-3%
Transportation.....	443	449	(6)	-1%
Capital outlay.....	28	27	1	4%
Interest.....	5	-	5	0%
<b>Total expenditures.....</b>	<b>41,874</b>	<b>41,563</b>	<b>311</b>	<b>1%</b>
<b>Revenues over expenditures</b>	<b>838</b>	<b>735</b>	<b>103</b>	
<b>Other financing sources (uses):</b>				
Transfers in.....	89	63	26	41%
Transfers out.....	(827)	(937)	110	-12%
Capital lease and installment purchase obligations.....	1	1	(0)	0%
<b>Net other financing sources (uses).....</b>	<b>(737)</b>	<b>(873)</b>	<b>136</b>	
<b>Net change in fund balance.....</b>	<b>101</b>	<b>(138)</b>	<b>\$ 239</b>	
<b>Fund balance, beginning.....</b>	<b>2,869</b>	<b>3,007</b>		
<b>Fund balance, ending.....</b>	<b>\$ 2,970</b>	<b>\$ 2,869</b>		

General Fund tax revenues increased by 9% due to significant economic growth; both corporation and personal income tax collections rose an average of 9% during the fiscal year ended June 30, 2006. Sales and use tax collections increased by 4.2%. Intergovernmental revenues decreased by \$439 million, resulting from lower amounts appropriated for Federal participation in medical and other assistance. Charges for sales and services decreased by \$981 due to specific program funding changes, including nursing home assessments. Total General Fund revenues increased by \$414 million (.98%) during the fiscal year. The overall increase in fund balance, \$101 million, during the fiscal year was \$239 million more than the prior fiscal year decrease in fund balance \$138 million.

Total General Fund expenditures increased by less than 1% during the fiscal year ended June 30, 2006, by \$311 million. Expenditures for Protection of persons and property increased by \$265 due primarily to increases in amounts appropriated/expended for state police activities. Public education expenditures increased by \$285 million due primarily to increases in basic and other subsidies to school districts; net changes in higher education subsidies were not significant. Health and human services expenditures decreased by \$227 million, caused by lower aggregate demand and utilization of medical and other assistance during the fiscal year. Actual, final General Fund expenditures (budgetary basis) increased by 3.1% over the prior fiscal year, while revenues (budgetary basis) increased 2.8%.

**Motor License Fund**

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

Description	2006		2005		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and investments.....	\$ 1,884	82%	\$ 1,545	\$ 339	22%	
Other assets.....	413	18%	496	(83)	-17%	
<b>Total assets.....</b>	<b>\$ 2,297</b>	<b>100%</b>	<b>\$ 2,041</b>	<b>\$ 256</b>	<b>13%</b>	
Accounts payable.....	\$ 434	58%	\$ 420	\$ 14	3%	
Securities lending obligations.....	213	28%	251	(38)	-15%	
Other liabilities.....	101	14%	93	8	9%	
<b>Total liabilities.....</b>	<b>748</b>	<b>100%</b>	<b>764</b>	<b>(16)</b>	<b>-2%</b>	
<b>Total fund balance.....</b>	<b>1,549</b>	<b>100%</b>	<b>1,277</b>	<b>272</b>	<b>21%</b>	
<b>Total liabilities and fund balance.....</b>	<b>\$ 2,297</b>	<b>100%</b>	<b>\$ 2,041</b>	<b>\$ 256</b>	<b>13%</b>	
Tax revenues.....	\$ 2,033	45%	\$ 1,845	\$ 188	10%	
License and fees.....	900	20%	890	10	1%	
Federal revenues.....	1,413	31%	1,213	200	17%	
Other revenues.....	186	4%	172	14	8%	
<b>Total revenues.....</b>	<b>4,532</b>	<b>100%</b>	<b>4,120</b>	<b>412</b>	<b>10%</b>	
Direction and supportive services.....	52	1%	50	2	4%	
Protection of persons and property.....	554	13%	510	44	9%	
Transportation.....	1,679	40%	1,828	(149)	-8%	
Capital outlay.....	1,925	46%	1,472	453	31%	
Other expenditures.....	1	0%	4	(3)	-75%	
<b>Total expenditures.....</b>	<b>4,211</b>	<b>100%</b>	<b>3,864</b>	<b>347</b>	<b>9%</b>	
Net transfers out.....	(49)	100%	(60)	11	-18%	
Other financing sources (uses).....	-	0%	1	(1)	0%	
<b>Net other financing sources (uses).....</b>	<b>(49)</b>		<b>(59)</b>	<b>10</b>		
<b>Net change in fund balances.....</b>	<b>\$ 272</b>		<b>\$ 197</b>	<b>\$ 75</b>		

Year over year, cash and investments increased by \$339 million, net, (\$377 million when the \$38 million decrease in securities lending balance is included), due primarily to the \$272 million year-over-year increase in fund balance and the repayment of the \$110 million prior-year statutory advance to the MCARE Fund. Tax revenues increased by \$188 million because of an increase in Oil Franchise and fuel-based taxes. Federal revenues increased by \$200 million because of the return of \$140 million in Federal aid during the prior year; this amount relates to billable expenditures which were less than estimates. The decrease in transportation expenditures (\$149 million) and the increase in capital outlay (\$453 million) during the fiscal year relates to the higher level of highway and bridge infrastructure construction activity. Net transfers out decreased by \$11 million due to a one-time \$15 million transfer made to the Pennsylvania Infrastructure Bank Fund in the prior fiscal year.

**Tobacco Settlement Fund**

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

Description	2006		2005		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and investments.....	\$ 1,390	82%	\$ 1,184	\$ 206	17%	
Other assets.....	295	18%	332	(37)	-11%	
<b>Total assets.....</b>	<b>\$ 1,685</b>	<b>100%</b>	<b>\$ 1,516</b>	<b>\$ 169</b>	<b>11%</b>	
Accounts payable.....	\$ 141	24%	\$ 143	\$ (2)	-1%	
Securities lending obligations.....	184	31%	138	46	33%	
Other liabilities.....	265	45%	285	(20)	-7%	
<b>Total liabilities.....</b>	<b>590</b>	<b>100%</b>	<b>566</b>	<b>24</b>	<b>4%</b>	
<b>Total fund balance.....</b>	<b>1,095</b>	<b>100%</b>	<b>950</b>	<b>145</b>	<b>15%</b>	
<b>Total liabilities and fund balance.....</b>	<b>\$ 1,685</b>	<b>100%</b>	<b>\$ 1,516</b>	<b>\$ 169</b>	<b>11%</b>	
Intergovernmental.....	\$ 125	18%	\$ 116	\$ 9	8%	
Investment income.....	94	14%	45	49	109%	
Other revenues.....	473	68%	362	111	31%	
<b>Total revenues.....</b>	<b>692</b>	<b>100%</b>	<b>523</b>	<b>169</b>	<b>32%</b>	
Protection of persons and property.....	134	26%	111	23	21%	
Health and human services.....	384	74%	324	60	19%	
<b>Total expenditures.....</b>	<b>518</b>	<b>100%</b>	<b>435</b>	<b>83</b>	<b>19%</b>	
Net transfers out.....	(29)	100%	(31)	2	-6%	
Other financing sources (uses).....	-	0%	-	-	0%	
<b>Net other financing sources (uses).....</b>	<b>(29)</b>	<b>100%</b>	<b>(31)</b>	<b>2</b>	<b>-6%</b>	
<b>Net change in fund balances.....</b>	<b>\$ 145</b>		<b>\$ 57</b>	<b>\$ 88</b>		

The year-over-year increase in cash and investments of \$206 million resulted from earlier Community Health Reinvestment (CHR) remittances, \$46 million more in the Treasury securities lending program and successful active management of specific investments, resulting in relatively higher investment fair values and related investment income. Other assets decreased by \$37 million due to the earlier remittance of CHR amounts during the current year. Other changes in assets and liabilities during the fiscal year were not significant. During the fiscal year ended June 30, 2006, higher CHR revenues were reported and lower Master Settlement Agreement (MSA) revenues were reported, resulting in a net increase in other revenues of \$111 million. Current year MSA collections are lower by approximately \$43 million because two major tobacco manufacturers deposited funds to a disputed account; these amounts were not remitted to the Commonwealth. The disputed amount relates to cigarette sales that took place in 2003 and is currently being litigated. Net protection of persons and property expenditures increased \$23 million due to the new, Community Health Reinvestment program that expended \$59 million during the current fiscal year. And, Adult Health Insurance expenditures were \$29 million less due to a reduced appropriation from Act 41 funding of the new Medical Assistance Long-Term Care program; correspondingly, health and human services expenditures increased \$60 million due in part to the new funding arrangement.

**Measurement focus and basis of accounting – proprietary funds**

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

**Unemployment Compensation Fund**

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

Description	2006		2005		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and investments.....	\$ 1,554	70%	\$ 1,076	\$ 478	44%	
Other assets.....	670	30%	638	32	5%	
<b>Total assets.....</b>	<b>2,224</b>	<b>100%</b>	<b>1,714</b>	<b>510</b>	<b>30%</b>	
Accounts payable.....	93	92%	90	3	3%	
Other liabilities.....	8	8%	7	1	14%	
<b>Total liabilities.....</b>	<b>101</b>	<b>100%</b>	<b>97</b>	<b>4</b>	<b>4%</b>	
<b>Total net assets.....</b>	<b>\$ 2,123</b>	<b>100%</b>	<b>\$ 1,617</b>	<b>\$ 506</b>	<b>31%</b>	
Sales and services.....	\$ 2,372	95%	\$ 1,959	\$ 413	21%	
Investment income.....	50	2%	41	9	22%	
Other revenues.....	86	3%	90	(4)	-4%	
<b>Total revenues.....</b>	<b>2,508</b>	<b>100%</b>	<b>2,090</b>	<b>418</b>	<b>20%</b>	
Cost of sales and services.....	1,999	100%	1,775	224	13%	
<b>Total expenses.....</b>	<b>1,999</b>	<b>100%</b>	<b>1,775</b>	<b>224</b>	<b>13%</b>	
<b>Income before transfers.....</b>	<b>509</b>		<b>315</b>	<b>194</b>	<b>61%</b>	
<b>Transfers.....</b>	<b>(3)</b>		<b>-</b>	<b>(3)</b>	<b>0%</b>	
<b>Increase in net assets.....</b>	<b>\$ 506</b>		<b>\$ 315</b>	<b>\$ 191</b>		

During the fiscal year ended June 30, 2006, employer assessment revenues increased by \$413 million based, in part, on statutory funding provisions. Expenses for unemployment compensation benefit claims increased, despite an improving overall state economy, by \$224 million due to higher employee layoffs. Overall revenues exceeded expenses by \$506 million, compared to \$315 million during the prior fiscal year. The overall increase in net assets contributed to an increase in cash and investment balances of \$478 million during the fiscal year.

**State Workers' Insurance Fund (December 31, 2005)**

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

Description	2006		2005		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and short-term investments.....	\$ 872	34%	\$ 757	\$ 115	15%	
Long-term investments.....	1,539	60%	1,497	42	3%	
Other assets.....	143	6%	59	84	142%	
<b>Total assets.....</b>	<b>2,554</b>	<b>100%</b>	<b>2,313</b>	<b>241</b>	<b>10%</b>	
Securities lending obligations.....	629	28%	598	31	5%	
Unearned revenue.....	167	7%	98	69	70%	
Insurance loss liability.....	1,426	63%	1,374	52	4%	
Other liabilities.....	56	2%	50	6	12%	
<b>Total liabilities.....</b>	<b>2,278</b>	<b>100%</b>	<b>2,120</b>	<b>158</b>	<b>7%</b>	
<b>Total net assets.....</b>	<b>\$ 276</b>	<b>100%</b>	<b>\$ 193</b>	<b>\$ 83</b>	<b>43%</b>	
Sales and services.....	\$ 427	89%	\$ 356	\$ 71	20%	
Investment income.....	67	14%	81	(14)	-17%	
Other revenues.....	1	0%	-	1	0%	
Provision for uncollectible accounts.....	(17)	-4%	(15)	(2)	13%	
<b>Total revenues.....</b>	<b>478</b>	<b>99%</b>	<b>422</b>	<b>56</b>	<b>13%</b>	
Cost of sales and services.....	391	99%	430	(39)	-9%	
Interest expense.....	4	1%	4	-	0%	
Other expenses.....	-	0%	1	(1)	-100%	
<b>Total expenses.....</b>	<b>395</b>	<b>100%</b>	<b>435</b>	<b>(40)</b>	<b>-9%</b>	
<b>Increase(decrease) in net assets.....</b>	<b>\$ 83</b>		<b>\$ (13)</b>	<b>\$ 96</b>		

In 2005, SWIF changed its premium revenue reporting treatment. As generally required by statutory accounting principles, premium revenue is now reported based on the effective date of a policy. Changing to this preferred method resulted in an increase of \$70.5 million in unearned, premium revenue reserves as of January 1, 2005. Reported year-over-year premium revenue increased from \$356 million to \$427 million, partially as a result of the accounting change. There also was an increase in policies: 50,969 in 2005 from 48,844 in 2004, an increase of 4%. Insurance loss liability increased as a result of the growth in policies and as a result of changes in actuarial assumptions. The Fund processed an increase in injury reports received, 30,116 in 2005 versus 26,927 in 2004. Investment income decreased due to losses on the sale of investments.

**State Lottery Fund**

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

Description	2006		2005		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and short-term investments.....	\$ 643	90%	\$ 550	\$ 93	17%	
Long-term investments.....	9	1%	11	(2)	-18%	
Other assets.....	62	9%	27	35	130%	
<b>Total assets.....</b>	<b>714</b>	<b>100%</b>	<b>588</b>	<b>126</b>	<b>21%</b>	
Accounts payable.....	234	66%	203	31	15%	
Securities lending obligations.....	76	21%	91	(15)	-16%	
Other liabilities.....	46	13%	2	44	2200%	
<b>Total liabilities.....</b>	<b>356</b>	<b>100%</b>	<b>296</b>	<b>60</b>	<b>20%</b>	
<b>Total net assets.....</b>	<b>\$ 358</b>	<b>100%</b>	<b>\$ 292</b>	<b>\$ 66</b>	<b>23%</b>	
Sales and services.....	\$ 3,047	98%	\$ 2,646	\$ 401	15%	
Other revenues.....	77	2%	68	9	13%	
<b>Total revenues.....</b>	<b>3,124</b>	<b>100%</b>	<b>2,714</b>	<b>410</b>	<b>15%</b>	
Cost of sales and services.....	2,618	97%	2,228	390	18%	
Other expenses.....	86	3%	69	17	25%	
<b>Total operating expenses.....</b>	<b>2,704</b>	<b>100%</b>	<b>2,297</b>	<b>407</b>	<b>18%</b>	
<b>Operating income.....</b>	<b>420</b>		<b>417</b>	<b>3</b>	<b>1%</b>	
<b>Nonoperating revenues.....</b>	<b>27</b>		<b>17</b>	<b>10</b>	<b>59%</b>	
<b>Income before transfers.....</b>	<b>447</b>		<b>434</b>	<b>13</b>	<b>3%</b>	
<b>Transfers.....</b>	<b>(380)</b>		<b>(300)</b>	<b>(80)</b>	<b>27%</b>	
<b>Increase(decrease) in net assets.....</b>	<b>\$ 67</b>		<b>\$ 134</b>	<b>\$ (67)</b>		

Overall sales increased \$401 million during the fiscal year ended June 30, 2006. This was the result of increased Powerall/Powerplay sales of \$154 million, increased instant game sales of higher priced ticket sales of \$286 million and the new Raffle game sales of \$22 million; offset by declines in Daily Number sales of \$10 million, Match 6 sales of \$16 million and Lucky for Life sales of \$11 million. Overall cash and investments increased by \$93 million during the fiscal year ended June 30, 2006 due to the increase in gross ticket sales which more than offset increases in total expenses. Transfers to other funds decreased by \$80 million during the fiscal year ended June 30, 2006. Operating expenses increased 18%, by \$390 million, due to increased field paid prizes from instant ticket sales, advertising, and special services. Also, operating expenses increased \$15 million due to a change in personnel funding, whereby 264 positions previously funded by the General Fund began to be funded by the State Lottery Fund.

**Tuition Payment Fund**

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

Description	2006		2005		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and short-term investments.....	\$ 310	25%	\$ 444	\$ (134)	-30%	
Long-term investments.....	950	75%	770	180	23%	
Other assets.....	4	0%	3	1	33%	
<b>Total assets.....</b>	<b>1,264</b>	<b>100%</b>	<b>1,217</b>	<b>47</b>	<b>4%</b>	
Securities lending obligations.....	166	13%	223	(57)	-25%	
Tuition benefits payable.....	1,078	86%	1,028	50	5%	
Other liabilities.....	14	1%	10	4	41%	
<b>Total liabilities.....</b>	<b>1,258</b>	<b>100%</b>	<b>1,261</b>	<b>(3)</b>	<b>0%</b>	
<b>Total net assets.....</b>	<b>\$ 6</b>	<b>100%</b>	<b>\$ (44)</b>	<b>\$ 50</b>	<b>113%</b>	
Sales and services.....	\$ 114	61%	\$ 142	\$ (28)	-20%	
Investment income.....	74	39%	55	19	35%	
<b>Total revenues.....</b>	<b>188</b>	<b>100%</b>	<b>197</b>	<b>(9)</b>	<b>-5%</b>	
Cost of sales and services.....	138	100%	193	(55)	-28%	
<b>Total expenses.....</b>	<b>138</b>	<b>100%</b>	<b>193</b>	<b>(55)</b>	<b>-28%</b>	
<b>Increase in net assets.....</b>	<b>\$ 50</b>		<b>\$ 4</b>	<b>\$ 46</b>		

Cash and investments balances increased during the fiscal year by \$103 million, on a gross basis, due to the investment of current year tuition credit purchase receipts over payments to educational institutions, less a contraction of \$57 million in the Treasury securities lending program, for a net increase of \$46 million. Relatively higher investment fair values at fiscal year end, along with higher amounts invested, caused a \$19 million increase in investment income. The tuition benefits payable liability, which incorporates a variety of actuarial assumptions, increased by \$50 million, which corresponds with additional tuition credit purchases during the fiscal year. Net assets of the Fund increased by \$50.0 million during the fiscal year resulting in total net assets of \$6.3 million at June 30, 2006, increasing from a negative \$43.8 million at June 30, 2005. The Plan is 1.01 percent funded at June 30, 2006, compared to 95.75 percent funded at June 30, 2005. Increase in net assets of \$50 million during the current fiscal year increased from the prior year increase of \$4 million during the prior fiscal year. Actual payments to educational institutions increased to \$74.8 million in fiscal year 2005-2006 from \$56.6 million in fiscal year 2004-2005; as 8,544 beneficiaries used 203,347 credits during the current fiscal year, compared to 6,869 beneficiaries using 163,743, credits during the prior fiscal year.

**Capital asset activity during the fiscal year ended June 30, 2006**

Throughout the fiscal year, Commonwealth agencies acquire or construct capital assets. In governmental fund statements, expenditures for capital assets are typically reported as capital outlay. Funding for a significant portion of capital asset acquisition is provided by proceeds of general obligation bonds issued; such proceeds are generally accounted for in the capital projects funds in the funds financial statements as an other financing source. In the government-wide statements, bond proceeds are reported as additions to long-term bond liabilities and completed project expenditures and construction in progress at fiscal year end are reported as part of general capital assets. Construction in progress for Department of General Services (public works) and Department of Transportation (highway and bridge) projects at June 30, 2006 amounted to \$0.4 and \$1.8 billion, respectively. Authorized but unissued general obligation bonds at June 30, 2006 totaled \$46.8 billion.

General capital assets of the Commonwealth are those used in the performance of specific governmental functions during more than one fiscal year. Capital assets of the proprietary funds are reported in both fund statements and in government-wide statements. Fiduciary fund capital assets are reported in fund statements; fiduciary funds are not included in government-wide statements. General capital assets as of June 30, 2006 amounted to \$22.8 billion at actual or estimated historical cost, net of

accumulated depreciation of \$11.7 billion. In the government-wide statements, depreciation expense for all capital assets is reported to recognize the cost of “using up” capital assets over their estimated useful lives. This treatment differs from reporting capital outlay as current year expenditure in governmental funds. 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 fund statements; a portion of such expenditures is reported as additions to capital assets in government-wide statements. Depreciation of highway and bridge infrastructure assets is not related to the quality or relative value of these assets; rather, it is a specific accounting treatment to recognize the cost of “using up” the assets over long periods of time (25 years for highways and 50 years for bridges.) Depreciation is an allocation of an asset’s cost over its estimated useful life and is reported in government-wide statements. Note E to the financial statements provides more information on capital asset activities during the fiscal year ended June 30, 2006.

**Long-term debt activity during the fiscal year ended June 30, 2006**

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, 2006 was \$48.2 billion. Outstanding capital project debt at August 31, 2006 amounted to \$6.4 billion, for a remaining legal debt margin of \$41.8 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 indebtedness outstanding at June 30, 2006 was \$7.658 billion. Total debt service fund transfers paid from General Fund and Motor License Fund appropriations to make principal and interest payments to bondholders during the fiscal year ended June 30, 2006 amounted to \$713 million and \$47 million, respectively. The table that follows shows total outstanding long-term indebtedness for general obligation bonds at the end of the eight most recent fiscal years (expressed in billions).

<u>At June 30</u>	<u>Outstanding Bond Indebtedness</u>
1999	\$ 5.254
2000	5.367
2001	5.545
2002	6.072
2003	7.031
2004	7.225
2005	7.151
2006	7.658

Note K to the financial statements provides more specific details on long-term debt balances and activity during the fiscal year ended June 30, 2006.

**Debt administration – fiscal year ending June 30, 2007**

During the fiscal year ending June 30, 2007, the Office of the Budget currently plans general obligation bond issuances, excluding refundings, amounting to \$1,125 million, an increase of \$161 million as compared to actual bond issuances of \$964 million, excluding refundings, during the fiscal year ended June 30, 2006. This plan reflects the need to make additional investments in the Commonwealth’s capital infrastructure, local capital projects and mass transportation. Additionally, a significant portion of the projected increase in issuances for the 2007 fiscal year is attributable to two major environmental programs which would target capital improvements to water supply and sewage treatment facilities associated with economic development, as well as, general environmental capital improvement projects. Debt principal retirements of \$521.8 million are currently planned for the fiscal year ending June 30, 2007.

The Commonwealth continues to evaluate refunding opportunities for its outstanding bonds to reduce interest costs. During the fiscal year ended June 30, 2006, no outstanding bonds were refunded. On December 21, 2006, the Commonwealth closed on a refunding issue that will refund \$239 million of outstanding bonds and produce \$14 million of interest savings over the remaining life of those bonds. As market conditions provide additional opportunities, the Commonwealth may pursue additional refundings.



In addition to general obligation bonds, the Commonwealth may issue tax anticipation notes to meet operating cash needs during certain months of the fiscal year. Tax anticipation notes may be issued only for the General Fund and the Motor License Fund. They may not exceed 20% of the funds' estimated revenues for the year and must mature during the fiscal year in which they were issued. Cash shortages may occur during the fiscal year because tax receipts, unlike cash disbursements, are concentrated in the last four months of the fiscal year. The Commonwealth has not issued tax anticipation notes during the past nine fiscal years and has no plans to issue any during the 2007 fiscal year. There were no changes in credit ratings, and there were no debt limitations, restrictions or commitments during the fiscal year ended June 30, 2006 that may affect the Commonwealth's plans during the fiscal year ending June 30, 2007.

### **Legislative changes during fiscal year 2006-2007**

During the fiscal year that began July 1, 2006, the legislature approved several new laws which are expected to change the Commonwealth's financial position in the future.

Act 29, signed April 24, 2006, enacts the Persian Gulf Conflict Veterans' Compensation and Bond Act. Individuals serving in the Persian Gulf Conflict Theater between August 2, 1990 and August 31, 1991 and legal residents of Pennsylvania at the time, will be eligible for monetary compensation for their service. Compensation for deceased veterans and prisoners of war will also be provided. The Department of Military and Veterans Affairs would administer the program. The act also provided for a ballot question for the electorate to vote at the next general election, following enactment on the incurring of up to \$20 million in indebtedness for this program. Voters approved this bond issue on November 7, 2006. Assuming the issuance of \$20 million in bonds with a 20-year maturity date and an average interest rate of 4.6%, the total debt service is estimated at \$29.660 million. Administrative costs incurred by the Department of Military and Veterans Affairs would be covered by funds in the Persian Gulf Conflict Veterans' Compensation Bond Fund.

Act 114, signed July 11, 2006, enacts various changes to the Public School Code to implement the 2006-2007 budget (Act 2A). These amendments include updates to the basic education and special education funding formula; increasing the funding allocated to early middle college programs and for other dual enrollment programs for low income students; providing statutory changes that allow for additional funding to be directed to the Philadelphia and Pittsburgh School districts; and requiring institutions of higher education to begin working towards universal credit equivalencies and full articulation agreements. The subsidy and funding formulas included in the bill will drive out approximately \$4.8 billion in basic education subsidy, over \$900 million in special education subsidy, and \$250 million in the accountability block grant. Finally, the provisions of the bill that increase the Education Improvement Tax Credit by \$10 million from \$44 million to \$54 million in available credits will cause an additional revenue loss to the General Fund of up to \$10 million.

Act 116, signed July 12, 2006, amends the Tax Reform Code to make various changes agreed to in the 2006-07 budget negotiations. These changes include: expanding the net operating loss carry forward to \$3 million; increasing the research and development tax credit; and creating sales and use tax exemptions for the manufacture of environmentally 'clean' rooms. The total revenue loss expected from these changes is estimated at \$45.1 million for 2006-07.

### **General Fund fiscal year 2006-2007 budget**

The adopted General Fund budget for the fiscal year ending June 30, 2007 provides appropriations totaling \$26.1 billion of Commonwealth (excluding Federal) funds with estimated revenues, net of tax refunds and proposed tax reductions of \$25.6 billion. The \$0.5 billion difference between estimated revenues and budgeted appropriations will be financed using the anticipated \$0.5 billion beginning fund balance. Additionally, the enacted fiscal year 2007 budget allocates additional state funds to replace significant amounts of formerly available intergovernmental transfer transaction-derived federal funds. The fiscal year 2007 revenue estimate for the Commonwealth is based upon an economic forecast of 3.0 percent growth in gross domestic product from the start of the third quarter of 2006 to the end of the second quarter of 2007. Personal income growth in Pennsylvania is projected to remain slightly below that of the United States, while the Pennsylvania unemployment rate is anticipated to be close to the national rate. General Fund tax receipts are expected to increase by \$804.7 million or approximately 3.2 percent prior to refunds. Fiscal year 2007 General Fund receipts from the personal income tax are forecasted to increase by 4.6 percent, while receipts from the sales and use tax are estimated to rise 3.3 percent over fiscal year 2006 receipts. Corporate receipts are expected to grow in fiscal year 2007, at a rate of 6.4 percent, and revenues from non-tax sources such as liquor store profits and earnings on investments forecast to increase by 29.0 percent. A majority of the projected increase in non-tax revenues is attributable to additional profit transfers from the State Stores Fund.

The General Fund's fiscal year 2007 enacted budget includes significant increases in funding for local school districts and higher education within the Commonwealth, as the Basic Education appropriation is increased \$267 million or 5.9 percent, the largest increase since fiscal year 1992. Additionally, the Commonwealth's contribution to the Public School Employees' Retirement System is increased \$114 million in fiscal year 2007, and the Pennsylvania Accountability Block Grant to local school districts is increased by \$50 million to \$250 million annually. The enacted budget also includes a new children's health insurance program called "Cover All Kids", which is intended to gradually expand available health insurance to all Pennsylvania children not currently covered by insurance. The Commonwealth's prescription drug coverage program is expanded to cover an additional 120,000 seniors within the next 18 months by building upon the Federal Medicare Part D program. The enacted fiscal year 2007 budget also includes initiatives to increase the efficiency of government operations within the Commonwealth and includes estimates to save over \$1.0 billion annually during fiscal year 2007. The enacted budget for fiscal year 2007 also includes \$884.7 million in funding for various medical assistance expenditures through intergovernmental transfer proceeds, certain nursing home assessments and a tax on managed care organizations. This amount is an increase of 3.3 percent from the \$856.8 million in such proceeds utilized during fiscal year 2006.

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

# Basic Financial Statements



*Raystown Lake*  
*Huntingdon County*

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# Government-Wide Financial Statements



*Raccoon Creek State Park, Frankfort Springs  
Beaver County*

**STATEMENT OF NET ASSETS**

*June 30, 2006*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Current assets:				
Cash—Note D.....	\$ 85,976	\$ 25,437	\$ 111,413	\$ 828,856
Cash with fiscal agents—Note D.....	-	1,550,112	1,550,112	-
Temporary investments—Note D.....	9,726,950	2,168,260	11,895,210	2,432,862
Receivables (net):				
Taxes—Note G.....	2,259,632	-	2,259,632	-
Unemployment assessments.....	-	554,687	554,687	-
Accounts.....	623,701	222,461	846,162	159,689
Accrued interest.....	13,828	17,505	31,333	198,991
Loans—Note G.....	8,778	46,236	55,014	1,714,508
Lease rentals—Note G.....	862	-	862	4,186
Investment sale proceeds.....	13,481	-	13,481	-
Other.....	25,226	123	25,349	19,852
Due from pension trust funds—Note H.....	986	19	1,005	-
Due from primary government—Note H.....	-	-	-	7,268
Due from component units—Note H.....	16,470	369	16,839	90
Due from Federal government.....	1,915,379	4,908	1,920,287	68,546
Due from political subdivisions.....	5,946	14,521	20,467	-
Due from other governments.....	215	14,524	14,739	474
Inventory.....	98,518	215,292	313,810	32,639
Prepaid and deferred expenses.....	-	4	4	31,883
Other assets.....	3,088	18,317	21,405	113,931
Total current assets.....	<u>14,799,036</u>	<u>4,852,775</u>	<u>19,651,811</u>	<u>5,613,775</u>
Noncurrent assets:				
Long-term investments—Note D.....	1,251,342	2,497,165	3,748,507	1,560,655
Receivables (net):				
Taxes—Note G.....	1,209,686	-	1,209,686	-
Accrued interest.....	-	-	-	14,958
Loans—Note G.....	34,859	213,553	248,412	13,063,411
Lease rentals—Note G.....	-	-	-	14,075
Non-depreciable capital assets—Note E:				
Land.....	1,790,777	323	1,791,100	193,656
Construction in progress.....	2,183,923	3,522	2,187,445	1,081,619
Depreciable capital assets—Note E:				
Land improvements.....	469,361	-	469,361	222,136
Buildings and building improvements.....	5,271,427	40,014	5,311,441	2,108,334
Machinery and equipment.....	787,613	112,010	899,623	631,404
Turnpike infrastructure.....	-	-	-	4,129,467
Highway infrastructure.....	16,965,413	-	16,965,413	-
Bridge infrastructure.....	7,013,354	-	7,013,354	-
Waterway infrastructure.....	52	-	52	-
Infrastructure-other.....	6,991	-	6,991	-
Library books.....	-	-	-	78,526
Other capital assets.....	-	-	-	57,400
Less: accumulated depreciation.....	(11,719,271)	(73,173)	(11,792,444)	(3,969,951)
Net depreciable capital assets.....	<u>18,794,940</u>	<u>78,851</u>	<u>18,873,791</u>	<u>3,257,316</u>
Other assets.....	-	-	-	338,905
Total non-current assets.....	<u>25,265,527</u>	<u>2,793,414</u>	<u>28,058,941</u>	<u>19,524,595</u>
<b>TOTAL ASSETS.....</b>	<b>\$ 40,064,563</b>	<b>\$ 7,646,189</b>	<b>\$ 47,710,752</b>	<b>\$ 25,138,370</b>

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

**STATEMENT OF NET ASSETS**

*June 30, 2006*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities.....	\$ 4,069,493	\$ 468,822	\$ 4,538,315	\$ 478,525
Investment purchases payable.....	18,172	-	18,172	-
Tax refunds payable.....	612,373	-	612,373	-
Tuition benefits payable—Note F.....	-	129,305	129,305	-
Securities lending obligations.....	1,229,609	911,000	2,140,609	50,529
Internal balances—Note H.....	(89,550)	88,337	(1,213)	-
Due to pension trust funds—Note H.....	8,069	174	8,243	-
Due to primary government—Note H.....	-	-	-	10
Due to component units—Note H.....	13,836	-	13,836	21
Due to political subdivisions.....	1,148,424	910	1,149,334	-
Due to other governments.....	30,871	7,935	38,806	1
Interest payable.....	138,933	-	138,933	123,386
Unearned revenue.....	82,729	183,732	266,461	74,930
Notes payable—Note J.....	-	-	-	159,387
General obligation bonds payable—Note K.....	525,905	-	525,905	-
Bonds payable—Note K.....	-	-	-	27,720
Revenue bonds payable—Note K.....	-	-	-	278,788
Capital lease/installment purchase obligations—Note K.....	-	-	-	53,800
Self insurance liabilities—Note M.....	147,750	4,364	152,114	-
Compensated absence liability—Note K.....	105,586	4,697	110,283	30,259
Other financing obligations.....	6,500	-	6,500	-
Other liabilities.....	83,116	35,442	118,558	274,642
Total current liabilities.....	<u>8,131,816</u>	<u>1,834,718</u>	<u>9,966,534</u>	<u>1,551,998</u>
Noncurrent liabilities:				
Tuition benefits payable—Note F.....	-	949,175	949,175	-
Unearned revenue.....	-	-	-	4,607
Demand revenue bonds payable—Note J.....	-	-	-	7,763,376
Insurance loss liability—Note F.....	-	1,426,787	1,426,787	-
Notes payable—Note J.....	-	-	-	1,290,303
General obligation bonds payable—Note K.....	7,131,769	-	7,131,769	-
Bonds payable—Note K.....	-	-	-	501,935
Revenue bonds payable—Note K.....	-	-	-	6,822,045
Capital lease/installment purchase obligations—Note K.....	42,059	28,259	70,318	137,117
Other financing obligations—Note J.....	76,000	-	76,000	-
Compensated absence liability—Note K.....	625,186	30,248	655,434	92,655
Self insurance liabilities—Note M.....	588,622	17,001	605,623	-
Other liabilities—Note K.....	877,149	3,962	881,111	956,874
Total non-current liabilities.....	<u>9,340,785</u>	<u>2,455,432</u>	<u>11,796,217</u>	<u>17,568,912</u>
<b>TOTAL LIABILITIES.....</b>	<u>17,472,601</u>	<u>4,290,150</u>	<u>21,762,751</u>	<u>19,120,910</u>
<b>NET ASSETS—Note C</b>				
Invested in capital assets, net of related debt.....	19,068,573	82,694	19,151,267	1,169,907
Restricted for:				
Smoking cessation and other health-related programs.....	1,320,703	4,814	1,325,517	-
Transportation.....	1,578,753	52,960	1,631,713	-
Capital projects.....	196,301	-	196,301	2,158,792
Debt service.....	8,118	-	8,118	1,025,377
Unemployment/worker's compensation.....	29,754	2,397,720	2,427,474	-
Elderly programs.....	32,327	325,925	358,252	-
Environmental and conservation programs.....	435,976	-	435,976	-
Economic stimulus.....	18,171	212,792	230,963	-
Gaming licensing/regulation.....	2,128	-	2,128	-
Administrative and internal services.....	133,934	-	133,934	-
Emergency support.....	56,543	126,505	183,048	-
Other purposes.....	82,770	152,629	235,399	1,416,924
Unrestricted (deficit).....	(372,089)	-	(372,089)	246,460
<b>TOTAL NET ASSETS.....</b>	<u>\$ 22,591,962</u>	<u>\$ 3,356,039</u>	<u>\$ 25,948,001</u>	<u>\$ 6,017,460</u>

## STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2006

COMMONWEALTH OF PENNSYLVANIA  
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Sales and Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
<b>Primary government:</b>								
<b>Governmental activities:</b>								
Direction and supportive services.....	\$ 2,162,552	\$ 991,541	\$ -	\$ -	\$ (1,171,011)	\$ -	\$ (1,171,011)	\$ -
Protection of persons and property.....	4,439,794	1,080,708	826,764	21,914	(2,510,408)	-	(2,510,408)	-
Public education.....	11,816,608	13,161	1,689,068	-	(10,114,379)	-	(10,114,379)	-
Health and human services.....	24,139,762	1,913,377	11,902,229	-	(10,324,156)	-	(10,324,156)	-
Economic development.....	1,409,506	16,373	550,483	-	(842,650)	-	(842,650)	-
Transportation.....	3,229,351	949,533	1,515,103	31,840	(732,875)	-	(732,875)	-
Recreation and cultural enrichment.....	520,330	166,750	49,277	2,007	(302,296)	-	(302,296)	-
Interest.....	337,142	-	-	-	(337,142)	-	(337,142)	-
<b>Total governmental activities.....</b>	<b>48,055,045</b>	<b>5,131,443</b>	<b>16,532,924</b>	<b>55,761</b>	<b>(26,334,917)</b>	<b>-</b>	<b>(26,334,917)</b>	<b>-</b>
<b>Business-type activities:</b>								
State lottery.....	2,704,265	3,047,978	102,567	-	-	446,280	446,280	-
State workers' insurance.....	412,104	427,970	66,759	-	-	82,625	82,625	-
Tuition payment.....	138,275	113,831	74,030	-	-	49,586	49,586	-
Unemployment compensation.....	1,998,613	2,373,163	135,375	-	-	509,925	509,925	-
Liquor control.....	1,178,434	1,272,101	8,465	-	-	102,132	102,132	-
Economic development and other.....	18,433	17,585	27,691	-	-	26,843	26,843	-
<b>Total business-type activities.....</b>	<b>6,450,124</b>	<b>7,252,628</b>	<b>414,887</b>	<b>-</b>	<b>-</b>	<b>1,217,391</b>	<b>1,217,391</b>	<b>-</b>
Total primary government.....	\$ 54,505,169	\$ 12,384,071	\$ 16,947,811	\$ 55,761	(26,334,917)	1,217,391	(25,117,526)	-
<b>Component units:</b>								
Total component units.....	\$ 4,222,319	\$ 2,164,090	\$ 2,112,274	\$ 166,738	-	-	-	220,783
<b>General revenues:</b>								
<b>Taxes:</b>								
Personal income.....					9,093,338	-	9,093,338	-
Sales and use.....					8,381,262	-	8,381,262	-
Corporation.....					5,074,730	-	5,074,730	-
Liquid fuels and motor carriers.....					2,033,227	-	2,033,227	55,749
Inheritance.....					793,279	-	793,279	-
Cigarette.....					1,033,099	-	1,033,099	-
Real estate.....					646,870	-	646,870	-
Other.....					418,110	-	418,110	-
Total taxes.....					27,473,915	-	27,473,915	55,749
Investment income.....					188,750	-	188,750	-
Other.....					-	-	-	1,812
Total general revenues.....					27,662,665	-	27,662,665	57,561
Transfers—Note H.....					465,000	(465,000)	-	-
Net general revenues and transfers.....					28,127,665	(465,000)	27,662,665	57,561
Change in net assets.....					1,792,748	752,391	2,545,139	278,344
<b>Net assets, July 1, 2005 (restated)—Note B.....</b>					<b>20,799,214</b>	<b>2,603,648</b>	<b>23,402,862</b>	<b>5,739,116</b>
<b>Net assets, June 30, 2006—Note C.....</b>	<b>\$ 22,591,962</b>	<b>\$ 3,356,039</b>	<b>\$ 25,948,001</b>	<b>\$ 6,017,460</b>				

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



# Fund Financial Statements



*Autumn Scene  
Cumberland and Perry Counties*

**BALANCE SHEET**  
**Governmental Funds**

June 30, 2006

COMMONWEALTH OF PENNSYLVANIA  
(Expressed in Thousands)

	General Fund	Motor License Fund	Tobacco Settlement Fund	Nonmajor Funds	Total
<b>ASSETS</b>					
<b>Assets:</b>					
Cash—Note D.....	\$ 60,079	\$ 4,111	\$ -	\$ 16,784	\$ 80,974
Temporary investments—Note D.....	5,132,128	1,880,161	603,596	2,035,264	9,651,149
Long-term investments—Note D.....	-	-	786,454	464,888	1,251,342
Receivables, net:					
Taxes—Note G.....	3,260,946	182,981	-	25,391	3,469,318
Accounts.....	145,569	13,475	215,567	44,179	418,790
Accrued interest.....	1,381	47	4,875	7,524	13,827
Loans—Note G.....	10,953	-	-	32,684	43,637
Lease rentals—Note G.....	-	-	-	862	862
Investment sale proceeds.....	-	-	7,827	5,654	13,481
Other.....	-	6,168	-	19,058	25,226
Due from other funds—Note H.....	47,228	6,857	-	82,578	136,663
Due from pension trust funds—Note H.....	392	586	-	-	978
Due from component units—Note H.....	490	-	-	15,473	15,963
Due from Federal government.....	1,618,120	202,353	66,456	15,787	1,902,716
Due from political subdivisions.....	5,805	-	-	91	5,896
Advances to other funds—Note H.....	114,108	-	-	3,000	117,108
Other assets.....	3,000	-	-	-	3,000
<b>TOTAL ASSETS.....</b>	<b>\$ 10,400,199</b>	<b>\$ 2,296,739</b>	<b>\$ 1,684,775</b>	<b>\$ 2,769,217</b>	<b>\$ 17,150,930</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities.....	\$ 3,175,176	\$ 433,022	\$ 131,876	\$ 310,881	\$ 4,050,955
Investment purchases payable.....	-	-	8,690	9,482	18,172
Tax refunds payable.....	611,431	942	-	-	612,373
Securities lending obligations.....	568,696	212,948	183,911	255,375	1,220,930
Due to other funds—Note H.....	66,600	17,863	36,145	33,675	154,283
Due to component units—Note H.....	2,454	11,382	-	-	13,836
Due to pension trust funds.....	4,946	2,956	-	146	8,048
Due to political subdivisions.....	1,009,867	41,879	13,304	83,374	1,148,424
Due to other governments.....	10,859	19,626	1	345	30,831
Unearned revenue.....	1,897,231	4,868	215,567	29,632	2,147,298
Advances from other funds—Note H.....	82,500	2,175	-	10,333	95,008
Other liabilities.....	890	-	-	-	890
<b>TOTAL LIABILITIES.....</b>	<b>7,430,650</b>	<b>747,661</b>	<b>589,494</b>	<b>733,243</b>	<b>9,501,048</b>
<b>Fund balances:</b>					
Reserved for:					
Encumbrances.....	709,115	464,511	1,457	1,164,414	2,339,497
Advances—Note C.....	114,108	-	-	3,000	117,108
Loans receivable.....	10,953	-	-	32,684	43,637
Budget Stabilization fund.....	171,362	-	-	-	171,362
Other—Note C.....	454,639	1,635	780,579	75,039	1,311,892
Unreserved:					
Designated for:					
Capital projects.....	-	-	-	131,026	131,026
Debt service:					
Retirement of general obligation bonds.....	-	-	-	8,118	8,118
Highways.....	-	203,118	-	-	203,118
Other—Note C.....	719,414	-	-	4,528	723,942
Undesignated (deficit)-reported in:					
General Fund.....	789,958	-	-	-	789,958
Special Revenue Funds.....	-	879,814	313,245	1,218,988	2,412,047
Debt Service Funds.....	-	-	-	-	-
Capital Projects Funds.....	-	-	-	(601,823)	(601,823)
<b>TOTAL FUND BALANCES.....</b>	<b>2,969,549</b>	<b>1,549,078</b>	<b>1,095,281</b>	<b>2,035,974</b>	<b>7,649,882</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 10,400,199</b>	<b>\$ 2,296,739</b>	<b>\$ 1,684,775</b>	<b>\$ 2,769,217</b>	<b>\$ 17,150,930</b>

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

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

*June 30, 2006*

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

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

**Total Fund Balances--Governmental Funds.....** \$ 7,649,882

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

Land.....	\$ 1,790,771	
Land improvements.....	469,044	
Buildings and building improvements.....	5,267,906	
Machinery and equipment.....	692,808	
Infrastructure.....	23,985,810	
Construction in progress.....	2,183,923	
Accumulated depreciation.....	<u>(11,659,841)</u>	
Net general capital assets.....		22,730,421

Certain revenues are earned but not available at fiscal year-end and therefore are reported as unearned revenues in the governmental funds balance sheet..... 2,064,577

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..... 212,173

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..... 108,711

The Statement of Net Assets includes inventories that are not reported in the governmental funds balance sheet because they are not current financial resources..... 87,998

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

Bonds payable.....	\$ (7,657,674)	
Accrued bond interest payable.....	(138,933)	
Capital lease and installment purchase obligations.....	(42,059)	
Compensated absence liability.....	(728,863)	
Self-insurance liabilities.....	(734,891)	
Other liabilities.....	(959,375)	
Accounts payable.....	<u>(5)</u>	
		<u>(10,261,800)</u>

**Total Net Assets--Governmental Activities.....** \$ 22,591,962

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

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

**Governmental Funds**

*For the Fiscal Year Ended June 30, 2006*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	<u>General Fund</u>	<u>Motor License Fund</u>	<u>Tobacco Settlement Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<b>REVENUES:</b>					
Taxes, net of refunds.....	\$ 24,783,040	\$ 2,033,227	\$ -	\$ 301,556	\$ 27,117,823
Licenses and fees.....	294,728	899,690	-	417,450	1,611,868
Intergovernmental.....	14,662,940	1,413,434	125,227	146,374	16,347,975
Charges for sales and services.....	2,750,226	98,403	-	121,956	2,970,585
Investment income.....	141,656	83,511	94,044	106,145	425,356
Lease rental principal and interest.....	-	-	-	183	183
Interest on notes and loans.....	14	-	-	-	14
Other.....	78,905	3,697	473,210	20,171	575,983
<b>TOTAL REVENUES</b> .....	<u>42,711,509</u>	<u>4,531,962</u>	<u>692,481</u>	<u>1,113,835</u>	<u>49,049,787</u>
<b>EXPENDITURES:</b>					
Current:					
Direction and supportive services.....	2,062,113	51,738	-	223,261	2,337,112
Protection of persons and property.....	3,278,962	553,679	133,569	444,759	4,410,969
Health and human services.....	23,135,166	-	383,846	584,065	24,103,077
Public education.....	11,666,929	1,024	-	63,931	11,731,884
Recreation and cultural enrichment.....	297,854	-	-	149,410	447,264
Economic development.....	956,411	-	187	457,397	1,413,995
Transportation.....	443,270	1,679,517	-	325,378	2,448,165
Capital outlay.....	27,758	1,924,821	-	130,065	2,082,644
Debt service:					
Principal retirement.....	-	-	-	492,355	492,355
Interest and fiscal charges.....	5,064	-	-	343,354	348,418
<b>TOTAL EXPENDITURES</b> .....	<u>41,873,527</u>	<u>4,210,779</u>	<u>517,602</u>	<u>3,213,975</u>	<u>49,815,883</u>
<b>REVENUES OVER (UNDER)</b>					
<b>EXPENDITURES</b> .....	<u>837,982</u>	<u>321,183</u>	<u>174,879</u>	<u>(2,100,140)</u>	<u>(766,096)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Bonds issued.....	-	-	-	914,000	914,000
Premium on bonds/refunding bonds issued.....	-	-	-	54,420	54,420
Transfers in—Note H.....	88,930	-	-	1,319,421	1,408,351
Transfers out—Note H.....	(827,040)	(48,630)	(29,301)	(38,380)	(943,351)
Capital lease and installment purchase obligations.....	568	-	-	-	568
<b>NET OTHER FINANCING SOURCES (USES)</b> .....	<u>(737,542)</u>	<u>(48,630)</u>	<u>(29,301)</u>	<u>2,249,461</u>	<u>1,433,988</u>
<b>NET CHANGE IN FUND BALANCES</b> .....	100,440	272,553	145,578	149,321	667,892
<b>FUND BALANCES, JULY 1, 2005</b> .....	<u>2,869,109</u>	<u>1,276,525</u>	<u>949,703</u>	<u>1,886,653</u>	<u>6,981,990</u>
<b>FUND BALANCES, JUNE 30, 2006</b> .....	<u>\$ 2,969,549</u>	<u>\$ 1,549,078</u>	<u>\$ 1,095,281</u>	<u>\$ 2,035,974</u>	<u>\$ 7,649,882</u>

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

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

*For the Fiscal Year Ended June 30, 2006*

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

The governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances reports events and activities that affect, on a current financial resources basis, fund balance changes during the fiscal year. The governmental activities column on the government-wide Statement of Activities conveys information on an economic basis. In effect, the government-wide statement demonstrates all expenses and revenues related to the operation of the government for the fiscal year ended June 30, 2006. 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.....** \$ 667,892

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

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

Capital asset acquisitions (net).....	\$ 2,053,776	
Depreciation expense.....	(925,283)	
Capital lease, installment purchase and related payments.....	<u>568</u>	
Net excess of capital asset additions/installment purchase payments over depreciation expense.....		1,129,061

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:

Total bond proceeds, includes premium of \$54,420 ..... (968,420)

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:

Total long-term debt repayment..... 492,355

Internal service funds charge the costs of certain goods and services to individual funds. The net gain of the internal service funds is reported as part of governmental activities expenses..... 33,266

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..... 326,420

Certain expense adjustments are reported in the statement of activities because they are due and payable and are funded with future economic resources rather than current available financial resources..... 112,174

**Net change in governmental net assets in the statement of activities.....** \$ 1,792,748

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

STATEMENT OF NET ASSETS  
Proprietary Funds

June 30, 2006

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)	Enterprise Funds						
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2005)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	Internal Service Funds
<b>ASSETS</b>							
Current assets:							
Cash.....	\$ -	\$ 6,714	\$ 300	\$ 313	\$ 18,110	\$ 25,437	\$ 5,002
Cash with fiscal agents—Note D.....	1,550,112	-	-	-	-	1,550,112	-
Temporary investments—Note D.....	3,972	864,975	643,492	309,756	346,065	2,168,260	75,801
Receivables (net):							
Unemployment assessments.....	554,687	-	-	-	-	554,687	-
Accounts.....	80,350	126,153	12,443	-	3,515	222,461	5,401
Accrued interest.....	-	12,999	-	4,159	347	17,505	-
Loans—Note G.....	-	-	-	-	46,236	46,236	-
Other.....	-	-	13	-	110	123	-
Due from other funds—Note H.....	2,811	-	-	-	2,104	4,915	17,307
Due from pension trust funds.....	-	-	-	-	19	19	8
Due from component units—Note H.....	362	-	-	-	7	369	507
Due from Federal government.....	3,209	-	1,699	-	-	4,908	1
Due from political subdivisions.....	14,521	-	-	-	-	14,521	50
Due from other governments.....	14,524	-	-	-	-	14,524	215
Inventory.....	-	-	-	-	215,292	215,292	10,520
Prepaid expenses.....	-	-	-	-	4	4	-
Other assets.....	-	2,587	15,730	-	-	18,317	88
Total current assets.....	2,224,548	1,013,428	673,677	314,228	631,809	4,857,690	114,900
Noncurrent assets:							
Long-term investments.....	-	1,538,554	9,013	949,598	-	2,497,165	-
Receivables (net):							
Loans—Note G.....	-	-	-	-	213,553	213,553	-
Non-depreciable capital assets—Note E:							
Land.....	-	-	-	-	323	323	6
Construction in progress.....	-	-	-	-	3,522	3,522	-
Depreciable capital assets—Note E:							
Land improvements.....	-	-	-	-	-	-	317
Buildings and building improvements.....	-	-	-	-	40,014	40,014	3,521
Machinery and equipment.....	-	2,678	42,800	-	66,532	112,010	94,805
Less: accumulated depreciation.....	-	(1,095)	(11,029)	-	(61,049)	(73,173)	(59,430)
Net depreciable capital assets.....	-	1,583	31,771	-	45,497	78,851	39,213
Other assets.....	-	-	-	-	-	-	-
Total noncurrent assets.....	-	1,540,137	40,784	949,598	262,895	2,793,414	39,219
<b>TOTAL ASSETS.....</b>	<b>2,224,548</b>	<b>2,553,565</b>	<b>714,461</b>	<b>1,263,826</b>	<b>894,704</b>	<b>7,651,104</b>	<b>154,119</b>
<b>LIABILITIES</b>							
Current liabilities:							
Accounts payable and accrued liabilities.....	93,461	10,837	233,937	13,997	116,590	468,822	18,533
Tuition benefits payable—Note F.....	-	-	-	129,305	-	129,305	-
Securities lending obligations.....	455	629,246	76,465	165,484	39,350	911,000	8,679
Due to other funds—Note H.....	5	-	58	15	3,505	3,583	437
Due to pension trust funds.....	-	-	14	-	160	174	21
Due to political subdivisions.....	-	-	910	-	-	910	-
Due to other governments.....	7,156	-	102	-	677	7,935	40
Unearned revenue.....	-	166,605	14,158	-	2,969	183,732	8
Self insurance.....	-	335	213	-	3,816	4,364	303
Compensated absences.....	-	345	255	-	4,097	4,697	292
Advances from other funds.....	-	1,669	-	-	88,000	89,669	14,300
Other liabilities.....	-	35,442	-	-	-	35,442	-
Total current liabilities.....	101,077	844,479	326,112	308,801	259,164	1,839,633	42,613
Noncurrent liabilities:							
Tuition benefits payable—Note F.....	-	-	-	949,175	-	949,175	-
Insurance loss liability—Note F.....	-	1,426,177	-	-	610	1,426,787	-
Capital lease.....	-	-	28,259	-	-	28,259	-
Compensated absences.....	-	1,810	1,564	76	26,798	30,248	1,617
Self insurance.....	-	1,305	830	-	14,866	17,001	1,178
Other liabilities.....	-	3,962	-	-	-	3,962	-
Total noncurrent liabilities.....	-	1,433,254	30,653	949,251	42,274	2,455,432	2,795
<b>TOTAL LIABILITIES.....</b>	<b>101,077</b>	<b>2,277,733</b>	<b>356,765</b>	<b>1,258,052</b>	<b>301,438</b>	<b>4,295,065</b>	<b>45,408</b>
<b>NET ASSETS</b>							
Invested in capital assets, net of related debt.....	-	1,583	31,771	-	49,340	82,694	39,219
Restricted for:							
Smoking cessation and other health-related programs.....	-	-	-	-	4,814	4,814	-
Transportation.....	-	-	-	-	52,960	52,960	-
Unemployment/workers' compensation.....	2,123,471	274,249	-	-	-	2,397,720	-
Elderly programs.....	-	-	325,925	-	-	325,925	-
Economic stimulus.....	-	-	-	-	212,792	212,792	-
Administrative and internal services.....	-	-	-	-	-	-	69,492
Emergency support.....	-	-	-	-	126,505	126,505	-
Other purposes—Note C.....	-	-	-	5,774	146,855	152,629	-
Unrestricted (deficit).....	-	-	-	-	-	-	-
<b>TOTAL NET ASSETS.....</b>	<b>\$ 2,123,471</b>	<b>\$ 275,832</b>	<b>\$ 357,696</b>	<b>\$ 5,774</b>	<b>\$ 593,266</b>	<b>\$ 3,356,039</b>	<b>\$ 108,711</b>

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

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**

**Proprietary Funds**

*For the Fiscal Year Ended June 30, 2006*

COMMONWEALTH OF PENNSYLVANIA  
(Expressed in Thousands)

**Enterprise Funds**

	<b>Unemployment Compensation Fund</b>	<b>State Workers' Insurance Fund (Dec. 31, 2005)</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.....	\$ 2,372,303	\$ 427,532	\$ 3,046,854	\$ 113,831	\$ 1,278,713	\$ 7,239,233	\$ 97,264
Investment income.....	-	-	-	74,030	-	74,030	-
Interest on loans.....	-	-	-	-	8,325	8,325	-
Other.....	86,203	438	76,900	-	2,636	166,177	422
<b>OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTIBLE ACCOUNTS.....</b>	<b>2,458,506</b>	<b>427,970</b>	<b>3,123,754</b>	<b>187,861</b>	<b>1,289,674</b>	<b>7,487,765</b>	<b>97,686</b>
Provision for uncollectible accounts.....	-	(16,806)	-	-	(4,235)	(21,041)	-
<b>NET OPERATING REVENUES.....</b>	<b>2,458,506</b>	<b>411,164</b>	<b>3,123,754</b>	<b>187,861</b>	<b>1,285,439</b>	<b>7,466,724</b>	<b>97,686</b>
<b>OPERATING EXPENSES:</b>							
Cost of sales and services.....	1,998,613	391,028	2,617,836	138,275	1,187,439	6,333,191	60,759
Interest expense.....	-	4,270	-	-	-	4,270	-
Depreciation.....	-	-	10,663	-	5,174	15,837	6,511
Other.....	-	-	75,766	-	-	75,766	-
<b>TOTAL OPERATING EXPENSES .....</b>	<b>1,998,613</b>	<b>395,298</b>	<b>2,704,265</b>	<b>138,275</b>	<b>1,192,613</b>	<b>6,429,064</b>	<b>67,270</b>
<b>OPERATING INCOME.....</b>	<b>459,893</b>	<b>15,866</b>	<b>419,489</b>	<b>49,586</b>	<b>92,826</b>	<b>1,037,660</b>	<b>30,416</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>							
Investment income.....	50,032	66,759	25,360	-	21,156	163,307	3,532
Other revenues.....	-	-	1,431	-	12	1,443	1
Other expenses.....	-	-	-	-	(19)	(19)	(683)
<b>NONOPERATING REVENUES, NET.....</b>	<b>50,032</b>	<b>66,759</b>	<b>26,791</b>	<b>-</b>	<b>21,149</b>	<b>164,731</b>	<b>2,850</b>
<b>INCOME BEFORE CONTRIBUTIONS AND TRANSFERS.....</b>	<b>509,925</b>	<b>82,625</b>	<b>446,280</b>	<b>49,586</b>	<b>113,975</b>	<b>1,202,391</b>	<b>33,266</b>
<b>CONTRIBUTIONS AND TRANSFERS:</b>							
Capital contributions.....	-	-	-	-	15,000	15,000	-
Transfers out—Note H.....	(3,000)	-	(380,000)	-	(82,000)	(465,000)	-
<b>TOTAL CONTRIBUTIONS AND TRANSFERS.....</b>	<b>(3,000)</b>	<b>-</b>	<b>(380,000)</b>	<b>-</b>	<b>(67,000)</b>	<b>(450,000)</b>	<b>-</b>
<b>INCREASE IN NET ASSETS.....</b>	<b>506,925</b>	<b>82,625</b>	<b>66,280</b>	<b>49,586</b>	<b>46,975</b>	<b>752,391</b>	<b>33,266</b>
<b>TOTAL NET ASSETS, JULY 1, 2005.....</b>	<b>1,616,546</b>	<b>193,207</b>	<b>291,416</b>	<b>(43,812)</b>	<b>546,291</b>	<b>2,603,648</b>	<b>75,445</b>
<b>TOTAL NET ASSETS, JUNE 30, 2006.....</b>	<b>\$ 2,123,471</b>	<b>\$ 275,832</b>	<b>\$ 357,696</b>	<b>\$ 5,774</b>	<b>\$ 593,266</b>	<b>\$ 3,356,039</b>	<b>\$ 108,711</b>

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

**STATEMENT OF CASH FLOWS**  
**Proprietary Funds**

*For the Fiscal Year Ended June 30, 2006*

COMMONWEALTH OF PENNSYLVANIA  
 (Expressed in Thousands)

	Enterprise Funds						Internal Service Funds
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2005)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>							
Receipts from employers.....	\$ 2,340,188	\$ 395,198	\$ -	\$ -	\$ -	\$ 2,735,386	\$ -
Receipts from customers.....	-	-	3,045,383	113,085	1,275,610	4,434,078	85,769
Receipts from borrowers.....	-	-	-	-	(1,473)	(1,473)	-
Receipt of premiums.....	-	-	-	-	6,171	6,171	-
Payments to programs for the elderly.....	-	-	(486,083)	-	-	(486,083)	-
Payments to prize winners.....	-	-	(1,486,225)	-	-	(1,486,225)	-
Payments to participants.....	-	-	-	(82,587)	-	(82,587)	-
Payments to claimants.....	(1,994,541)	(266,831)	-	-	(2,526)	(2,263,898)	-
Payments to borrowers.....	-	-	-	-	(1,209)	(1,209)	-
Payments for vendors, employees and other costs.....	-	(70,961)	(600,467)	(1,097)	(1,195,552)	(1,868,077)	(65,994)
Other receipts.....	86,203	438	2,565	-	2,583	91,789	422
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES.....</b>	<b>431,850</b>	<b>57,844</b>	<b>475,173</b>	<b>29,401</b>	<b>83,604</b>	<b>1,077,872</b>	<b>20,197</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>							
Net borrowings under advances from other funds.....	-	(146)	-	-	-	(146)	-
Transfers out.....	(3,000)	-	(380,000)	-	(82,000)	(465,000)	-
Capital contributions.....	-	-	-	-	15,000	15,000	-
<b>NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES.....</b>	<b>(3,000)</b>	<b>(146)</b>	<b>(380,000)</b>	<b>-</b>	<b>(67,000)</b>	<b>(450,146)</b>	<b>-</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>							
Acquisition and construction of capital assets.....	-	-	-	-	(6,426)	(6,426)	(5,560)
Disposition of capital assets.....	-	-	-	-	19	19	683
Capital lease payments.....	-	-	(12,157)	-	-	(12,157)	-
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>-</b>	<b>-</b>	<b>(12,157)</b>	<b>-</b>	<b>(6,407)</b>	<b>(18,564)</b>	<b>(4,877)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>							
Purchase of investments.....	(5,649)	(1,439,950)	(1,270,425)	(2,085,817)	(851,754)	(5,653,595)	(302,220)
Sales and maturities of investments.....	7,602	1,267,248	1,173,005	2,083,630	836,183	5,367,668	284,613
Investment income.....	50,078	63,149	29,275	30,066	21,487	194,055	3,904
Change in securities lending obligations.....	(499)	31,618	(14,901)	(57,484)	(14,720)	(55,986)	(671)
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....</b>	<b>51,532</b>	<b>(77,935)</b>	<b>(83,046)</b>	<b>(29,605)</b>	<b>(8,804)</b>	<b>(147,858)</b>	<b>(14,374)</b>
<b>NET INCREASE (DECREASE) IN CASH.....</b>	<b>480,382</b>	<b>(20,237)</b>	<b>(30)</b>	<b>(204)</b>	<b>1,393</b>	<b>461,304</b>	<b>946</b>
<b>CASH AT JULY 1, 2005.....</b>	<b>1,069,730</b>	<b>26,951</b>	<b>330</b>	<b>517</b>	<b>16,717</b>	<b>1,114,245</b>	<b>4,056</b>
<b>CASH AT JUNE 30, 2006.....</b>	<b>\$ 1,550,112</b>	<b>\$ 6,714</b>	<b>\$ 300</b>	<b>\$ 313</b>	<b>\$ 18,110</b>	<b>\$ 1,575,549</b>	<b>\$ 5,002</b>



**STATEMENT OF CASH FLOWS**  
**Proprietary Funds**

*For the Fiscal Year Ended June 30, 2006*

COMMONWEALTH OF PENNSYLVANIA  
 (Expressed in Thousands)

**Enterprise Funds**

	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2005)	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.....	\$ 459,893	\$ 15,866	\$ 419,489	\$ 49,586	\$ 92,826	\$ 1,037,660	\$ 30,416
Depreciation and amortization.....	-	-	10,663	-	5,174	15,837	6,511
Provision for uncollectible accounts.....	-	16,806	-	-	4,235	21,041	-
Non-operating revenues (expenses).....	-	-	1,431	-	(7)	1,424	(682)
Reclassification of investment income.....	-	-	-	(74,030)	-	(74,030)	-
Changes in assets and liabilities:							
Accounts receivable.....	(4,175)	(100,436)	(980)	(746)	(9,823)	(116,160)	(4,892)
Unemployment compensation assessments receivable.....	(22,531)	-	-	-	-	(22,531)	-
Inventory.....	-	-	-	-	(27,438)	(27,438)	293
Due from other funds.....	96	-	-	-	1,551	1,647	(6,746)
Due from component units.....	(62)	-	-	-	16	(46)	(19)
Due from other governments.....	2,737	-	(491)	-	-	2,246	(150)
Due from political subdivisions.....	(8,180)	-	-	-	-	(8,180)	1
Other current assets.....	-	(656)	(1,910)	-	1,044	(1,522)	17
Accounts payable and accrued liabilities.....	3,875	6,240	30,964	4,578	12,510	58,167	(4,698)
Tuition benefits payable.....	-	-	-	50,020	-	50,020	-
Due to other funds.....	(2,247)	-	3	(28)	414	(1,858)	(17)
Due to political subdivisions.....	-	-	910	-	-	910	-
Due to other governments.....	2,444	-	67	-	(57)	2,454	(4)
Unearned revenue.....	-	68,758	12,165	-	436	81,359	-
Insurance loss liability.....	-	52,367	-	-	(96)	52,271	-
Other liabilities.....	-	(1,101)	2,862	21	2,819	4,601	167
<b>Total Adjustments.....</b>	<b>(28,043)</b>	<b>41,978</b>	<b>55,684</b>	<b>(20,185)</b>	<b>(9,222)</b>	<b>40,212</b>	<b>(10,219)</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES.....</b>	<b>\$ 431,850</b>	<b>\$ 57,844</b>	<b>\$ 475,173</b>	<b>\$ 29,401</b>	<b>\$ 83,604</b>	<b>\$ 1,077,872</b>	<b>\$ 20,197</b>
Increase (decrease) in fair value of investments during the fiscal year.....	\$ (33)	\$ (12,227)	\$ (5,462)	\$ 44,492	\$ (1,948)	\$ 24,855	\$ (372)

During the fiscal year ended June 30, 2006 the **State Lottery Fund** procured \$42.3 million of capital assets through a capital lease transaction. There were no other material investing, capital or financing activities that did not result in cash receipts or cash payments during the fiscal year.

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

**STATEMENT OF FIDUCIARY NET ASSETS**  
**Fiduciary Funds**

*June 30, 2006*

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

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund INVEST Program for Local Governments (December 31, 2005)	Private Purpose Trust Fund Tuition Account Investment Program	Agency Funds
<b>ASSETS</b>				
Cash—Note D.....	\$ 4,750	\$ 35	\$ -	\$ 16,709
Cash with fiscal agents—Note D.....	-	-	-	63,869
Temporary investments—Note D.....	29,824	582,569	1,247	1,129,979
Long-term investments—Note D.....	-	-	326,545	1,938,978
Short-term funds—Note D.....	5,315,493	-	-	-
Corporate obligations—Note D.....	5,023,373	-	-	-
Collective trust funds—Note D.....	11,937,696	-	-	-
Real estate—Note D.....	4,490,682	-	-	-
Alternative—Note D.....	8,812,116	-	-	-
Securities lending collateral—Note D.....	9,453,089	-	-	-
Domestic equities—Note D.....	20,617,404	-	-	-
International equities—Note D.....	18,190,898	-	-	-
International private debt securities—Note D.....	63,955	-	-	-
International public debt securities—Note D.....	2,655,577	-	-	-
Mortgage-backed securities—Note D.....	5,670,890	-	-	-
Mortgage loans—Note D.....	37,504	-	-	-
U.S. Treasury obligations—Note D.....	5,198,321	-	-	-
U.S. government agency debt securities—Note D.....	745,932	-	-	-
Receivables, net:				
Taxes—Note G.....	-	-	-	24,682
Accounts.....	1,018	-	246	232,893
Accrued interest.....	94,994	-	135	1,716
Loans—Note G.....	-	-	-	3,097
Pension contributions.....	433,387	-	-	-
Investment sale proceeds.....	1,583,174	-	35	180
Other.....	195,757	-	-	177,371
Due from other funds—Note H.....	1,919	-	-	-
Due from primary government—Note H.....	1,959	-	-	-
Due from component units—Note H.....	4,736	-	-	-
Due from political subdivisions.....	2,340	-	-	-
Due from other governments.....	21	-	-	-
Advances to other funds—Note H.....	-	-	-	82,500
Depreciable capital assets:				
Machinery and equipment.....	11,045	-	-	-
Less: accumulated depreciation.....	(10,402)	-	-	-
Net depreciable capital assets.....	643	-	-	-
Other assets.....	-	-	-	1,932,117
<b>TOTAL ASSETS.....</b>	<b>100,567,452</b>	<b>582,604</b>	<b>328,208</b>	<b>5,604,091</b>
<b>LIABILITIES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities.....	113,070	1,970	212	27,037
Investment purchases payable.....	3,138,501	-	399	151
Securities lending obligations.....	9,453,089	-	-	68,220
Due to primary government—Note H.....	5,476	-	-	-
Due to political subdivisions.....	-	-	-	352,662
Due to other governments.....	-	-	-	11
Self insurance liabilities.....	-	-	-	285
Other liabilities.....	185,876	-	-	5,155,725
<b>TOTAL LIABILITIES.....</b>	<b>12,896,012</b>	<b>1,970</b>	<b>611</b>	<b>5,604,091</b>
<b>NET ASSETS:</b>				
Held in trust for:				
Pension and other employee benefits.....	85,987,538	-	-	-
Healthcare benefits.....	181,634	-	-	-
Employee salary deferrals.....	1,502,268	-	-	-
INVEST Program participants.....	-	580,634	-	-
Tuition Account Program participants.....	-	-	327,597	-
<b>TOTAL NET ASSETS.....</b>	<b>\$ 87,671,440</b>	<b>\$ 580,634</b>	<b>\$ 327,597</b>	<b>\$ -</b>

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

# STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

## Fiduciary Funds

For the Fiscal Year Ended June 30, 2006

### COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund INVEST Program for Local Governments (December 31, 2005)	Private Purpose Trust Fund Tuition Account Investment Program
<b>ADDITIONS:</b>			
Pension contributions:			
Employer.....	\$ 679,318	\$ -	\$ -
Employee.....	1,422,820	-	-
Transfer in from other plans.....	42,916	-	-
Total contributions.....	<u>2,145,054</u>	<u>-</u>	<u>-</u>
Investment income:			
Net appreciation in			
fair value of investments.....	9,248,744	-	-
Interest income.....	2,553,114	18,149	17,209
Dividend income.....	128,480	-	-
Rental and other income.....	115,594	-	-
Total investment activity income.....	<u>12,045,932</u>	<u>18,149</u>	<u>17,209</u>
Less: investment expenses			
Investment activity expense.....	(447,590)	(530)	(1,932)
Net investment earnings.....	<u>11,598,342</u>	<u>17,619</u>	<u>15,277</u>
Securities lending activities:			
Income.....	386,924	-	-
Expenses.....	(351,430)	-	-
Total securities lending income.....	<u>35,494</u>	<u>-</u>	<u>-</u>
Total net investment income.....	<u>11,633,836</u>	<u>17,619</u>	<u>15,277</u>
Share transactions (at net asset value of \$1.00 per share):			
Shares purchased.....	-	1,582,023	146,655
Shares issued in lieu of cash distributions.....	-	15,370	103
Shares redeemed.....	-	(1,639,560)	(68,225)
Net increase (decrease) in net assets from share transactions.....	<u>-</u>	<u>(42,167)</u>	<u>78,533</u>
<b>TOTAL ADDITIONS.....</b>	<u><b>13,778,890</b></u>	<u><b>(24,548)</b></u>	<u><b>93,810</b></u>
<b>DEDUCTIONS:</b>			
Benefit payments.....	6,066,559	-	-
Refunds of contributions.....	23,545	-	-
Transfers to other plans.....	78,147	-	-
Administrative expenses.....	71,561	-	-
Other expenses.....	2,565	-	-
Distributions to participants.....	-	17,484	104
<b>TOTAL DEDUCTIONS.....</b>	<u><b>6,242,377</b></u>	<u><b>17,484</b></u>	<u><b>104</b></u>
<b>CHANGE IN PLAN NET ASSETS HELD IN TRUST FOR:</b>			
Pension and other employee benefits.....	7,409,742	-	-
Healthcare benefits.....	6,605	-	-
Employee salary deferrals.....	120,166	-	-
INVEST program participants.....	-	(42,032)	-
Tuition Account Investment Program participants.....	-	-	93,706
<b>Net assets, July 1, 2005.....</b>	<u><b>80,134,927</b></u>	<u><b>622,666</b></u>	<u><b>233,891</b></u>
<b>Net assets, June 30, 2006.....</b>	<u><b>\$ 87,671,440</b></u>	<u><b>\$ 580,634</b></u>	<u><b>\$ 327,597</b></u>

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

**STATEMENT OF NET ASSETS**  
**Discretely Presented Component Units**

June 30, 2006

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	<b>Pennsylvania Turnpike Commission (May 31, 2006)</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>
<b>ASSETS</b>							
Current assets:							
Cash—Note D.....	\$ 192,831	\$ 7,457	\$ 193,025	\$ 368	\$ 105,538	\$ 329,637	\$ 828,856
Temporary investments—Note D.....	483,479	892,387	211,103	432,680	230,436	182,777	2,432,862
Receivables:							
Accounts .....	26,355	-	15,714	-	116,705	915	159,689
Accrued interest.....	6,561	-	187,676	2,213	-	2,541	198,991
Loans—Note G.....	-	70,162	1,397,075	142,918	6,333	98,020	1,714,508
Lease rentals—Note G.....	-	-	-	-	-	4,186	4,186
Other .....	-	-	-	-	18,307	1,545	19,852
Due from primary government—Note H.....	7,205	-	-	-	-	63	7,268
Due from component units—Note H.....	-	-	-	90	-	-	90
Due from Federal government.....	-	-	67,231	1,315	-	-	68,546
Due from other governments .....	-	-	-	-	-	474	474
Inventory.....	18,324	-	-	-	14,005	310	32,639
Prepaid and deferred expenses.....	-	-	6,286	18,593	6,876	128	31,883
Other assets.....	-	-	103,283	-	9,906	742	113,931
Total current assets .....	<u>734,755</u>	<u>970,006</u>	<u>2,181,393</u>	<u>598,177</u>	<u>508,106</u>	<u>621,338</u>	<u>5,613,775</u>
Noncurrent assets:							
Long-term investments—Note D.....	447,092	94,635	72,453	-	867,917	78,558	1,560,655
Receivables (net):							
Accrued interest.....	-	14,958	-	-	-	-	14,958
Loans—Note G.....	-	3,298,245	7,698,039	1,494,953	30,315	541,859	13,063,411
Lease rentals—Note G.....	-	-	-	-	-	14,075	14,075
Non-depreciable capital assets—Note E:							
Land.....	156,816	-	2,946	-	33,733	161	193,656
Construction in progress.....	875,755	-	-	-	199,798	6,066	1,081,619
Depreciable capital assets—Note E:							
Land improvements.....	56,604	-	-	-	165,532	-	222,136
Buildings and building improvements.....	651,848	-	70,280	-	1,245,649	140,557	2,108,334
Machinery and equipment.....	305,176	-	25,471	-	261,649	39,108	631,404
Turnpike infrastructure.....	4,129,467	-	-	-	-	-	4,129,467
Library books.....	-	-	-	-	78,049	477	78,526
Other capital assets.....	-	-	54,620	-	-	2,780	57,400
Less: accumulated depreciation.....	(3,153,372)	-	(77,187)	-	(647,197)	(92,195)	(3,969,951)
Net depreciable capital assets .....	<u>1,989,723</u>	<u>-</u>	<u>73,184</u>	<u>-</u>	<u>1,103,682</u>	<u>90,727</u>	<u>3,257,316</u>
Other assets.....	90,013	53,778	38,702	-	133,108	23,304	338,905
Total noncurrent assets .....	<u>3,559,399</u>	<u>3,461,616</u>	<u>7,885,324</u>	<u>1,494,953</u>	<u>2,368,553</u>	<u>754,750</u>	<u>19,524,595</u>
<b>TOTAL ASSETS.....</b>	<u>4,294,154</u>	<u>4,431,622</u>	<u>10,066,717</u>	<u>2,093,130</u>	<u>2,876,659</u>	<u>1,376,088</u>	<u>25,138,370</u>

**STATEMENT OF NET ASSETS**  
**Discretely Presented Component Units**

June 30, 2006

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	<b>Pennsylvania Turnpike Commission (May 31, 2006)</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>
<b>LIABILITIES</b>							
Current liabilities:							
Accounts payable and accrued liabilities.....	87,723	4,890	207,909	1,509	152,127	24,367	478,525
Securities lending obligations.....	-	-	-	46,372	-	4,157	50,529
Due to primary government—Note H.....	-	-	-	3	-	7	10
Due to component units—Note H.....	-	-	-	21	-	-	21
Due to other governments.....	-	-	-	-	-	1	1
Interest payable.....	36,237	36,916	36,574	1,131	-	12,528	123,386
Unearned revenue.....	19,453	-	13,667	-	41,426	384	74,930
Notes payable—Note J.....	-	-	159,009	-	-	378	159,387
Bonds payable—Note K.....	-	-	-	-	27,720	-	27,720
Revenue bonds payable—Note K.....	52,660	171,033	-	14,775	-	40,320	278,788
Capital lease/installment purchase obligations—Note K.....	-	-	53,800	-	-	-	53,800
Compensated absences.....	15,002	-	402	254	14,026	575	30,259
Other liabilities.....	-	709	103,283	1,625	167,765	1,260	274,642
<b>Total current liabilities.....</b>	<b>211,075</b>	<b>213,548</b>	<b>574,644</b>	<b>65,690</b>	<b>403,064</b>	<b>83,977</b>	<b>1,551,998</b>
Non-current liabilities:							
Unearned revenue.....	-	-	-	-	4,518	89	4,607
Demand revenue bonds payable—Note J.....	-	-	7,763,376	-	-	-	7,763,376
Notes payable—Note J.....	-	-	1,078,251	-	182,147	29,905	1,290,303
Bonds payable—Note K.....	-	-	-	-	501,935	-	501,935
Revenue bond payable—Note K.....	2,392,907	3,240,095	-	60,525	275,840	852,678	6,822,045
Capital lease/installment purchase obligations—Note K.....	-	-	135,117	-	-	2,000	137,117
Compensated absences.....	-	-	15,807	-	75,137	1,711	92,655
Other liabilities.....	23,255	310,230	1,295	26,982	582,325	12,787	956,874
<b>Total non-current liabilities.....</b>	<b>2,416,162</b>	<b>3,550,325</b>	<b>8,993,846</b>	<b>87,507</b>	<b>1,621,902</b>	<b>899,170</b>	<b>17,568,912</b>
<b>TOTAL LIABILITIES.....</b>	<b>2,627,237</b>	<b>3,763,873</b>	<b>9,568,490</b>	<b>153,197</b>	<b>2,024,966</b>	<b>983,147</b>	<b>19,120,910</b>
<b>NET ASSETS—Note C:</b>							
Invested in capital assets, net of related debt.....	666,356	-	8,589	-	451,356	43,606	1,169,907
Restricted for:							
Capital projects.....	830,412	-	-	1,300,325	22,293	5,762	2,158,792
Debt service.....	-	667,749	357,628	-	-	-	1,025,377
Other purposes.....	170,149	-	132,010	639,608	378,044	97,113	1,416,924
Unrestricted.....	-	-	-	-	-	246,460	246,460
<b>TOTAL NET ASSETS.....</b>	<b>\$ 1,666,917</b>	<b>\$ 667,749</b>	<b>\$ 498,227</b>	<b>\$ 1,939,933</b>	<b>\$ 851,693</b>	<b>\$ 392,941</b>	<b>\$ 6,017,460</b>

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

**STATEMENT OF ACTIVITIES**  
**Discretely Presented Component Units**

*For the Fiscal Year Ended June 30, 2006*

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

	<b>Pennsylvania Turnpike Commission (May 31, 2006)</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.....	\$ 707,868	\$ 486,000	\$ 1,141,120	\$ 31,730	\$ 1,680,690	\$ 174,911	\$ 4,222,319
Program revenues:							
Charges for goods and services.....	612,408	313,163	251,034	26,081	913,477	47,927	2,164,090
Operating grants and contributions.....	90,295	190,461	902,513	27,607	795,350	106,048	2,112,274
Capital grants and contributions.....	23,030	-	-	106,116	24,359	13,233	166,738
<b>Total program revenues.....</b>	<b>725,733</b>	<b>503,624</b>	<b>1,153,547</b>	<b>159,804</b>	<b>1,733,186</b>	<b>167,208</b>	<b>4,443,102</b>
<b>Net (expense) revenue.....</b>	<b>17,865</b>	<b>17,624</b>	<b>12,427</b>	<b>128,074</b>	<b>52,496</b>	<b>(7,703)</b>	<b>220,783</b>
General revenues:							
Taxes and other general revenues.....	55,749	-	-	-	-	1,812	57,561
<b>Change in net assets.....</b>	<b>73,614</b>	<b>17,624</b>	<b>12,427</b>	<b>128,074</b>	<b>52,496</b>	<b>(5,891)</b>	<b>278,344</b>
<b>Net assets, July 1, 2005 (restated)—Note B.....</b>	<b>1,593,303</b>	<b>650,125</b>	<b>485,800</b>	<b>1,811,859</b>	<b>799,197</b>	<b>398,832</b>	<b>5,739,116</b>
<b>Net assets, June 30, 2006.....</b>	<b>\$ 1,666,917</b>	<b>\$ 667,749</b>	<b>\$ 498,227</b>	<b>\$ 1,939,933</b>	<b>\$ 851,693</b>	<b>\$ 392,941</b>	<b>\$ 6,017,460</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 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, 2006. The government-wide financial statements do not include any fiduciary fund assets, liabilities or activities for the primary government or component units (defined below) that are fiduciary in nature. Governmental activities within government-wide financial statements include specific balances and transactions related to Internal Service Funds that are reported as proprietary funds in fund financial statements. Business-type activities include information for all Enterprise Funds.

**Financial Reporting Entity**

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

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

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

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

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



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

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

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

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

**Philadelphia Shipyard Development Corporation (PSDC)** - The PSDC was created as a nonprofit corporation to assist the PG and other governmental entities in financing a shipbuilding facility at the former Philadelphia Naval Shipyard. The PSDC obtains funding from the PG and a variety of other governmental sources to fund development, construction and job recruitment and training costs. The PG appoints three of five voting board members and provides a significant portion of funding for the PSDC. For the purposes of this report, the PSDC has a December 31, 2005 fiscal year end.

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

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

**Pennsylvania Housing Finance Agency (PHFA)** - The PHFA makes loans to eligible individuals and organizations to purchase or construct housing. The loans benefit (older adults, persons of modest means, and persons with disabilities) 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 Governor must approve the issuance of the PHFA debt.

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

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

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

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

**Pennsylvania Turnpike Commission (PTC)** - The PTC was created to construct, maintain and operate a turnpike system in the Commonwealth. Activities are financed through user tolls and the issuance of revenue bonds. Debt service payments are funded through user tolls. The PTC works closely with the Department of Transportation. The PG appoints all voting members. When all the PTC bondholders have been satisfied, the PTC assets revert to the Department of Transportation. The Governor must approve the issuance of all PTC debt. The PG is not obligated for PTC debt, but the PG could take certain actions to satisfy bondholders. The PTC is included for its fiscal year ended May 31, 2006.

**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** can support any appropriations needed to pay the debt service payments or costs incurred in any bond issuance.

**Thaddeus Stevens College of Technology (College)** - Founded in the early twentieth century, the College was financially reported as part of the PG through and including the fiscal year ended June 30, 2003. Legislation effective July 1, 2003 amended the Board of Directors to a body politic and corporate constituting a public corporation, making the College an entity legally separate from the PG. The Governor, by and 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 monies 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

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

insurer impairments or insolvencies. The PG has appointment approval authority for all governing board members and the Insurance Commissioner has broad authority to impose will on the PLHIGA. There is a minor financial burden on the PG. The PLHIGA is reported for its fiscal year ended December 31, 2005.

**Pennsylvania Property and Casualty Insurance Guaranty Association (PPCIGA) (Fiduciary Fund)** - The PPCIGA was created to provide for the payment of insured property and casualty policy claim losses and to avoid losses to claimants or policyholders as a result of insurer insolvency. The PPCIGA guarantees the payment of insurance benefits and continuation of coverage by assessing member insurers. The PG has appointment approval authority for all governing board members and the Insurance Commissioner has broad authority to impose will on the PPCIGA. There is a minor financial burden on the PG. The PPCIGA is reported for its fiscal year ended December 31, 2005.

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

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

**Pennsylvania Energy Development Authority (PEDA)** - The PEDA was created to promote the development of energy sources within the Commonwealth. The PEDA issued revenue bonds and lent the proceeds to fund 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 Authority debt. The PG is not obligated for the PEDA debt, but the PG could take certain actions to satisfy bondholders. The PEDA board reviewed and approved funding for certain alternative energy grant applications during the fiscal year ended June 30, 2006.

**Financial Statements for Component Units and Investment Trust Fund**

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

**Related Organizations**

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

The Commonwealth also created the **Automotive Theft Prevention Authority (ATPA)**. The PG appoints all seven governing board members but is not financially accountable due to a lack of imposition of will and no financial benefit/burden. The

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

ATPA is not fiscally dependent on the PG. The operation of the ATPA is funded by an annual assessment paid by companies providing automobile insurance in the Commonwealth. The PG processes cash receipts and disbursements for the ATPA.

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

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

**Joint Venture**

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

**Excluded Organizations**

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

**Primary Government – Fund Structure**

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

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

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

**Governmental Funds**

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

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

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

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

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

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

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

**Proprietary Funds**

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

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

The **State Workers' Insurance Fund** (SWIF) was created by legislation on June 2, 1915 and operates within the Department of Labor and Industry. It is a self-sustaining fund providing workers' compensation insurance to employers, including those who are refused policies by private insurance firms. SWIF is subject to underwriting rules, classifications and rates promulgated by rating bureaus authorized by the Commonwealth Insurance Commissioner. Premium rates are established by the bureaus based on the history of accidents by industry classification. Revenues are generated by premiums charged to policyholders plus investment income. Workers' compensation payments and administration costs are paid from the Fund. The **State Workers' Insurance Fund** is included for its fiscal year ended December 31, 2005.

The **Unemployment Compensation Fund** is comprised of four basic components: the Employer Contribution Fund (Fund 63), the UC Benefit Payment Fund (Fund 64), the Special Administration Fund (Fund 21), and the UC Trust Fund in Washington, D.C. The purpose of these funds is to collect employer assessments for UC (Fund 63) and transfer the assessments to the Federal government for deposit in the UC Trust Fund. As needed, these funds are drawn back to pay

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

unemployment compensation payments to claimants (Fund 64). Fund 21 is used to isolate penalty and interest charges from employers and claimants. It is used to supplement grant-funding shortfalls and pay audit disallowances with any remaining amounts over \$200 thousand being transferred to the UC Trust Fund in Washington, D.C. each June 30. Fund 64 also receives amounts from the Federal government to reimburse Pennsylvania for those Federal workers who collected UC benefits from Pennsylvania.

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

The State Stores Fund is reported for its fiscal year ended June 27, 2006.

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

**Fiduciary Funds**

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

The State Employees' Retirement System, a pension trust fund, is a component unit and accounts for the payment of retirement, disability and death benefits to members of the State Employees' Retirement System and their beneficiaries. The Deferred Compensation Fund is an other employee benefit pension trust fund that collects and administers amounts contributed by Commonwealth employees who are deferring a portion of their income until future years, in accordance with Internal Revenue Code Section 457.

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

The Tuition Account Investment Program is a Private Purpose Trust Fund that invests amounts on behalf of participants who are saving for college tuition costs. The largest Agency Fund, the Statutory Liquidator Fund, converts the remaining assets of insolvent insurance companies to cash for remittance to policyholders, creditors and stockholders in accordance with the order of distribution established in Article V of the Pennsylvania Insurance Department Act of 1921 and on a Commonwealth Court approved percentage of claim basis. The Underground Storage Tank Indemnification Fund holds assets on behalf of owners and operators of underground storage tanks who incur a liability for taking corrective actions associated with underground storage tank releases. The Municipal Pension Aid Fund holds a portion of casualty insurance company tax assessments, which are remitted to municipalities to help defray municipal police and fire fighter pension costs.

The State Employees' Retirement System, a pension trust fund, the Deferred Compensation Fund, an other employee benefit trust fund, and the INVEST Program for Local Governments, an Investment Trust Fund, are included for their fiscal years ended December 31, 2005.

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

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. This means that the Statement of Net Assets reports all assets (including receivables regardless of when collected and capital assets, such as heavy trucks, highways and bridges) and liabilities regardless of when payment is due. The

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

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

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

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

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

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

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

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 is reported as ‘nonoperating’ revenues by all Funds except the **Tuition Payment Fund**, wherein investment income is reported as ‘operating’ revenues. Under the Governmental Accounting Standards Board’s (GASB) Statement 20, “Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,” the Commonwealth has elected not to adopt the Financial Accounting Standards Board pronouncements issued after November 30, 1989.

**Agency Funds**

Assets and liabilities of agency funds are reported using the accrual basis of accounting. Agency funds do not report operating statements.

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

**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 sophisticated internal investment pools that seek to provide preservation of principal, liquidity, diversification and income for Commonwealth funds. All participating funds report amounts invested in such pools as temporary and/or long-term investments; the pools themselves are not financially reported. The Treasury Department maintains an external investment pool, the INVEST Program for Local Governments, which separately issues audited financial statements and is reported as an Investment Trust Fund. Financial statements for the INVEST Program include a Statement of Net Assets and a Statement of Changes in Net Assets prepared using the economic resources measurement focus and the accrual basis of accounting.

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

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

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

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

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

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

**Capital Assets and Depreciation:** General capital assets (including infrastructure) and other capital assets are reported at cost or estimated historical cost in the Statement of Net Assets. Donated capital assets are reported at fair market value at the time



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

of donation. The cost of all land is reported; for other types of capital assets, the following minimum dollar reporting thresholds are used:

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

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

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

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

**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. As a matter of public safety, such assets are inspected very closely as part of routine operating procedures. Other general capital assets, such as structures, are used for housing or office space. Many pieces of equipment, including rolling stock, are used almost daily.

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

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

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

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

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

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

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

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

**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.

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

**Restricted Net Assets:** These amounts were primarily determined based on enabling legislation that provides for restrictions on how the resources of special (non-**General Fund**) funds may be used. At June 30, 2006, a portion of governmental activities net assets are restricted based on a Federal government purpose restriction. Practically all reported restricted net assets could become unrestricted based on possible future legislative changes.

**Budget Stabilization Reserve Fund:** Act 91 of 2002 provided for this Fund effective July 1, 2002 to gradually provide a budgetary reserve amounting to 6 percent of the revenues of the **General Fund**. For the fiscal year beginning July 1, 2002 and in any fiscal year thereafter in which the Secretary of the Budget certifies that there is a surplus in the **General Fund**, 25 percent of the surplus is to be deposited by the end of the next succeeding quarter into this Fund. This requirement resulted in a transfer of \$171.4 million to be deposited by the end of the next succeeding quarter for the fiscal year ended June 30, 2006; this transfer is included in the **General Fund** budgetary comparison schedule for the fiscal year ended June 30, 2006.

**Tobacco Master Settlement Agreement Proceeds:** In 1997, the Pennsylvania Attorney General began litigation in the Philadelphia court of common pleas against several defendant tobacco product manufacturers to recover specified damages. Similar litigation was filed by many other states. In 1998, the Commonwealth joined in the Master Settlement Agreement which settled litigation against certain defendant manufacturers and 52 governmental entities, including Pennsylvania. As part of the settlement, the manufacturers agreed to remit periodic payments to the Commonwealth and other states in perpetuity. Amounts remitted are calculated based on a variety of specific settlement provisions; actual tobacco product sales are one key factor. The Agreement contains procedures for resolving disputes over payment or other issues that may arise. A dispute regarding the amount to be paid for cigarette sales that took place in 2003 is currently being litigated.

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

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

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

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

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

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

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

**Interfund Balances:** The composition of the Commonwealth’s interfund receivables/payables at June 30, 2006 and transfers in/out during the fiscal year ended June 30, 2006 are presented in Note H. Interfund balances between two governmental funds or two proprietary funds are not reported in the Statement of Net Assets.

**New Accounting Pronouncements – Adopted:** Effective July 1, 2005 the Commonwealth adopted the Governmental Accounting Standards Board’s (GASB’s) Statement No. 42, “*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.*” GASB Statement No. 42 requires ongoing evaluation of specific events or changes affecting capital assets to determine whether they are impaired. Through June 30, 2006 adoption has not resulted in any reported impairment losses.

Also effective July 1, 2005 the Commonwealth adopted the GASB’s Statement No. 44, “*Economic Condition Reporting: The Statistical Section.*” GASB Statement No. 44 amended the National Committee on Governmental Accounting’s Statement No. 1 which provided requirements for the statistical section of the Comprehensive Annual Financial Report. Accordingly, the Statistical Section included herein includes information about five distinct categories: financial trends, revenue capacity, debt capacity, demographic/economic and operating indicators.

Also effective July 1, 2005 the Commonwealth adopted the GASB’s Statement No. 46, “*Net Assets Restricted by Enabling Legislation.*” GASB Statement No. 46 establishes and modifies requirements related to restrictions of net assets and provides that changes to enabling legislation could cause changes in how, or if, net assets are restricted and for which purpose. As of June 30, 2006 no changes in the nature of net assets restrictions have been reported.

Also effective July 1, 2005 the Commonwealth adopted the GASB’s Statement No. 47, “*Accounting for Termination Benefits.*” GASB Statement No. 47 requires reporting termination benefit costs for involuntary terminations during the period the Commonwealth becomes obligated and for voluntary terminations when the termination offer is accepted. Through June 30, 2006 adoption has not resulted in any changes to reported benefit costs.

Also effective July 1, 2005 the Commonwealth adopted the immediately-effective provisions of GASB’s Technical Bulletin 2006-1, “*Accounting and Financial Reporting by Employers for Payments from the Federal Government Pursuant to the*

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

*Retiree Drug Subsidy Provisions of Medicare Part D.*” These provisions clarify how such Federal payments are reported. Other provisions are effective with the adoption of GASB Statement No. 45.

**New Accounting Pronouncements – To Be Adopted:** In June 2004 the GASB issued Statement No. 45, “*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*” GASB Statement No. 45 changes how other postemployment benefits (OPEB) costs are reported by employer governments, so that employer OPEB costs are charged during the periods when employees render services. Presently, OPEB costs for retiree healthcare benefits are reported as charged as a component of payroll expenditures to employing agencies in amounts expected to be sufficient to fund such benefits on a 'pay-as-you-go' basis. It is expected that reported expenses for OPEB would increase upon implementation. Actuarial valuations necessary for implementation are being conducted.

In September 2006, the GASB issued Statement No. 48, “*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.*” GASB Statement No. 48 distinguishes between sales or collateralized borrowings when governments exchange their rights to future cash flows for immediate cash proceeds or other consideration. The new standard establishes new reporting and disclosure requirements for such transactions and balances.

In December 2006, the GASB issued Statement No. 49, “*Accounting and Financial Reporting for Pollution Remediation Obligations.*” GASB Statement No. 49 establishes recognition ‘triggers,’ any one of several obligating events, and requires governments to estimate expected outlays for pollution remediation costs at polluted sites. Liabilities and expenses are to be estimated using ‘expected cash flows.’

The Commonwealth must adopt the new standards as follows:

- GASB Statement No. 45 Effective July 1, 2007, for financial statements for the fiscal year ending June 30, 2008
- GASB Statement No. 48 Effective July 1, 2007, for financial statements for the fiscal year ending June 30, 2008
- GASB Statement No. 49 Effective July 1, 2007, for financial statements for the fiscal year ending June 30, 2008

**NOTE B – RESTATEMENT****Restatement Due to Change in Financial Reporting Entity**

Effective July 1, 2005 Thaddeus Stevens College of Technology (the College) is being newly reported as a discretely presented component unit. Originally founded in 1905, the College was formerly owned and controlled by the Pennsylvania Department of Education. Act 187 of 2002 provided the College with legal autonomy. Total discretely presented component unit net assets, formerly reported as \$5,734,777 as of June 30, 2005, are being restated and increased by \$4,339 to \$5,739,116 as of July 1, 2005 (amounts in thousands).

**NOTE C – NET ASSETS/FUND EQUITY**

**Governmental Activities and Business-Type Activities Net Assets:** Total Net Assets are the difference between Total Assets and Total Liabilities reported on the Statement of Net Assets. Total Net Assets are reported in three distinct components: Invested in capital assets, net of related debt; Restricted net assets; and Unrestricted net assets. Invested in capital assets, net of related debt represents total capital assets less accumulated depreciation and the outstanding liability for debt specifically related to the acquisition of the capital assets. At June 30, 2006, governmental and business-type activities, respectively, reported \$19,068,573 and \$82,694 in net assets invested in capital assets, net of related debt. Restricted net assets for special funds are those that are statutorily established and for which net assets may only be used for specific legislated purposes. Governmental fund balance “designations” are not treated as restricted net assets because they represent plans and can easily be changed. Restraints established by enabling legislation, on the other hand, are not easily changed. At June 30, 2006, governmental and business-type activities, respectively, reported \$3,895,478 and \$3,273,345 in restricted net assets. Net assets restricted for other purposes of \$82,770 and \$152,629 for governmental activities and business-type activities, respectively, at June 30, 2006 include amounts for a range of dissimilar statutory purposes. Unrestricted net assets represent total net assets minus the totals of invested in capital assets, net of related debt and restricted net assets. At June 30, 2006, governmental activities reported an unrestricted net assets deficit of \$372,089 (amounts in thousands).

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

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

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

Governmental funds reported total fund balance “other” reservations of \$1,311,892 at June 30, 2006. This amount consists of \$454,639 reserved in the **General Fund**, \$417,628 for restricted revenue and \$37,011 for continuing programs; \$780,579 reserved in the **Tobacco Settlement Fund** for various health-related programs; \$1,635 in the **Motor License Fund** for transportation-related programs, and \$75,039 reserved in nonmajor Funds for the following programs: (amounts in thousands):

Land reclamation and other mining operations.....	\$ 32,064
Pharmaceutical assistance.....	7,343
Recreation.....	2,952
Conservation, recycling and economic development.....	2,084
Workers compensation.....	26,688
Gaming activities.....	<u>289</u>
Total nonmajor Special Revenue programs.....	<u>71,420</u>
General State Authority maintenance in the Capital Facilities Fund.....	1,982
Land and water reclamation.....	<u>1,637</u>
Total nonmajor Capital Projects programs.....	<u>3,619</u>
Total nonmajor funds other reservations.....	<u>\$ 75,039</u>

**NOTE C – NET ASSETS/FUND EQUITY (continued)**

**Governmental Fund Balance Designations:** Designations of unreserved fund balances reported in governmental funds balance sheets reflect managerial plans for the future use of financial resources. At June 30, 2006 the Commonwealth has included the following amounts as “Designated—Other” for the **General Fund** (amounts in thousands):

**General Fund:**

Group medical and life insurance.....	\$ 258,112
Agency construction projects.....	132,455
Judicial computer system.....	119,834
Job creation tax credits.....	80,165
Waste tire and safe water programs.....	20,064
State Police statewide radio project.....	12,780
Conservation and Natural Resources radio project.....	19,648
Volunteer fire company assistance.....	25,000
Corrections programs.....	46,397
Public Welfare programs.....	1,466
Probation and Parole state and county supervision.....	1,760
Other.....	<u>1,733</u>
<b>Total General Fund.....</b>	<b><u>\$ 719,414</u></b>

**Governmental Fund Balance Deficits:** None of the governmental funds reported a fund balance deficit in the governmental funds balance sheet at June 30, 2006.

The Capital Facilities Fund, a Capital Projects Fund, reported a deficit unreserved/undesignated fund balance of \$601,627 at June 30, 2006. In total, the Capital Facilities Fund reported a fund balance of \$233,338 at June 30, 2006. The Land and Water Development Fund and the Local Criminal Justice Fund, both Capital Projects Funds, reported a deficit unreserved/undesignated fund balance of \$24 and \$172, respectively, at June 30, 2006. Total Capital Projects Funds reported reservations for encumbrances of \$897,589; other reservations of \$3,619; designations for Capital Projects of \$131,026; and a deficit unreserved/undesignated fund balance of \$601,823; for total combined fund balances of \$430,411 at June 30, 2006 (amounts in thousands).

**Proprietary Fund Net Assets:** Nonmajor funds reported total restricted net assets for “other purposes” of \$146,855 at June 30, 2006 for the following programs: mine subsidence insurance, \$51,012; liquor control, \$82,907; vocational rehabilitation, \$4,110; and \$8,826 for other programs (amounts in thousands).

**Component Unit Net Assets:** Net assets of most component units are restricted, consistent with enabling legislation for component units. Net assets are restricted to purposes specifically identified by the legislation that created the component unit entity. The Pennsylvania Industrial Development Authority reported unrestricted net assets of \$266,617 and the Commonwealth Financing Authority reported an unrestricted net assets deficit of \$20,157 (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 Treasury Department is granted the power to invest in any deposits and investments subject, however, to the exercise of that degree of judgment and care under the circumstances then prevailing which persons of prudence, discretion and intelligence who are familiar with such matters exercise in the management of their own affairs not in regard to speculation but in regard to the permanent disposition of the funds considering the probable income to be derived there from as well as the probable safety of their capital. Such deposits and investments may include equity securities and mutual funds.

As of June 30, 2006, the Treasury Department manages the Treasury Investment Program (TIP). Practically all Commonwealth Funds of the primary government are invested on a temporary basis in the TIP. The objectives of the TIP are preservation of principal, liquidity, diversification and income. All investments are made in accordance with the statutory authority described in the preceding paragraph. The TIP investment pool structure invests in both domestic equity securities and domestic fixed income securities to achieve the investment objectives of the funds of the Treasury Investment Program. Asset allocation targets between equity securities and fixed income securities are established in order to meet these overall objectives.

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

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

**Other Investing Organizations**

Certain investing organizations have statutory authority, which is comparable to the Treasury Department 'prudent person' authority above. The investments of such organizations are accounted for in the following Funds: **Tobacco Settlement**, Workers Compensation Security Trust, **State Workers Insurance**, **Tuition Payment**, INVEST Program for Local Governments (INVEST), Statutory Liquidator, and Underground Storage Tank Indemnification (collectively, other investing organizations). Among other things, the other investing organizations typically invest for longer periods of time than the TIP. Therefore, the other investing organizations own, in relative terms, more intermediate or long-term investments than the TIP. 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, options, limited partnerships, real estate properties, 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) and the Public School Employees Retirement System (PSERS) constitute Pension Trust Funds reported in the basic financial statements. Pension Trust Funds avoid deposit risks; as such deposits must be authorized by the Treasury Department. Several state laws govern investment authority for the SERS and the PSERS; such laws provide 'prudent person' investing authority. Allowable DCP investment options are established by the SERS under its applicable statutory authority. A very large portion of total Pension Trust Fund investments consists of equity securities, real estate and a wide variety of mutual funds.



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

**Deposit Risks**

At June 30, 2006 Treasury Department bank balances of \$7,718 were subject to custodial risk; \$7,468 were uninsured and uncollateralized and \$250 were uninsured, with collateral held by the pledging institution’s trust departments and not in the name of the Commonwealth. In addition, \$63,869 (amounts in thousands) reported as cash with fiscal agents by the Statutory Liquidator Fund were subject to custodial credit risk; all such deposits were uninsured and uncollateralized. None of the other investing organizations or the Pension Trust Funds was exposed to either custodial credit risk or foreign currency risk for its deposits at June 30, 2006 (December 31, 2005 for the SERS).

**Investment Risks**

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

**Investments by Type**

At June 30, 2006 the TIP and the other investing organizations disclosed a total of \$17,847,571 in investments. This consists of 78 percent fixed income securities (\$13,888,654), 20 percent common stock securities (\$3,590,425), and the remaining two percent consists of private equity, mutual funds, annuities, foreign cash and cash equivalents, and others. The investment types and related amounts are as follows (amounts in thousands):

<u>Investment Type</u>	<u>Amount</u>
Annuities.....	\$ 1,680
Asset-backed securities.....	256,313
Cash and cash equivalents.....	295
Certificates of deposit.....	108,252
Commercial paper.....	1,148,975
Corporate obligations.....	1,683,970
Derivatives.....	(4)
Common stock securities.....	3,590,425
Foreign cash.....	1,420
International fixed income.....	57,712
Investment in subsidiary.....	5
Money market mutual funds.....	269,806
Mortgage-backed securities.....	1,219,206
Mutual funds.....	327,772
Preferred stock securities.....	2,544
Private equity.....	36,945
Repurchase agreements.....	4,424,995
State and municipal obligations.....	714,274
Treasury Investment Program.....	412,800
U.S. government agency obligations.....	1,473,697
U.S. private placements.....	59,909
U.S. Treasury obligations.....	2,056,580
<b>Total.....</b>	<b>\$ 17,847,571</b>

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

**Custodial Credit Risk:** Custodial credit risk for investments is the risk that, in the event a counterparty fails to uphold their agreement to a transaction, with either the Treasury Department, the other investing organizations or the Pension Trust Funds, they would not be able to recover the value of investment or collateral securities in the possession of an outside party. In accordance with a contractual relationship between the Treasury Department and its custodial agents, substantially all investments, where securities are used as evidence of the investment, are held by the custodians in book entry form in the name of the Commonwealth or the custodian. The TIP, **Tuition Payment** and INVEST investments are insured or registered; and the securities are held by 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, 2006, only the Statutory Liquidator Fund owned investment securities subject to custodial credit risk, in the amount of approximately \$1.3 billion. Such securities are neither insured nor registered and are either held by the counterparty or the counterparty’s trust department or agent but not in the name of the Commonwealth. The investments types and related amounts are as follows (amounts in thousands):

<u>Investment Type</u>	<u>Amount</u>
Asset-backed securities.....	\$ 164,958
Commercial paper.....	59,269
Corporate obligations.....	411,787
Common stock.....	57,687
International fixed income.....	15,363
Repurchase agreements.....	128,929
State and municipal obligations.....	5,312
U.S. government agency obligations.....	176,924
U.S. Treasury obligations.....	301,393
<b>Total .....</b>	<b>\$ 1,321,622</b>

**Concentration Risk:** Concentration risk is the risk of loss attributed to the magnitude of the government’s investment in a single issuer. The Treasury Department places a 10 percent limit on the concentration of investments in any one fixed income issuer within both the TIP, **Tuition Payment** and INVEST Common Investment Pool and the Treasury Liquid Asset Pool. This limitation excludes government-sponsored enterprises (GSEs), direct obligations of the U.S. Treasury or its agencies, and repurchase agreements. The Treasury Department also places a five percent limit on the concentration of investments in one equity issuer within the Common Investment Pool. Similarly, to a degree, the five other investing organizations limit exposure to concentration risk. Several other investing organizations have adopted policies, which allow greater than five percent of portfolios to consist of securities issued by the U.S. Treasury. At June 30, 2006, over 11 percent of total Treasury and other investing organization portfolio investments (\$17,847,571) consisted of U.S. Treasury obligations (\$2,056,580); this amount is over 14 percent of total fixed income investments (\$13,888,654). Also, among Treasury and other investing organizations, the following concentrations existed as of June 30, 2006 (amounts in thousands):

<u>Issuer Name</u>	<u>Amount</u>
U.S. Treasury.....	\$ 2,056,580
Bank of America.....	1,965,158
Lehman Brothers.....	1,152,322
Federal National Mortgage Association.....	1,095,543

Among the Pension Trust Funds, the SERS disclosed that \$2.2 billion of U.S. Treasury securities were owned at its fiscal year ended December 31, 2005.

**Credit Quality Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not allow its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies (NRSRA) such as Moody’s Investors Service (Moody’s). The Treasury Department requires purchases of TIP assets to be investment grade (Baa or better) at the time of purchase. The fixed income portfolio includes a provision for the asset allocation to 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 by Moody’s at Ba or below. Approximately 87 percent (\$7,177,155) of the fixed income portfolio in TIP is not rated by Moody’s or S&P and includes commercial paper, money market investments, municipal obligations, and U.S. denominated foreign bonds. Of the unrated securities approximately \$3,710,606 are repurchase agreements, \$698,910 are state & municipal obligations, and \$682,316 are commercial paper. Approximately 11 percent of the Treasury fixed income portfolio is rated investment grade or better and two percent is rated less than investment grade.

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

Generally the other investing organizations limit exposure to credit risk through policies which either prevent purchasing below investment grade (Moody’s Baa or better) or below Moody’s Ba rating. At June 30, 2006 less than two percent of the investment securities rated by Moody’s and Standard and Poor’s was rated below investment grade.

At June 30, 2006 approximately \$13,888,654 of total TIP and other investing organization investments of \$17,847,571 are fixed income investments, susceptible to credit quality rating; the remainder is primarily common stock (\$3,590,425), mutual funds (\$327,772) or other types of investments, including private equity (\$36,945). Of the amount susceptible to credit quality rating, \$7,265,360 are rated; ratings are not available for \$6,623,294 of fixed income investments. The following table discloses aggregate fair value, by Moody’s or Standard and Poor’s credit quality rating category, at June 30, 2006 for the Treasury Department and the other investing organizations fixed income investments (amounts in thousands):

<b>CREDIT QUALITY RATING</b>	
<b>Moody's Credit Quality Rating</b>	<b>Amount</b>
Aaa.....	\$ 625,646
Aa1.....	46,672
Aa2.....	109,917
Aa3.....	230,046
A1.....	343,057
A2.....	236,432
A3.....	175,238
Baa1.....	66,064
Baa2.....	129,110
Baa3.....	77,575
Ba1.....	17,790
Ba2.....	36,100
Ba3.....	50,862
B1.....	36,489
B2.....	46,055
B3.....	35,939
Caa1.....	6,966
Caa2.....	2,549
Ca.....	80
MIG 1.....	50,000
P-1.....	140,480
AGY <sup>a</sup> .....	1,288,326
UST <sup>b</sup> .....	1,825,935
<b>Moody's subtotals.....</b>	<b>5,577,328</b>

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

<u>Standard and Poor's Credit Quality Rating</u>	
AAA.....	1,461,774
AA+.....	796
AA.....	7,187
AA-.....	11,135
A+.....	23,504
A.....	25,647
A-.....	18,766
BBB+.....	23,219
BBB.....	21,802
BBB-.....	24,809
BB+.....	23,507
BB.....	20,443
BB-.....	21,435
B+.....	714
B.....	555
B-.....	2,739
<b>Standard &amp; Poor's subtotals.....</b>	<b><u>1,688,032</u></b>
<b>Total Rated Investments.....</b>	<b><u><u>\$ 7,265,360</u></u></b>

<sup>a</sup> AGY rating is assigned to securities issued by Government Sponsored Enterprises (GSEs) and government-owned corporations. Some widely known GSEs include Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and several other entities. Agency (or GSE) bonds are not normally rated. GSE bonds are not explicitly backed by the full faith and credit of the U.S. Government but they have implied government backing and an implied Aaa/AAA rating.

<sup>b</sup> UST rating is assigned to securities issued by the U.S. Treasury. They are negotiable debt obligations of the U.S. Government secured by its full faith and credit. U.S. Treasury bonds are not usually rated by the NRSRA. Assuming they are held to maturity they are considered extremely credit worthy.

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

<u>Moody's Rating<sup>a</sup></u>	<u>SERS</u>	<u>DCP</u>
Aaa.....	\$ 479,429	\$ 26,751
Aa.....	82,075	38,406
A.....	180,486	72,401
Baa.....	466,378	11,418
Ba.....	859,625	34
B.....	573,491	-
Caa.....	136,521	-
Ca.....	10,320	-
C.....	1,201	-
AGY <sup>b</sup> .....	538,272	286,552
Unrated <sup>c</sup> .....	237,573	13,296
Short-term market neutral <sup>d</sup> .....	324,370	-
Treasury Investment Program.....	867,985	3,578
<b>Total.....</b>	<b><u><u>\$ 4,757,726</u></u></b>	<b><u><u>\$ 452,436</u></u></b>

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

<sup>a</sup> 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.

<sup>b</sup> AGY rating is assigned to securities issued by Government Sponsored Enterprises (GSEs) and government-owned corporations. Some widely known GSEs include Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and several other entities. Agency (or GSE) bonds are not normally rated. GSE bonds are not explicitly backed by the full faith and credit of the U.S. Government but they have implied government backing and an implied Aaa/AAA rating.

<sup>c</sup> Represents securities that were either not rated by Moody's, or had a withdrawn rating. Unrated also includes the market value of certain swaps, which by nature do not have credit quality ratings.

<sup>d</sup> Represents investments of the SERS' Market Neutral investment strategy and includes cash and cash equivalents. The investments represent deposits for short sales and cash collateral and are invested primarily in U.S. Treasury Obligations.

PSERS fixed income securities, which are exposed to credit quality rating, are listed below using the rating (expressed as S&P equivalent), available from Fitch, Moody's, and/or S&P (amounts in thousands):

<u>S&amp;P Rating<sup>a</sup></u>	<u>Amount</u>
AAA.....	\$ 6,445,960
AA.....	1,072,388
A.....	1,260,292
BBB.....	1,152,165
BB and below.....	854,747
Unrated <sup>b</sup> .....	866,262
U.S. Treasury and U.S. government agency obligations <sup>c</sup> .....	3,436,912
Treasury Investment Program.....	2,935,396
<b>Total.....</b>	<b><u><u>\$18,024,122</u></u></b>

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

<sup>b</sup> Unrated represents securities that were not rated by S&P and \$304,949 of securities in collective trust funds at June 30, 2006.

<sup>c</sup> Represents securities issued by U.S. Treasury, Government Sponsored Enterprises (GSEs) and government-owned corporations. Some widely known GSEs include Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and several other entities. Agency (or GSE) bonds are not normally rated. GSE bonds are not explicitly backed by the full faith and credit of the U.S. Government but they have implied government backing and an implied Aaa/AAA rating. U.S. Treasury obligations are backed by the full faith and credit of the U.S. Government and are implied to have a AAA rating.

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

**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, 2006, TIP and other investing organizations, excluding Statutory Liquidator, fixed income portfolio had the following option-adjusted durations (in years) by investment type (amounts in thousands):

<u>Investment Type</u>	<u>Amount</u>	<u>Option-Adjusted Duration</u>	<u>Securities with no Duration</u>
Asset-backed securities.....	\$ 86,708	1.553	\$ 4,647
Certificates of deposit.....	4,470	0.348	100,460
Commercial paper.....	637,587	0.062	452,119
Corporate obligations.....	1,270,777	3.850	1,406
Derivatives.....	-	-	(4)
International fixed income.....	2,849	7.510	39,500
Mortgage-backed securities.....	929,046	3.993	1,701
Preferred stock.....	822	4.634	1,348
Repurchase agreements.....	4,292,514	0.001	3,552
State and municipal obligations.....	3,852	6.241	705,110
Treasury Investment Program.....	412,800	0.083	-
U.S. government agency obligations...	1,294,773	2.508	2,000
U.S. private placements.....	57,070	2.696	2,840
U.S. Treasury obligations.....	1,755,186	4.855	-
<b>Total.....</b>	<b>\$ 10,748,454</b>		<b>\$ 1,314,679</b>

Statutory Liquidator Fund does not use option-adjusted duration as a means of managing interest rate risk; the following provides segmented time distribution for that Fund (amounts in thousands):

<u>Investment Type</u>	<u>Matures in Less Than One Year</u>	<u>Matures in 1 to 5 Years</u>	<u>Matures in 6 to 10 Years</u>	<u>Matures in 11 to 20 Years</u>	<u>Matures in 21 to 30 Years</u>	<u>Matures in 31 to 40 Years</u>	<u>Matures in 41 to 50 Years</u>	<u>Total</u>
Asset-backed securities.....	\$ -	\$ 17,214	\$ 13,469	\$ 8,084	\$ 111,497	\$ 13,108	\$ 1,585	\$ 164,957
Certificates of deposit.....	3,322	-	-	-	-	-	-	3,322
Commercial paper.....	59,269	-	-	-	-	-	-	59,269
Corporate obligations.....	70,960	216,637	100,089	5,227	8,707	3,658	6,508	411,786
International fixed income.....	14,000	516	848	-	-	-	-	15,364
Money market mutual funds....	269,806	-	-	-	-	-	-	269,806
Mortgage-backed securities.....	2,429	19,802	37,530	69,546	148,699	10,452	-	288,458
Repurchase agreements.....	128,929	-	-	-	-	-	-	128,929
State and municipal obligations	-	-	4,180	1,132	-	-	-	5,312
U.S. government agency.....	51,590	88,097	37,202	-	35	-	-	176,924
U.S. Treasury obligations.....	46,186	231,801	23,406	-	-	-	-	301,393
<b>Total.....</b>	<b>\$ 646,491</b>	<b>\$ 574,067</b>	<b>\$ 216,724</b>	<b>\$ 83,989</b>	<b>\$ 268,938</b>	<b>\$ 27,218</b>	<b>\$ 8,093</b>	<b>\$ 1,825,520</b>

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

Based on specific investment objectives, the Pension Trust Funds expose themselves to greater interest rate risk than Treasury programs or other investing organizations. Several investment choices, which may be selected by Deferred Compensation Program participants, include the Stable Value Account, Aggregate Bond Index, and U.S. Tactical Asset Allocation 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.....	\$ 345,688	\$ 16,735	1.2	2.2
Corporate obligations.....	1,147,058	108,097	3.2	4.5
Mortgage-backed securities.....	450,024	285,397	2.4	3.1
Short-term market neutral.....	324,370	-	0.1	N/A
Sovereign debt.....	900,040	1,756	6.2	5.1
Treasury Investment Program.....	867,985	3,578	0.1	0.1
U.S. government agency obligations	199,888	3,507	2.3	3.8
U.S. private placements.....	310,856	20,064	3.0	3.7
U.S. Treasury obligations.....	2,235,217	165,984	3.7	6.5
<b>Total.....</b>	<b>\$ 6,781,126</b>	<b>\$ 605,118</b>		

**PSERS:**

<u>Investment Type</u>	<u>Amount</u>	<u>Option-Adjusted Duration</u>
Corporate obligations.....	\$ 2,880,975	3.4
Fixed income collective trust funds.....	304,949	3.8
International fixed income.....	1,781,539	6.2
Miscellaneous domestic fixed income.....	170,880	1.0
Mortgage-backed securities.....	5,670,890	3.1
Treasury Investment Program.....	2,935,396	0.1
U.S. Treasury & agency obligations.....	3,152,963	5.1
<b>Total.....</b>	<b>\$ 16,897,592</b>	

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

**Foreign Currency Risk:** Foreign currency risk is the risk of an investment’s value changing, advantageously or adversely, due to changes in currency exchange rates. The Treasury Department’s policy requires all investments to be denominated in U.S. dollars, issued under U.S. laws and regulations, designed for U.S. investors, and traded in U.S. markets. Among the other investing organizations, only the **Tobacco Settlement Fund** is authorized to purchase securities denominated in a foreign currency. At June 30, 2006, the **Tobacco Settlement Fund** reported \$68.6 million of foreign currency-denominated holdings, or less than six percent of its total investment portfolio. The amounts invested, by currency, are as follows (amounts in thousands):

<u>Foreign Currency</u>	<u>Short Term Holdings<sup>a</sup></u>	<u>Equity</u>	<u>Total</u>
Euro Currency Unit.....	\$ 402	\$ 22,598	\$ 23,000
Japanese Yen.....	459	17,295	17,754
British Pound Sterling.....	415	12,241	12,656
Swiss Franc.....	(8)	4,586	4,578
Canadian Dollar.....	5	2,557	2,562
Australian Dollar.....	(28)	1,874	1,846
Hong Kong Dollar.....	31	1,617	1,648
Singapore Dollar.....	19	1,580	1,599
South African Rand.....	126	1,003	1,130
Malaysian Ringgits.....	36	913	948
Thailand Baht.....	1	496	497
Other Currencies.....	86	338	424
<b>Total.....</b>	<b>\$ 1,544</b>	<b>\$ 67,098</b>	<b>\$ 68,642</b>

<sup>a</sup> Includes receivables and payables for futures contracts, securities sold, and securities purchased.

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 as follows (amounts in thousands):

<u>Foreign Currency</u>	<u>Short Term Holdings<sup>a</sup></u>	<u>Fixed Income</u>	<u>Equity</u>	<u>Real Estate</u>	<u>Alternative Investments</u>	<u>Total</u>
Euro Currency Unit.....	\$ (2,741)	\$ 10,791	\$ 1,340,076	\$ 12,674	\$ 101,556	\$ 1,462,356
British Pound Sterling.....	(4,030)	-	1,004,709	5,220	2,111	1,008,010
Japanese Yen.....	(12,930)	-	978,616	14,519	-	980,205
Swiss Franc.....	(1,384)	-	313,184	-	-	311,800
South Korean Won.....	(98)	-	225,206	-	-	225,108
Hong Kong Dollar.....	(3,657)	-	124,840	3,998	-	125,181
Swedish Krona.....	(102)	-	116,759	-	-	116,657
Taiwan New Dollar.....	936	-	97,622	-	-	98,558
Australian Dollar.....	1,070	-	77,706	-	-	78,776
Danish Krone.....	-	-	66,871	-	-	66,871
South African Rand.....	258	-	60,333	-	-	60,591
Singapore Dollar.....	(1,100)	-	56,767	1,034	-	56,701
Brazil Real.....	945	-	54,478	-	-	55,423
Norwegian Krone.....	(263)	-	49,134	-	-	48,871
Thailand Baht.....	14	-	38,190	-	-	38,204
Turkish New Lira.....	55	-	25,832	-	-	25,887
Mexican New Peso.....	26	-	25,303	-	-	25,329
Indian Rupee.....	196	-	25,128	-	-	25,324
Other Currencies.....	979	2,210	116,576	-	-	119,765
<b>Total.....</b>	<b>\$ (21,826)</b>	<b>\$ 13,001</b>	<b>\$ 4,797,330</b>	<b>\$ 37,445</b>	<b>\$ 103,667</b>	<b>\$ 4,929,617</b>

<sup>a</sup> Includes receivables and payables as of December 31, 2005 for securities sold and purchased.



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

One of several investing choices that may be selected by DCP participants is the European, Australian and Far East Equity (EAFE) Index Fund, which owns international equities and is managed by an external manager. The EAFE Equity Index Fund within the program 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 MSCI EAFE Index. At December 31, 2005, the DCP had the following currency exposures related to equity securities (amounts in thousands):

<u>Currency</u>	<u>Fair Value</u>
Euro Currency Unit.....	\$ 18,941
Japanese Yen.....	15,334
British Pound Sterling.....	14,342
Swiss Franc.....	4,137
Australian Dollar.....	3,136
Swedish Krona.....	1,424
Hong Kong Dollar.....	986
Singapore Dollar.....	500
Danish Krone.....	483
Norwegian Krone.....	434
New Zealand Dollar.....	112
<b>Total.....</b>	<b>\$ 59,829</b>

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

<u>Foreign Currency</u>	<u>Short Term Holdings<sup>a</sup></u>	<u>Fixed Income</u>	<u>Equity</u>	<u>Currency Hedge<sup>b</sup></u>	<u>Alternative Investments</u>	<u>Total</u>
Euro Currency Unit....	\$ (775)	\$ 796,778	\$ 3,213,586	\$ (1,346,075)	\$ 678,328	\$ 3,341,842
British Pound Sterling.	85,278	177,855	2,271,685	(792,495)	66,613	1,808,936
Japanese Yen.....	20,222	132,200	2,497,865	(895,990)	-	1,754,297
Canadian Dollar.....	39,068	98,029	680,242	-	11,692	829,031
South Korean Won....	51,739	12,068	402,962	-	-	466,769
Swedish Krona.....	22,711	38,141	292,826	-	-	353,678
Hong Kong Dollar.....	2,093	-	407,870	(87,275)	-	322,688
Swiss Franc.....	(74,409)	-	706,145	(314,409)	-	317,327
Australian Dollar.....	131,491	5,309	360,776	(200,827)	-	296,749
Other Currencies.....	151,258	127,742	1,349,383	-	-	1,628,383
<b>Total.....</b>	<b>\$ 428,676</b>	<b>\$ 1,388,122</b>	<b>\$ 12,183,340</b>	<b>\$ (3,637,071)</b>	<b>\$ 756,633</b>	<b>\$ 11,119,700</b>

<sup>a</sup> Includes investment receivables and payables.

<sup>b</sup> The currency hedge program was implemented during the fiscal year ended June 30, 2006.

**Securities Lending Program**

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

Lending agreements between the custodian and the borrowers require that the custodian receive collateral from the borrowers in exchange for the securities lent. For securities lent which are not denominated in U.S. dollars or whose primary trading market is located outside the U.S., the fair value of the collateral received must be at least 105 percent of the fair value of the securities lent. For all other securities lent, the fair value of the collateral received must be at least 102 percent. Securities lent consist of both domestic and foreign equity securities and U.S. Treasury and foreign debt obligations. Almost all collateral received consists of cash; a very small portion of collateral received consists of letters of credit, U.S. Treasury, corporate and/or foreign debt obligations. Collateral is marked to market daily. Additional collateral from borrowers is required if the

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

fair value of the collateral received declines below lending agreement requirements. The lending agent cannot pledge or sell collateral securities received unless the borrower defaults. Accordingly, neither collateral securities received from borrowers nor the related obligations to borrowers are reported.

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

The program requires that the lending agent indemnify the Treasury Department for all claims, liabilities and costs resulting from the lending agent's negligence or intentional misconduct. During the fiscal year ended June 30, 2006 (December 31, 2005 for the **State Workers' Insurance Fund (SWIF)** and the SERS), there were no failures by any borrower to return securities lent or pay distributions thereon. Also, there were no losses resulting from a lending agent or borrower default and there were no Treasury Department restrictions on the amount of the loans that could be made.

At June 30, 2006 (December 31, 2005 for the **SWIF** and the SERS), there was no Treasury Department or participant credit risk to the borrowers because the fair value of collateral received was greater than the fair value of the securities lent, consistent with the lending agreements outstanding. The fair value of the securities lent, along with type of investments lent, are (amounts in thousands):

	U.S. Securities Lent Amount	U.S. Treasury Obligations	U.S. Government Agency	Corporate Obligations	Equities	Sovereign Debt
<b>Tobacco Settlement Fund</b> .....	\$ 179,539	\$ 105,413	\$ 30,051	\$ 690	\$ 43,385	\$ -
<b>State Lottery Fund</b> .....	4,117	4,117	-	-	-	-
<b>State Workers' Insurance Fund</b> .....	671,769	549,074	93,356	17,732	11,607	-
<b>Tuition Payment Fund</b> .....	135,772	49,734	20,450	6,151	59,437	-
Workers' Compensation Security Trust Fund.....	93,819	63,125	11,713	8,897	10,084	-
State Employees' Retirement System.....	3,329,743	2,000,464	67,988	197,847	709,395	354,049
Public School Employees Retirement System....	6,937,360	774,475	2,234,738	239,607	3,445,967	242,573
Treasury Department Custodial.....	425,644	104,675	320,969	-	-	-

At June 30, 2006 the Treasury Investment Program (TIP) lent \$1,219,973 in securities; the related cash collateral received was \$1,188,063 and non-cash collateral was \$60,349. The composition of the lent securities of \$1,219,973 was: U.S. Treasury obligations, \$694,413; U.S. government agencies, \$241,336; corporate bonds and notes, \$72,725; and common and preferred stocks, \$211,499 (amounts in thousands).

**Financial Instruments With Off-Balance Sheet Risk**

The **Tobacco Settlement Fund** enters into derivatives and structures instruments primarily to enhance the performance and reduce volatility of its investment portfolio. It enters into futures contracts to gain or hedge exposure to certain investment markets and to manage interest rate risk.

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 **Tobacco Settlement Fund** has entered into certain futures contracts maturing through September 2006; such contracts are S&P sell contracts, with a notional value of \$4 million at June 30, 2006.

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

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

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

Foreign exchange contracts are agreements to exchange the currency of one country for the currency of another country at an agreed upon price and settlement date. The SERS uses these contracts primarily to hedge the currency exposure of its international investments. To reduce the risk of counterparty nonperformance, the SERS generally enters into these contracts with institutions regarded as meeting high standards of credit worthiness. The unrealized gain/loss on contracts is included in the SERS’ net assets and represents the fair value of the contract on December 31. At December 31, 2005, the SERS had contracts to purchase and sell by major foreign currencies were as follows (amounts in thousands):

<u>Foreign Currency</u>	<u>Purchases</u>	<u>Unrealized Gain/(Loss)</u>	<u>Sells</u>	<u>Unrealized Gain/(Loss)</u>
Japanese Yen.....	\$1,410,659	\$ (90,722)	\$ 1,992,241	\$ 132,660
Euro Currency Unit.....	1,222,845	(30,204)	2,124,291	43,855
British Pound Sterling.....	714,559	(23,850)	971,482	22,779
Swiss Franc.....	352,716	(15,309)	565,176	18,227
Swedish Krona.....	133,593	(2,879)	178,620	2,687
Australian Dollar.....	85,128	(3,197)	140,869	3,048
Other.....	3,732	25	8,740	(61)
<b>Total.....</b>	<b><u>\$3,923,232</u></b>	<b><u>\$ (166,136)</u></b>	<b><u>\$ 5,981,419</u></b>	<b><u>\$ 223,195</u></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 March 2006. The notional value of these contracts at December 31, 2005 is as follows (amounts in thousands):

<u>Contract Type</u>	<u>Buy Contracts</u>	<u>Sell Contracts</u>
U.S. Treasury futures....	\$ 52,851	\$ 86,589
S&P futures.....	319,347	-
<b>Total.....</b>	<b><u>\$ 372,198</u></b>	<b><u>\$ 86,589</u></b>

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

Swap agreements provide for periodic payments between parties based on the change in value of underlying assets, indexes, rates, or credit worthiness. During 2005, the SERS entered into commodity swaps, S&P 500 total return swaps, Russell 2000 swaps, credit default swaps, and interest rate swaps. Under the commodity swap arrangement, the SERS receives the net return of the Goldman Sachs Commodity Index from the swap counterparty in return for short-term interest plus a spread, which it pays to the counterparty. The commodity swaps are used as an inflation hedge and settle on a monthly basis. The S&P 500 total return swaps are used to gain equity exposure on its absolute return fund-of-fund investments. The Russell 2000 swaps are used to gain equity exposure on its global macro strategy investments. Under those arrangements, the SERS receives the net return of the respective equity indices in exchange for a short-term rate plus a spread. The SERS uses multiple contracts with counterparties as well as collateral posting requirements to manage its credit risk. The contracts have varying maturity dates ranging from March 17, 2006 through January 3, 2007. Credit default swaps are agreements with counterparties to either purchase or sell credit protection. The SERS’ advisors use credit default swaps to either increase or decrease credit exposure to certain credit markets. Interest rate swaps are over-the-counter contracts that allow counterparties to exchange a fixed rate

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

liability for a floating rate liability. The SERS uses interest rate swaps as the most cost-effective way of gaining exposure to certain sectors of the fixed income market.

The tables below presents the SERS’ swap exposure at December 31, 2005 (amounts in thousands):

<u>Type of Swap</u>	<u>Notional Value</u>	<u>Receivable</u>
S&P 500 Total Return Index.....	\$5,343,776	\$ 125,321
Goldman Sachs Commodity Index..	1,438,123	35,287
Russell 2000.....	392,236	-
Interest Rate.....	11,000	-
Credit Default.....	8,900	152

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

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

**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; collateralized mortgage obligations (CMOs); other forward contracts, and U.S. Treasury STRIPS. The PSERS is not a dealer, but an end-user of these instruments. The contracts are used primarily to enhance performance and reduce the volatility of the portfolio. The PSERS is exposed to credit risk in the event of non-performance by counterparties to financial instruments. As the PSERS generally enters into transactions only with high quality institutions, no losses associated with counterparty nonperformance on derivative financial instruments have been incurred. Legal risk is mitigated through selection of executing brokers and review of all documentation. The PSERS is exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with risk limits set by senior management, through buying or selling instruments or entering into offsetting positions.

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

The following table summarizes the aggregate notional or contractual amounts for the PSERS’ derivative financial instruments at June 30, 2006 (amounts in thousands):

<u>Type of Derivative</u>	<u>Notional Value</u>
Futures contracts – long.....	\$11,547,597
Futures contracts – short.....	3,828,194
Foreign exchange forward and spot contracts, gross.....	10,161,833
Options - calls purchased.....	25,109
Options - calls sold.....	23,230
Options - puts sold.....	53,167

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specific financial instrument at a predetermined date and price. Gains and losses on future contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay and generally requires margin payments to minimize such risk. In addition, the PSERS enters into short sales, sales of securities it does not

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

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, 2006 represent a restriction on the amount of assets available as of year-end to use for other purposes.

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

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 \$10,162 million of foreign currency contracts outstanding at June 30, 2006 consists of “buy” contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of \$3,869 million and “sell” contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of \$6,292 million. The unrealized loss on contracts of (\$52 million) at June 30, 2006 is included in the PSERS’ net assets and represents the fair value of the contracts. The PSERS’ has authorized an investment manager to manage a currency hedge portfolio consisting of foreign exchange spot and forward contracts, currency futures, and currency options to hedge up to a notional amount of \$5,100 million of the MSCI EAFE Index currencies to U.S. dollars.

The PSERS also invests in mortgage-backed securities (MBS) such as CMOs and MBS forwards to maximize yields. These securities have three types of risk; they include prepayment risk, interest rate risk, and spread risk.

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

**Interest Rate Risk:** Interest rate risk is the risk that an investment’s value will change, advantageously or adversely, due to a change in the absolute value of interest rates.

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

The MBS forwards are subject to credit risk in the event of nonperformance by counterparties. The fair value of CMOs at June 30, 2006 is \$2,296 million.

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

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

**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 TIP.

**Deposit Risks**

At June 30, 2006, Pennsylvania Higher Education Assistance Agency had \$18,700 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. Pennsylvania Infrastructure Investment Authority reported \$368 in deposits that were uninsured and uncollateralized and included both cash and U.S. Treasury money market funds. Pennsylvania State System of Higher Education had \$280 uninsured and uncollateralized. At May 31, 2006, Pennsylvania Turnpike Commission’s deposits were fully insured or collateralized with securities held by the Commission or its agents in the Commission’s name (amounts in thousands).

**Investment Risks**

**Risk Management Policies:** At June 30, 2006 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 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 prohibits a certain percent of the overall portfolio, whereas others determine concentration limits based on security type. Custodial credit risk is avoided through registration; the Pennsylvania Higher Education Assistance Agency disclosed that, at June 30, 2006, \$317,510 of securities were held by the same counterparty as the party used to purchase such securities (amounts in thousands).

**Investments by Type**

At June 30, 2006 the discretely reported component units disclosed a total of \$4,070,553 in investments. This consists of 99 percent fixed income securities (\$4,051,844), and the remaining one percent consists of common stock and cash and cash equivalents. The investment types and related amounts are as follows (amounts in thousands):

<u>Investment Type</u>	<u>Amount</u>
Asset-backed securities.....	\$ 74,153
Cash and cash equivalents.....	16,327
Certificates of deposit.....	20
Commercial paper.....	419,726
Common stock.....	2,382
Corporate obligations.....	311,328
Guaranteed investment contracts.....	102,711
Investment agreements.....	142,206
Money market mutual funds.....	623,781
Mortgage-backed securities.....	97,277
Mutual funds.....	94,145
Repurchase agreements.....	332,649
State and municipal obligations.....	25,704
Treasury Investment Program.....	433,570
U.S. government agencies.....	1,244,909
U.S. Treasury obligations.....	149,665
<b>Total.....</b>	<b><u>\$ 4,070,553</u></b>

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

**Concentration Risk:** Concentration 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 Federal Agencies. Pennsylvania State System of Higher Education has policies that do not limit the concentration in any single issuer for corporate bonds, collateralized mortgage obligations, and asset-backed securities. Also, among the organizations, the following concentrations existed as of June 30, 2006 (May 31, 2006 for Pennsylvania Turnpike Commission) (amounts in thousands):

<u>Issuer</u>	<u>Pennsylvania Turnpike Commission</u>	<u>Pennsylvania Higher Education Assistance Agency</u>
Federal National Mortgage Association.....	\$ 167,960	\$ 99,959
Federal Home Loan Bank.....	174,073	-
Federal Home Loan Mortgage Corporation.....	169,286	-
MBIA, Inc.....	-	67,400
Merrill Lynch & Company.....	-	30,453

**Credit Quality Risk:** At June 30, 2006 approximately \$4,051,844 of total discretely presented component unit investments of \$4,070,553 is fixed income investments, susceptible to credit quality rating. Of the amount of fixed income securities susceptible to credit quality rating, \$3,134,094 are rated, ratings are not available for \$917,750 of fixed income investments. The following table discloses aggregate fair value, by Moody’s or Standard and Poor’s credit quality rating category, at June 30, 2006 (May 31, 2006 for Pennsylvania Turnpike Commission) (amounts in thousands):

<b>CREDIT QUALITY RATING</b>	
<u>Moody's Credit Quality Rating</u>	<u>Amount</u>
Aaa.....	\$ 819,617
Aa.....	84,115
Aa1.....	33,541
Aa3.....	55,715
A.....	16,466
A1.....	255,825
P-1.....	202,175
AGY <sup>a</sup> .....	1,244,909
UST <sup>b</sup> .....	149,665
<b>Moody's subtotals.....</b>	<b><u>\$ 2,862,028</u></b>
<u>Standard and Poor's Credit Quality Rating</u>	
AAA.....	188,597
AA.....	20,329
A-1.....	63,140
<b>Standard &amp; Poor's subtotals.....</b>	<b><u>\$ 272,066</u></b>
<b>Total Rated Investments.....</b>	<b><u>\$ 3,134,094</u></b>

<sup>a</sup> AGY rating is assigned to securities issued by Government Sponsored Enterprises (GSEs) and government-owned corporations. Some widely known GSEs include Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and several other entities. Agency (or GSE) bonds are not normally rated. GSE bonds are not explicitly backed by the full faith and credit of the U.S. Government but they have implied government backing and an implied Aaa/AAA rating.

<sup>b</sup> UST rating is assigned to securities issued by the U.S. Treasury. They are negotiable debt obligations of the U.S. Government secured by its full faith and credit. U.S. Treasury bonds are not usually rated by the NRSRA. Assuming they are held to maturity they are considered extremely credit worthy.

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

**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 discreetly presented component units, excluding Pennsylvania Higher Education Assistance Agency, Pennsylvania Housing Finance Agency, and Pennsylvania Industrial Development Authority, at June 30, 2006 (May 31, 2006 for Pennsylvania Turnpike Commission) (amounts in thousands):

<u>Investment Type</u>	<u>Fair Market Value</u>	<u>Option-Adjusted Duration</u>	<u>Securities with no Available Duration</u>
Asset-backed securities.....	\$ 74,153	1.311	\$ -
Certificates of deposit.....	-	N/A	20
Commercial paper.....	202,175	0.030	-
Corporate obligations.....	259,303	1.462	19
Guaranteed investment contracts.....	16,665	0.500	-
Money market mutual funds.....	-	N/A	13,678
Mortgage-backed securities.....	97,277	1.931	-
Mutual funds.....	2,948	4.300	19,145
Repurchase agreements.....	148,004	0.016	27,653
State and municipal obligations.....	25,704	14.710	-
Treasury Investment Program.....	405,198	0.083	-
U.S. government agencies.....	884,036	3.322	-
U.S. Treasury obligations.....	92,622	1.716	289
<b>Total.....</b>	<b>\$ 2,208,085</b>		<b>\$ 60,804</b>

Pennsylvania Higher Education Assistance Agency, Pennsylvania Housing Finance Agency, and 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 Funds (amounts in thousands):

<u>Investment Type</u>	<u>Matures in Less Than One Year</u>	<u>Matures in 1 to 10 Years</u>	<u>Matures in More than 10 Years</u>	<u>Total</u>
Commercial paper.....	\$ 217,551	\$ -	\$ -	\$ 217,551
Corporate obligations.....	1,999	24,713	25,294	52,006
Guaranteed investment contracts.....	13,593	67,400	5,053	86,046
Investment agreements.....	140,751	-	1,455	142,206
Money market mutual funds.....	610,103	-	-	610,103
Mutual funds.....	72,052	-	-	72,052
Repurchase agreements.....	146,651	10,341	-	156,992
Money markets.....	28,372	-	-	28,372
U.S. government agencies.....	285,496	57,214	18,163	360,873
U.S. Treasury obligations.....	212	35,809	20,733	56,754
<b>Total.....</b>	<b>\$ 1,516,780</b>	<b>\$ 195,477</b>	<b>\$ 70,698</b>	<b>\$ 1,782,955</b>

**Financial Instruments With Off-Balance Sheet Risk**

As of June 30, 2006, Pennsylvania Turnpike Commission, Pennsylvania Higher Education Assistance Agency, Philadelphia Regional Port Authority, Pennsylvania Industrial Development Authority, and Pennsylvania Housing Finance Agency all had financial instruments with off-balance sheet risk. To obtain further information regarding the nature and notional value of the financial instruments refer to their specific Financial Statements.



**NOTE E – CAPITAL ASSETS**

A summary of capital assets by category at June 30, 2006 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.....	\$ 314,855	\$ 6	\$ 314,861	\$ 323	\$ 193,656
Highway right-of-way.....	1,475,916	-	1,475,916	-	-
Buildings .....	5,267,906	3,521	5,271,427	40,014	2,108,334
Improvements other than buildings.....	469,044	317	469,361	-	222,136
Machinery and equipment.....	692,808	94,805	787,613	112,010	631,404
Library books and other.....	-	-	-	-	135,926
Turnpike infrastructure.....	-	-	-	-	4,129,467
Bridge infrastructure.....	7,013,354	-	7,013,354	-	-
Highway infrastructure.....	16,965,413	-	16,965,413	-	-
Waterway infrastructure.....	52	-	52	-	-
Other infrastructure.....	6,991	-	6,991	-	-
Construction in progress.....	366,706	-	366,706	3,522	1,081,619
Highway and bridge construction in progress.....	1,817,217	-	1,817,217	-	-
Total.....	<u>\$ 34,390,262</u>	<u>\$ 98,649</u>	<u>\$ 34,488,911</u>	<u>\$ 155,869</u>	<u>\$ 8,502,542</u>

Changes in general capital assets for the fiscal year ended June 30, 2006 are as follows (amounts in thousands):

	Balance June 30, 2005	Additions	Retirements	Balance June 30, 2006
Non-Depreciable General Capital Assets:				
Land .....	\$ 309,846	\$ 8,070	\$ 3,061	\$ 314,855
Highway right-of-way .....	1,414,507	61,409	-	1,475,916
Construction in progress.....	1,084,655	406,600	1,124,549	366,706
Transportation construction in progress ..	<u>1,562,558</u>	<u>1,088,268</u>	<u>833,609</u>	<u>1,817,217</u>
Subtotal.....	<u>4,371,566</u>	<u>1,564,347</u>	<u>1,961,219</u>	<u>3,974,694</u>
Depreciable General Capital Assets:				
Buildings .....	4,598,949	765,479	96,522	5,267,906
Improvements other than buildings .....	432,962	41,352	5,270	469,044
Machinery and equipment .....	642,388	70,916	20,496	692,808
Highway infrastructure.....	15,878,487	1,086,926	-	16,965,413
Bridge infrastructure.....	6,675,889	337,465	-	7,013,354
Waterway infrastructure .....	1,757	52	1,757	52
Other infrastructure .....	<u>4,509</u>	<u>2,482</u>	<u>-</u>	<u>6,991</u>
Subtotal .....	<u>28,234,941</u>	<u>2,304,672</u>	<u>124,045</u>	<u>30,415,568</u>
Total general capital assets.....	<u>\$32,606,507</u>	<u>\$ 3,869,019</u>	<u>\$ 2,085,264</u>	<u>\$34,390,262</u>

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

Changes in general capital assets accumulated depreciation for the fiscal year ended June 30, 2006 are as follows (amounts in thousands):

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2006</u>
Buildings .....	\$ 1,845,412	\$ 99,226	\$ 260	\$ 1,944,378
Improvements other than buildings .....	192,882	12,581	7	205,456
Machinery and equipment .....	341,117	40,695	16,364	365,448
Highway infrastructure.....	6,976,938	637,167	19,731	7,594,374
Bridge infrastructure .....	1,416,761	135,032	4,175	1,547,618
Other infrastructure .....	<u>1,985</u>	<u>582</u>	<u>-</u>	<u>2,567</u>
Total accumulated depreciation.....	<u>\$10,775,095</u>	<u>\$ 925,283</u>	<u>\$ 40,537</u>	<u>\$ 11,659,841</u>

Depreciation expense, by function, related to governmental activities capital assets for the fiscal year ended June 30, 2006 is as follows (amounts in thousands):

	<u>General Capital Assets</u>	<u>Internal Service</u>
Direction and supportive services.....	\$ 21,763	\$ 5,732
Protection of persons and property.....	62,660	779
Public education.....	19,782	-
Health and human services.....	11,609	-
Economic development.....	3	-
Transportation.....	801,353	-
Recreation and cultural enrichment.....	8,113	-
Total depreciation expense.....	<u>\$ 925,283</u>	<u>\$ 6,511</u>

Changes in Internal Service funds capital assets for the fiscal year ended June 30, 2006 are as follows (amounts in thousands):

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2006</u>
<b>Non-Depreciable Capital Assets:</b>				
Land .....	\$ 6	-	-	\$ 6
Subtotal.....	<u>6</u>	<u>-</u>	<u>-</u>	<u>6</u>
<b>Depreciable Capital Assets:</b>				
Buildings .....	4,258	47	784	3,521
Improvements other than buildings .....	329	-	12	317
Machinery and equipment .....	<u>94,857</u>	<u>5,549</u>	<u>5,601</u>	<u>94,805</u>
Subtotal .....	<u>99,444</u>	<u>5,596</u>	<u>6,397</u>	<u>98,643</u>
Total Internal Service fund capital assets ..	<u>\$ 99,450</u>	<u>\$ 5,596</u>	<u>\$ 6,397</u>	<u>\$ 98,649</u>

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

Changes in Internal Service fund capital assets accumulated depreciation for the fiscal year ended June 30, 2006 are as follows (amounts in thousands):

	<b>Balance June 30, 2005</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2006</b>
Buildings .....	\$ 2,161	\$ 118	\$ 668	\$ 1,611
Improvements other than buildings .....	208	2	7	203
Machinery and equipment .....	<u>56,154</u>	<u>6,391</u>	<u>4,929</u>	<u>57,616</u>
Total accumulated depreciation .....	<u>\$ 58,523</u>	<u>\$ 6,511</u>	<u>\$ 5,604</u>	<u>\$ 59,430</u>

Changes in Enterprise fund capital assets for the fiscal year ended June 30, 2006 are as follows (amounts in thousands):

	<b>Balance June 30, 2005</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2006</b>
<b>Non-Depreciable Capital Assets:</b>				
Land .....	\$ 323	\$ -	\$ -	\$ 323
Construction in progress .....	<u>318</u>	<u>3,204</u>	<u>-</u>	<u>3,522</u>
Subtotal .....	<u>641</u>	<u>3,204</u>	<u>-</u>	<u>3,845</u>
<b>Depreciable Capital Assets:</b>				
Buildings .....	39,814	200	-	40,014
Machinery and equipment .....	<u>64,066</u>	<u>48,023</u>	<u>79</u>	<u>112,010</u>
Subtotal .....	<u>103,880</u>	<u>48,223</u>	<u>79</u>	<u>152,024</u>
Total Enterprise fund capital assets .....	<u>\$ 104,521</u>	<u>\$ 51,427</u>	<u>\$ 79</u>	<u>\$ 155,869</u>

Changes in Enterprise fund capital assets accumulated depreciation for the fiscal year ended June 30, 2006 are as follows (amounts in thousands):

	<b>Balance June 30, 2005</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2006</b>
Buildings .....	\$ 12,623	\$ 1,515	\$ 483	\$ 13,655
Machinery and equipment .....	<u>45,331</u>	<u>14,322</u>	<u>135</u>	<u>59,518</u>
Total accumulated depreciation .....	<u>\$ 57,954</u>	<u>\$ 15,837</u>	<u>\$ 618</u>	<u>\$ 73,173</u>

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

Construction in progress included in general capital assets at June 30, 2006 includes project information as follows (amounts in thousands):

	<b>Project Authorization</b>	<b>Amounts Expended but not Capitalized at June 30, 2006</b>	<b>Authorization Available</b>
Capitol Complex .....	\$ 159,729	\$ 72,832	\$ 86,897
Department of Corrections Institutions .....	96,414	48,622	47,792
Educational Institutions .....	225,460	64,968	160,492
State Parks and Forests .....	86,067	40,056	46,011
State-wide Radio Project .....	123,026	111,043	11,983
Veterans Homes and Military Armories .....	40,408	1,834	38,574
Department of Public Welfare Institutions .....	16,403	7,755	8,648
Transportation Facilities .....	32,857	6,738	26,119
Historical and Museum Commission Facilities .....	23,853	11,337	12,516
State Police Facilities .....	7,655	1,104	6,551
Agriculture Facilities .....	912	277	635
Other .....	<u>8,691</u>	<u>140</u>	<u>8,551</u>
Total .....	<u>\$ 821,475</u>	<u>\$ 366,706</u>	<u>\$ 454,769</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, 2006 the amount of general capital assets related to the initial 1986 valuation amounts to \$1,756 million and does not include highway, bridge or waterway infrastructure.

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

**Tuition Benefits Payable**

The reported liability for tuition benefits payable of \$1,078,480 (amounts in thousands) of the **Tuition Payment Fund**, an Enterprise Fund, at June 30, 2006, is based on several actuarial assumptions, including those related to future sales of tuition credits, tuition cost increases, investment experience and program expenses for the Tuition Account Program. The June 30, 2006 actuarial analysis includes several changes in assumptions to reflect the current view of tuition inflation, updated expense projections and incorporation of the investment advisor’s outlook regarding investment returns. Per-unit tuition credit expense continues to decline as the Program expands. The per-unit credit expense assumption was decreased from 50 to 47 cents. The effect of this change increased the aggregate actuarial reserve (actuarial value of assets less liabilities) by \$16.4 million.

**Insurance Loss Liability**

The reported insurance loss liability of the **State Workers’ Insurance Fund (SWIF)**, an Enterprise Fund, is primarily based on historical claims experience. One of the assumptions used to determine the reported liability amount includes using a discount rate of 3.5 percent at December 31, 2005 and 2.5 percent at December 31, 2004. 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, 2005 and 2004, the following summary provides information on prior year reported insurance loss liability, incurred claims and payments, and current year reported insurance loss liability (amounts in thousands).

<u>Year Ended December 31</u>	<u>Prior Year Liability</u>	<u>Incurred Claims</u>		<u>Payments</u>		<u>Current Year Liability</u>
		<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	
2005.....	\$1,373,810	\$ 486,100	\$ (162,258)	\$ 59,105	\$ 212,370	\$1,426,177
2004.....	\$1,228,548	\$ 358,970	\$ 12,616	\$ 56,150	\$ 170,174	\$1,373,810

Additionally, nonmajor Enterprise funds reported \$610 of insurance loss liability at June 30, 2006 (amounts in thousands).

**NOTE G - TAXES, LOANS AND LEASE RENTALS RECEIVABLE**

**Taxes Receivable:** Taxes receivable at June 30, 2006 consisted of the following (amounts in thousands):

**Statement of Net Assets**

<b>Governmental Activities</b>	
Sales and use.....	\$ 1,062,730
Personal income.....	607,748
Corporation.....	1,061,622
Liquid fuels.....	182,981
Inheritance.....	467,748
Cigarette.....	61,098
Other.....	<u>25,391</u>
Total.....	<u>\$ 3,469,318</u>

Governmental activities taxes receivable includes \$1,209,686 expected to be collected after June 30, 2007 (amounts in thousands).

**Fund Balance Sheets**

	<b><u>General</u></b>	<b><u>Motor License</u></b>	<b><u>Nonmajor Governmental Funds</u></b>	<b><u>Fiduciary Funds</u></b>
Sales and use.....	\$ 1,062,730	\$ -	\$ -	\$ 23,376
Personal income.....	607,748	-	-	-
Corporation.....	1,061,622	-	-	-
Liquid fuels.....	-	182,981	-	-
Inheritance.....	467,748	-	-	-
Cigarette.....	61,098	-	-	-
Other.....	-	-	<u>25,391</u>	<u>1,306</u>
Total.....	<u>\$ 3,260,946</u>	<u>\$ 182,981</u>	<u>\$ 25,391</u>	<u>\$ 24,682</u>

**General Fund** taxes receivable includes \$1,209,686 expected to be collected after June 30, 2007 (amounts in thousands).

**Loans Receivable:** Loans receivable at June 30, 2006 consisted of the following (amounts in thousands):

	<b><u>Primary Government</u></b>				
	<b><u>Governmental Activities</u></b>		<b><u>Business Type Activities</u></b>		<b><u>Discretely Presented Component Units</u></b>
	<b><u>General Fund</u></b>	<b><u>Special Revenue Funds</u></b>	<b><u>Enterprise Funds</u></b>	<b><u>Fiduciary Funds</u></b>	
Mortgage loans.....	\$ -	\$ -	\$ -	\$ -	
Student loans.....	-	-	-	-	9,136,788
Economic development loans.....	13,346	72,731	231,952	-	654,858
Drinking water, storm water and sewer system loans	-	327	-	-	1,668,442
Volunteer fire company loans.....	-	-	109,782	-	-
Environmental program loans.....	-	17,611	-	-	-
Other notes and loan.....	<u>110</u>	<u>-</u>	<u>-</u>	<u>3,097</u>	<u>6,464</u>
	13,456	90,669	341,734	3,097	15,031,896
Less: allowance for uncollectible amounts	<u>2,503</u>	<u>57,985</u>	<u>81,945</u>	<u>-</u>	<u>253,977</u>
Loans receivable, net.....	<u>\$ 10,953</u>	<u>\$ 32,684</u>	<u>\$ 259,789</u>	<u>\$ 3,097</u>	<u>\$ 14,777,919</u>

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

The **General Fund** reports \$6,598 in loans due after June 30, 2007, Special Revenue funds report \$28,261 in loans due after June 30, 2007 and the Enterprise funds report \$213,553 in loans due after June 30, 2007. Discretely presented component units reported \$13,063,411 in loans receivable due after June 30, 2007 (amounts in thousands).

The **General Fund** reported \$10,953 in loans receivable for program objectives, all of which represented governmental activities lending and of which, \$6,598 is due after June 30, 2007. Agency Funds reported \$3,097 in loans receivable to replace underground storage tanks, of which \$2,879 is due after June 30, 2007 (amounts in thousands).

**Lease Rentals Receivable:** The Capital Facilities Fund, a Capital Projects fund, reports expenditure amounts related to construction projects for educational institutions funded through the issuance of general obligation bonds, the principal and interest of which are paid through the collection of lease rental payments and deposited in the Capital Debt Fund, a Debt Service fund. At the conclusion of the lease terms, the project facilities are conveyed to the educational institutions. Accordingly, these lease arrangements are classified as direct financing leases. Lease rental receivables and associated deferred revenue equal to the principal lease payments to be received are recorded in the Capital Debt Fund. At June 30, 2006 the total remaining minimum lease payments to be received were \$928 thousand, consisting of principal present value of \$862 thousand and interest of \$66 thousand.

The Pennsylvania Industrial Development Authority, a discretely presented component unit, reported a lease rental receivable with total remaining minimum payments to be received of \$18.8 million, consisting of principal present value of \$17.6 million and interest of \$1.2 million at June 30, 2006.

Minimum lease payments receivable for the five fiscal years succeeding June 30, 2006 are as follows (amounts in thousands):

<u>Fiscal Year Ending June 30</u>	<u>Primary Government</u>	<u>Discretely Presented Component Units</u>
2007.....	\$ 194	\$ 3,825
2008.....	194	4,287
2009.....	194	4,287
2010.....	194	4,287
2011.....	127	2,143

Except for \$194 owed to the primary government and \$3,825 owed to discretely presented component units, all amounts receivable under lease rentals are due after June 30, 2007 (amounts in thousands).

**Governmental Funds Unearned Revenue**

The following fund types reported unearned revenue at June 30, 2006. The following chart provides the portion of total unearned revenue which was 1) unavailable or 2) not yet earned as of June 30, 2006 (amounts in thousands);

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
Unavailable .....	\$ 1,849,011	\$ 30,158	\$ 4,341
Unearned .....	<u>48,223</u>	<u>215,567</u>	<u>-</u>
Total unearned revenue .....	<u>\$ 1,897,234</u>	<u>\$ 245,725</u>	<u>\$ 4,341</u>

**NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS**

**Statement of Net Assets**

**Internal Balances**

In the Statement of Net Assets, reported internal balances of (\$89,550)/\$88,337 for governmental activities/business-type activities differ by \$1,213 because the **State Workers’ Insurance Fund**, an Enterprise Fund, reports for its fiscal year ended December 31, 2005.

**Interfund Balances**

The composition of governmental and proprietary funds interfund balances reported at June 30, 2006 is as follows, with Major Fund titles in bold. Aggregate nonmajor governmental funds receivables from other funds and from component units, respectively, amount to \$82,578 and \$15,473; aggregate nonmajor enterprise funds receivables amount to \$2,123 and \$7; aggregate internal service funds receivables amount to \$17,315 and \$507 (amounts in thousands):

<u>FUND TYPE/FUND PRIMARY GOVERNMENT</u>	<u>DUE FROM</u>		<u>DUE TO</u>	
	<u>OTHER FUNDS</u>	<u>COMPONENT UNITS</u>	<u>OTHER FUNDS</u>	<u>COMPONENT UNITS</u>
<b>General Fund</b>	\$ 47,620	\$ 490	\$ 71,546	\$ 2,454
<u>Special Revenue:</u>				
<b>Motor License Fund</b> .....	7,443	-	20,819	11,382
<b>Tobacco Settlement Fund</b> .....	-	-	36,145	-
State Gaming Fund.....	-	-	19,003	-
State Racing Fund.....	-	-	1,982	-
Vocational Rehabilitation Fund.....	-	-	1,978	-
Pharmaceutical Assistance Fund.....	34,834	-	-	-
Agricultural Conservation Easement Purchase Fund	10,243	-	-	-
Public Transportation Assistance Fund.....	7,002	-	375	-
Other Funds.....	298	-	3,188	-
	<u>59,820</u>	<u>-</u>	<u>83,490</u>	<u>11,382</u>
<u>Capital Projects:</u>				
Capital Facilities Fund.....	28,963	15,473	620	-
Keystone Recreation, Park and Conservation Fund...	1,238	-	6,675	-
	<u>30,201</u>	<u>15,473</u>	<u>7,295</u>	<u>-</u>
<u>Enterprise:</u>				
<b>Unemployment Compensation Fund</b> .....	2,811	362	5	-
<b>State Lottery Fund</b> .....	-	-	72	-
<b>Tuition Payment Fund</b> .....	-	-	15	-
State Stores Fund.....	164	-	3,544	-
Rehabilitation Center Fund.....	1,830	-	16	-
Other Funds.....	129	7	105	-
	<u>4,934</u>	<u>369</u>	<u>3,757</u>	<u>-</u>
<u>Internal Service:</u>				
Purchasing Fund.....	15,527	502	429	-
Manufacturing Fund.....	1,788	5	29	-
	<u>17,315</u>	<u>507</u>	<u>458</u>	<u>-</u>
<u>Fiduciary - Pension Trust:</u>				
State Employees’ Retirement System.....	1,919	4,736	-	-
	<u>1,919</u>	<u>4,736</u>	<u>-</u>	<u>-</u>
Total primary government.....	\$ 161,809	\$ 21,575	\$ 166,546	\$ 13,836



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

COMPONENT UNITS	DUE FROM		DUE TO	
	PRIMARY GOVERNMENT	COMPONENT UNITS	PRIMARY GOVERNMENT	COMPONENT UNITS
Pennsylvania Turnpike Commission.....	\$ 7,205	\$ -	\$ -	\$ -
Pennsylvania Infrastructure Investment Authority	-	90	3	21
Pennsylvania Industrial Development Authority ..	63	-	-	-
Patient Safety Trust Authority.....	-	-	5	-
Thaddeus Stevens College of Technology .....	-	-	2	-
	<u>7,268</u>	<u>90</u>	<u>10</u>	<u>21</u>
<b>Fiduciary - Pension Trust:</b>				
Public School Employees' Retirement System ....	<u>1,959</u>	<u>-</u>	<u>5,476</u>	<u>-</u>
Total component units.....	<u>\$ 9,227</u>	<u>\$ 90</u>	<u>\$ 5,486</u>	<u>\$ 21</u>

The amount of total reported interfund receivables of \$192,701 does not agree with total reported interfund payables of \$185,889 at June 30, 2006 due to different fiscal year ends and reporting differences for certain Funds included in the Fund Financial Statements at June 30, 2006. The amount reported for the Pennsylvania Turnpike Commission, a discretely presented component unit, is reported at its fiscal year ended May 31, 2006; the State Stores Fund, an Enterprise Fund, is reported at its fiscal year ended June 27, 2006; 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, 2005. The following presents a reconciliation of interfund balances reported at June 30, 2006 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.....	\$ 136,663	\$ 22,222	\$ 1,919	\$ -	\$ 160,804
Due from pension trust funds.....	978	27	-	-	1,005
Due from component units .....	15,963	876	4,736	90	21,665
Due from primary government .....	-	-	1,959	7,268	9,227
Total.....	<u>\$ 153,604</u>	<u>\$ 23,125</u>	<u>\$ 8,614</u>	<u>\$ 7,358</u>	<u>\$ 192,701</u>
<b>Reported Interfund Receivables</b> .....					\$ 192,701
State Employees' Retirement System decrease in receivables from January 1, 2006 through June 30, 2006 .....					(439)
Pennsylvania Turnpike Commission increase in receivables from June 1, 2006 through June 30, 2006.....					4,003
Interfund receivables reported as accounts receivable by component units.....					627
Interfund receivables reported as tax receivables by Fiduciary Funds.....					2,478
Payroll accrual at June 30, 2006 – receivables attributable to State Employees' Retirement System.....					<u>5,235</u>
<b>Reconciled Interfund Receivables</b> .....					<u>\$ 204,605</u>

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

	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>	<u>Total</u>
Due to other funds .....	\$ 154,283	\$ 4,020	\$ -	\$ -	\$ 158,303
Due to pension trust funds .....	8,048	195	-	-	8,243
Due to component units .....	13,836	-	-	21	13,857
Due to primary government .....	-	-	5,476	10	5,486
Total .....	<u>\$ 176,167</u>	<u>\$ 4,215</u>	<u>\$ 5,476</u>	<u>\$ 31</u>	<u>\$ 185,889</u>
<b>Reported Interfund Payables</b> .....					\$ 185,889
State Employees' Retirement System increase in payables from January 1, 2006 through June 30, 2006 .....					231
Deferred Compensation Fund increase in payables from January 1, 2006 through June 30, 2006 .....					2
Pennsylvania Turnpike Commission increase in payables from June 1, 2006 through June 30, 2006 .....					622
<b>State Workers' Insurance Fund</b> increase in payables from January 1, 2006 through June 30, 2006 .....					617
Interfund payables reported as accounts payable by component units .....					16,511
Interfund payables reported as accounts payable and tax receivable reductions by Fiduciary Funds .....					777
Adjustments .....					<u>(44)</u>
<b>Reconciled Interfund Payables</b> .....					<u>\$ 204,605</u>

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

At June 30, 2006 (May 31, 2006 for PA Turnpike Commission), Commonwealth support reported by the discretely presented Component Units is (amounts in thousands):

State System of Higher Education (appropriation, grant, subsidy)	\$ 586,105
PA Higher Education Assistance Agency (appropriation, grant, subsidy)	429,250
PA Turnpike Commission (oil franchise tax, vehicle registration fees)	83,749
Ben Franklin Technology Development Authority (appropriation, grant, subsidy)	50,300
PA Infrastructure Investment Authority (capital contribution)	24,725

**Advances – Fund Financial Statements**

At June 30, 2006 the **General Fund** reported Advances to Other Funds of \$114,108. Specifically, this amount has been advanced as follows: \$2,300 to the **State Workers' Insurance Fund** and \$85,000 to the State Stores Fund, Enterprise Funds; \$2,175 to the **Motor License Fund** and \$10,333 to the Pharmaceutical Assistance Fund, Special Revenue Funds; and, \$14,300 to the Purchasing Fund, an Internal Service Fund. These amounts have been reported by the respective owing Funds as Advances from Other Funds, except for the **State Workers' Insurance Fund**, which reported an advance of \$1,669 at its fiscal year ended December 31, 2005. At June 30, 2006 the Hazardous Sites Cleanup Fund, a Special Revenue Fund, reported an Advance to Other Funds of \$3,000. This amount was advanced to the Small Business First Fund, an Enterprise Fund. All amounts advanced are expected to be repaid subsequent to June 30, 2007. The Underground Storage Tank Indemnification Fund, an Agency Fund, reported an \$82,500 statutory advance to the **General Fund** at June 30, 2006. Subsequent to June 30, 2007, \$75,000 (amounts in thousands) are expected to be repaid.

**Transfers**

A summary of transfers reported for the fiscal year ended June 30, 2006 is as follows, with Major Fund titles in bold. Aggregate nonmajor governmental fund transfers from other funds amount to \$1,319,421 during June 30, 2006 and include a \$380,000 transfer from the **State Lottery Fund** to the Pharmaceutical Assistance Fund. Aggregate nonmajor governmental fund transfers to other funds amount to \$38,380. Aggregate nonmajor proprietary transfers to other funds amount to \$82,000

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

(amounts in thousands):

<u>PRIMARY GOVERNMENT</u>	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
<b>General Fund</b> .....	\$ 88,930	\$ 827,040
<u>Special Revenue:</u>		
<b>Tobacco Settlement Fund</b> .....	-	29,301
<b>Motor License Fund</b> .....	-	48,630
State Racing Fund.....	-	1,813
Vocational Rehabilitation Fund.....	39,122	-
Pharmaceutical Assistance Fund.....	409,301	-
Community College Capital Fund.....	37,864	-
Environmental Stewardship Fund.....	-	30,679
Hazardous Sites Cleanup Fund.....	20,000	-
Emergency Energy Assistance Fund.....	19,300	-
Agricultural Conservation Easement Fund.....	10,679	-
Educational Assistance Program Fund.....	10,000	-
Other Funds.....	<u>13,638</u>	<u>5,888</u>
	<u>559,904</u>	<u>116,311</u>
<u>Debt Service:</u>		
Land and Water Development Sinking Fund.....	120	-
Water Facilities Loan Redemption Fund.....	3,060	-
Capital Debt Fund.....	740,721	-
Local Criminal Justice Sinking Fund.....	1,203	-
Agricultural Conservation Easement Sinking Fund.....	1,943	-
Keystone Recreation, Park and Conservation Sinking Fund....	1,976	-
Disaster Relief Redemption Fund.....	2,043	-
Pennsylvania Economic Revitalization Sinking Fund.....	613	-
Volunteer Companies Loan Sinking Fund.....	628	-
Pennsylvania Infrastructure Investment Authority Redemption Fund.....	<u>7,210</u>	<u>-</u>
	<u>759,517</u>	<u>-</u>
<u>Enterprise:</u>		
<b>State Lottery Fund</b> .....	-	380,000
<b>Unemployment Compensation Fund</b> .....	-	3,000
State Stores Fund.....	<u>-</u>	<u>82,000</u>
	<u>-</u>	<u>465,000</u>
 Total transfers, fund financial statements.....	 1,408,351	 1,408,351
 Less: net elimination of governmental fund transfers.....	 <u>943,351</u>	 <u>943,351</u>
 Total transfers, Statement of Activities.....	 <u>\$ 465,000</u>	 <u>\$ 465,000</u>

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

<u>Assigning Fund</u>	<u>Receiving Fund</u>	<u>Reason</u>	<u>Amount</u>
Liquor License	<b>General</b>	Legal/contractual	\$ 80
Liquid Fuels Tax	<b>Motor License</b>	Legal/contractual	419
Land and Water Development	Land and Water Development Sinking	Legal/contractual	67
Remining Financial Assurance	Land and Water Development Sinking	Other than legal/contractual	170
Fire Insurance Tax	State Insurance	Legal/contractual	1,400

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

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

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

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

**State Employees' Retirement System**

**Plan Description:** The SERS is the administrator of a cost-sharing multiple-employer defined benefit retirement system established to provide pension benefits for employees of state government and certain other organizations. At December 31, 2005 there were 108 employer state agencies and other organizations participating in the SERS. The SERS provides retirement, death, and disability benefits.

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

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

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

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

Act 9 provided that new benefits arising there from were to be funded over a ten-year period, with level dollar funding, beginning July 1, 2002. Act 9 also provided that all the existing actuarial assets and liabilities were to be combined and refinanced over a ten-year period using level dollar funding and future actuarial gains and losses were to be amortized using ten-year level dollar funding. On December 10, 2003, Governor Rendell signed Act 2003-40 (Act 40) into law. The significant provisions of the law were to change certain actuarial methods and periods used to amortize actuarial assets and liabilities.

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

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

<u>Year ended December 31</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2005	\$ 319,190	46.1
2004	\$ 105,229	100.0
2003	\$ 55,079	123.4

Pursuant to Act 40, beginning July 1, 2005, the SERS established employer contribution rates which resulted in total 2005 employer contributions, which were lower than the minimum annual required contribution as defined by GASB Statement No. 25. Since the SERS is a cost-sharing multiple-employer defined benefit retirement system and all SERS-required employer contributions were made, no unfunded liability is reported by the Commonwealth as of June 30, 2006.

At December 31, 2005, 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 investment in the Commonwealth Treasury short-term investment pool is reported at cost plus allocated interest, which approximates fair value. Collateral received under the Commonwealth Treasury securities lending program is reported at cost plus accrued interest, which approximates fair value. United States government obligations, corporate and foreign bonds and notes, and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Securities that are not traded on a national security exchange are valued by the asset manager or third parties based on similar sales. The System has entered into certain swap contracts with a notional amount equivalent to the System’s original investment in the absolute return fund-of-funds limited partnerships to provide S&P 500 returns. The combination of the swaps and the underlying investments result in a return consistent with an actively managed equity portfolio. Accordingly, those investments have been classified as common stocks on the statement of net assets. Real estate is primarily valued based on appraisals performed by independent appraisers or, for properties not appraised, at the present value of the projected future net income stream. Alternative investments, which include interests in limited partnerships invested in venture capital, leveraged buyouts, private equities, and other investments are valued based on amounts established by valuation committees, which are subject to an annual independent audit. The values for real estate and alternative investments are reported on a one-quarter lag (September 30), adjusted for cash flows through December 31. Foreign exchange and futures contracts are marked-to-market daily with changes in fair value recognized as part of investments and investment income. The fair values of swaps are determined no less than monthly based on the return of the underlying indices, which is generally exchanged for a short-term rate plus a spread.

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

**Public School Employees’ Retirement System**

**Plan Description:** The PSERS is a cost-sharing multiple-employer defined benefit retirement system established to provide pension and other benefits for public school employee members. At June 30, 2006 there were 733 participating employers, generally school districts. The PSERS provides retirement, death, disability and health care benefits. In most cases, retirement benefits vest after 5 years of credited service. Members are eligible for full monthly retirement benefits upon reaching (a) age 62 with at least one year of service, (b) age 60 with 30 or more years of service, or (c) 35 or more years of service regardless of age.

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

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

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

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

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

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

<u>Fiscal year</u> <u>Ended June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2006	\$ 456,878	100
2005	\$ 431,556	100
2004	\$ 321,091	100

At June 30, 2006, the PSERS disclosed that \$127,954 of \$236,005 (in thousands) of member receivables for purchases of service credit is due subsequent to June 30, 2007.

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

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

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

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

**Other Postemployment Benefits**

The Commonwealth funds certain health care benefits for retired primary government and certain component unit employees (that meet specified length-of-service and age requirements) and their eligible dependents. These benefits are provided as a result of negotiated union contracts and through administrative policy. The Commonwealth recognizes the cost of providing these benefits as paid, which totaled \$519 million for the fiscal year ended June 30, 2006. Approximately 93,000 individuals were covered by these benefits during the fiscal year.

The Commonwealth provides several other postemployment benefits, including disability life insurance and certain benefits to beneficiaries of state police officers killed in the line of duty. The amount expended for these benefits was not material during the fiscal year ended June 30, 2006.

**NOTE J - NOTES AND DEMAND REVENUE BONDS PAYABLE**

**Primary Government**

During the fiscal year ended June 30, 2006, the Commonwealth did not issue any tax or bond anticipation notes or any other short-term debt and no short-term debt was repaid. At June 30, 2006 and 2005, no short-term debt was outstanding except for the current portion of a governmental activities statutory liability for an other financing obligation to the Underground Storage Tank Indemnification Fund, an Agency Fund, at June 30, 2006 amounting to \$6.5 million; the noncurrent portion of this statutory liability, also reported as an other financing obligation, amounts to \$76 million at June 30, 2006.

**Discretely Presented Component Units**

The Pennsylvania Higher Education Assistance Agency (PHEAA), a discretely presented component unit, has reported \$7,763,376 of demand revenue bonds outstanding and \$1,426,177 of notes payable and other obligations, consisting of student loan financing of \$1,237,260, capital financing of \$67,765, term financings of \$71,999 and lines of credit of \$49,900, net of unamortized discount of \$747 at June 30, 2006 as follows (amounts in thousands):

	<u>Balance</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2006</u>
Student loan demand revenue bonds due 2017-2046, at weighted average interest rates of 4.86 and 2.92 percent at June 30, 2006 and 2005, respectively.....	\$4,724,900	\$3,050,000	\$ -	\$ 7,774,900
Less: Deferred amount on current refundings of student loan demand revenue bonds.....	<u>12,323</u>	<u>-</u>	<u>799</u>	<u>11,524</u>
Total demand revenue bonds payable.....	<u>\$4,712,577</u>	<u>\$3,050,000</u>	<u>\$ 799</u>	<u>\$7,763,376</u>
Notes payable:				
Student loan financing, due 2007-2037, at weighted average interest rates of 5.18 and 3.29 percent at June 30, 2006 and 2005, respectively.....	\$ 841,919	\$ 756,000	\$360,659	\$1,237,260
Capital and other financing obligations:				
Capital financings, due 2007-2011 at weighted average interest rates of 6.13 and 6.11 percent at June 30, 2006 and 2005, respectively.....	70,096	-	2,331	67,765
Term financings, due 2007-2031, at weighted average interest rates of 5.10 and 5.12 percent at June 30, 2006 and 2005, respectively.....	75,150	-	3,151	71,999
Lines of credit, due on demand at weighted average interest rate of 6.85 percent at June 30, 2006	<u>-</u>	<u>49,900</u>	<u>-</u>	<u>49,900</u>
Subtotal	987,165	805,900	366,141	1,426,924
Less: unamortized discount .....	<u>819</u>	<u>-</u>	<u>72</u>	<u>747</u>
Total notes payable and other obligations .....	<u>\$ 986,346</u>	<u>\$ 805,900</u>	<u>\$ 366,069</u>	<u>\$ 1,426,177</u>



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

The note and bond indentures, among other things, require the PHEAA to comply with various covenants including minimum parity levels as defined, student loan and investment yields, and program expenses. The demand bonds payable are subject to purchase, at par plus accrued interest, by the PHEAA on demand of the bondholders upon seven days prior irrevocable written notice. Under the irrevocable letters of credit, the trustee is entitled to draw an amount sufficient to pay the purchase price of the bonds delivered to it. The letters of credit are valid from 2006 through 2015. The PHEAA is required to pay annual commitment fees ranging from 10 to 30 basis points on the stated amount of the letter of credit coverage. At June 30, 2006 total letter of credit coverage was \$1.5 billion.

All student loan demand revenue bonds payable and financing notes payable are collateralized by student loans and investments. At June 30, 2006, \$9 billion of debt is collateralized by \$9 billion of student loan principal and related interest receivable, and \$183.1 million of investments and related interest receivable. Capital financings are collateralized with capital assets. Amounts due under other lines of credit are generally unsecured. At June 30, 2006 the PHEAA had \$18.1 million of available credit under student loan financing arrangements and \$55.1 million available under other lines of credit.

Debt service requirements subsequent to June 30, 2006, based upon stated maturities of bonds payable, notes payable and other financing obligations are as follows (amounts in thousands):

<b>Year of Maturity</b>	<b>Student Loan Bonds and Notes</b>		<b>Other Financing Obligations</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2007.....	\$ 159,009	\$ 435,316	\$ 53,800	\$13,021
2008.....	698,910	397,205	3,484	7,044
2009.....	-	397,205	3,385	6,884
2010.....	-	397,205	3,330	6,729
2011.....	-	397,205	63,055	4,653
2012-16.....	-	1,986,028	10,665	13,626
2017-21.....	620,241	1,900,708	13,320	10,669
2022-26.....	570,000	1,814,889	16,970	6,710
2027-31.....	550,000	1,683,969	21,655	1,790
2032-36.....	75,000	1,614,020	-	-
2037-41.....	1,529,000	1,455,839	-	-
2042-46.....	4,810,000	883,219	-	-
Total.....	<u>\$ 9,012,160</u>	<u>\$13,362,808</u>	<u>\$ 189,664</u>	<u>\$ 71,126</u>
Reported as:				
Demand revenue bonds payable.....	\$ 7,763,376		-	
Add: Deferred amount on current refundings..	<u>11,524</u>		-	
Total principal owed on demand revenue bonds payable.....	<u>7,774,900</u>		-	
Notes payable - current.....	159,009		-	
Notes payable - noncurrent.....	1,078,251		-	
Other financing obligations, current .....	-		\$53,800	
Other financing obligations, noncurrent.. .....	-		135,117	
Add: Unamortized discount.....	<u>-</u>		<u>747</u>	
Total principal owed. ....	<u>\$ 9,012,160</u>		<u>\$ 189,664</u>	

The PHEAA has \$9.0 billion of student loan bonds and notes that are variable-rate debt, of which \$1.4 billion resets based upon auctions every seven days, \$5.6 billion resets based upon auctions every 28 days, \$791.0 million resets based upon auctions every 35 days, \$698.9 million is indexed to 91-day Treasury bills, and the remaining \$538.3 million is indexed to the 3-month LIBOR. PHEAA notes and bonds payable, as well as all other debt, are limited obligations of the PHEAA. The PHEAA has no taxing power, and the Commonwealth is not obligated to pay the principal, redemption price, if any, or interest on any of the PHEAA's debt.

Additionally, the Philadelphia Regional Port Authority reported current and non-current notes payable, respectively, of \$378 and \$2,790 (in thousands) at June 30, 2006; component unit organizations of the State System of Higher Education (SSHE) reported notes payable of \$182,147 (in thousands) at June 30, 2006. Also, the SSHE and the Port of Pittsburgh Commission, respectively, reported other financing obligations of \$75,709 and \$2,000 (in thousands) at June 30, 2006.

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

Long-term obligations of the Commonwealth’s governmental activities at June 30, 2006 and changes for the fiscal year ended June 30, 2006 are as follows (amounts in thousands):

GENERAL LONG-TERM OBLIGATIONS	Issue Dates	Interest Rates	Maturity Dates Through	Bonds Authorized But Unissued	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
General Obligation Bonds Payable From								
Tax Revenues:								
Capital Facilities .....	1992-06	3.50-6.25%	2026	\$ 45,794,483	\$ 3,464,410	\$ 680,000	\$ 282,905	\$ 3,861,505
Disaster Relief .....	2000-01	5.00- 6.00%	2021	105,908	9,580	-	1,510	8,070
Land and Water Development.....	1992	6.00-6.25%	2012	300	1,600	-	160	1,440
Nursing Home Loan Development.....	-	-	-	31,000	-	-	-	-
Volunteer Companies Loan.....	1992-98	5.00-6.25%	2012	50,000	1,945	-	530	1,415
Vietnam Conflict Veterans Compensation .....	-	-	-	3,000	-	-	-	-
Water Facilities Loan .....	1992-97	5.13- 6.25%	2012	11,500	13,060	-	2,325	10,735
Pennsylvania Economic Revitalization	1992	6.00- 6.25%	2012	14,000	3,305	-	425	2,880
Pennsylvania Infrastructure Investment Authority.....	1992-05	4.50- 6.25%	2026	217,000	23,335	50,000	6,010	67,325
Agricultural Conservation Easement Purchase .....	1992-98	4.50- 6.25%	2014	-	11,515	-	1,380	10,135
Local Criminal Justice.....	1997-06	4.00-5.25%	2026	4,500	6,375	1,000	905	6,470
Keystone Recreation, Park and Conservation .....	1997-98	5.00- 5.00%	2008	-	3,455	-	1,805	1,650
Water Supply and Wastewater Treatment.....	2005-06	4.50-5.50%	2026	200,000	-	50,000	-	50,000
Growing Greener.....	2005-06	4.50-5.50%	2026	442,000	-	183,000	-	183,000
Refunding Bonds .....	1992-04	3.00-6.40%	2021	-	3,292,245	(7,501)	194,400	3,090,344
Total principal .....				46,873,691	6,830,825	956,499	492,355	7,294,969
Unamortized premium on bonds issued.				-	501,883	57,754	28,653	530,984
Unamortized deferred net refunded loss				-	(182,039)	-	(13,760)	(168,279)
Total general obligation bonds payable				46,873,691	7,150,669	1,014,253	507,248	7,657,674
Other General Long-Term Obligations								
Payable From Tax and Other Revenues:								
Installment Purchase Obligations.....	-	-	-	-	4,387	-	1,816	2,571
Capital Lease Obligations.....	-	-	-	-	42,888	568	3,969	39,487
Self-Insurance—Note M * .....	-	-	-	-	819,958	426,369	509,955	736,372
Compensated Absences * .....	-	-	-	-	671,545	397,596	338,369	730,772
Other .....	-	-	-	-	1,307,343	256,242	603,320	960,265
Subtotal.....				-	2,846,121	1,080,775	1,457,429	2,469,467
<b>TOTAL GENERAL LONG-TERM OBLIGATIONS .....</b>				<b>\$ 46,873,691</b>	<b>\$ 9,996,790</b>	<b>\$ 2,095,028</b>	<b>\$ 1,964,677</b>	<b>\$ 10,127,141</b>

\* The estimated current portion of self-insurance and compensated absence liabilities, respectively, is \$147,750 and \$105,586.

Revenue bond obligations of discretely presented component units at June 30, 2006 (May 31, 2006 for the Pennsylvania Turnpike Commission) and changes for the fiscal year then ended are as follows (amounts in thousands):

REVENUE BONDS PAYABLE	Issue Dates	Interest Rates	Maturity Dates Through	Bonds Authorized But Unissued	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
Philadelphia Regional Port Authority ....	2003	Variable	2021		\$ 48,300	\$ -	\$ 2,400	\$ 45,900
Pennsylvania Housing Finance Agency.	1992-05	1.80-9.00%	2036		3,286,187	551,520	390,872	3,446,835
Pennsylvania Industrial Development Authority.....	1994-04	4.00-6.00%	2021		478,510	-	24,705	453,805
Pennsylvania Turnpike Commission.....	1998-04	2.50-5.50%	2041		2,451,960	465,560	506,910	2,410,610
Commonwealth Financing Authority....	2005-06	4.50-5.60%	2026		-	375,000	-	375,000
Pennsylvania Infrastructure Investment Authority.....	1993-05	2.00-6.00%	2014		96,810	37,315	58,310	75,815
					6,361,767	1,429,395	983,197	6,807,965
Less: Bond discounts/(premiums) .....	-	-	-		(9,165)	(32,804)	5,281	(47,250)
Deferred refunding costs/loss.....	-	-	-		30,629	3,956	4,364	30,221
<b>TOTAL REVENUE BONDS PAYABLE .....</b>					<b>\$ 6,340,303</b>	<b>\$ 1,458,243</b>	<b>\$ 973,552</b>	<b>\$ 6,824,994</b>

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

Additionally, component unit organizations of the State System of Higher Education reported \$275,840 of revenue bonds payable at June 30, 2006.

**Primary Government**

The Commonwealth has pledged its full faith and credit for the payment of principal and interest on its general obligation bonds. Typically only the **General Fund** and the **Motor License Fund** transfer amounts to Debt Service funds for general obligation bond principal and interest payments. During the fiscal year ended June 30, 2006, respectively, these two Funds transferred \$694,183 and \$46,537 to the Capital Debt fund, which reported \$816,780 (nearly 98 percent) of total Debt Service funds principal and interest expenditures of \$835,709 (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 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; where employees earn compensated absences; or where self-insurance claims originate.

The total “Additions” of \$1,014,253 for General Obligations Bonds Payable at June 30, 2006 consists of total principal of \$956,499, plus premium on bonds/refunding bonds of \$57,754 for Governmental Funds. As part of the total “Additions” the total principal of \$956,499 for General Obligations Bonds Payable consists of bonds issued of \$964,000, less net principal accretion on capital appreciation bonds of \$7,501. In December 2005, \$50,000 of bonds issued were distributed to the PA Infrastructure Investment Authority, a discretely presented component unit. Of that amount \$28,607 is to be repaid by the PA Infrastructure Investment Authority (amounts in thousands).

The total “Reductions” of \$507,248 for General Obligations Bonds Payable from Tax Revenues at June 30, 2006 consists of total principal of \$492,355, plus \$28,653 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, 2005 is \$530,984, less \$13,760 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, 2005 is \$168,279 (amounts in thousands):

	<u>Additions</u>	<u>Reductions</u>
Bonds.....	\$964,000	\$492,355
Net principal accretion.....	(7,501)	-
Total principal.....	956,499	492,355
Unamortized premium on bonds issued.....	57,754	28,653
Unamortized deferred net refunded loss.....	-	(13,760)
<b>Changes in general obligation bonds payable...</b>	<b><u>\$1,014,253</u></b>	<b><u>\$ 507,248</u></b>

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

The balance outstanding at June 30, 2006 for general obligation refunding bonds includes \$11 million of accreted value for capital appreciation bonds. No principal or interest is payable on the capital appreciation bonds until maturity.

Included in “Other” for Other General Long-Term Obligations payable from workers’ compensation assessments, investment income and/or **General Fund** tax revenues are the following at June 30, 2006 (amounts in thousands):

Workers’ Compensation Security Trust Claims.....	\$ 732,173
Catastrophic Loss Benefits Claims .....	102,303
Public Utility Realty Tax Act (PURTA).....	23,439
Litigation—Note N.....	101,461
Restricted Receipts .....	889
Arbitrage Rebate Tax.....	-
Total .....	<u>\$ 960,265</u>

The Workers’ Compensation Security Trust Fund provides for payment of valid claims under the Workers’ Compensation Law to individuals whose employers are insured by insolvent insurance carriers. The Catastrophic Loss Benefits Trust Fund

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

provides specific benefits to qualifying claimants who sustained severe injuries in motor vehicle accidents. The PURTA provides for a tax on utility realty property whereby amounts received during the fiscal year are used as a General Fund revenue source. The Act also provides for payment of a majority of the PURTA revenues as a distribution to local taxing authorities during the following fiscal year (normally in October). Such payments are appropriated for expenditure in the following fiscal year and are, therefore, not expendable during the fiscal year the related revenue is received. The other amounts included in General Long-Term Obligations at June 30, 2006 relating to Workers’ Compensation Claims, Catastrophic Loss Benefits Claims, Litigation and Arbitrage Rebate Tax are not 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 \$48.2 billion as of August 31, 2006, with net debt outstanding of \$6.4 billion.

**Discretely Presented Component Units**

The Pennsylvania Housing Finance Agency (PHFA), the Pennsylvania Higher Education Assistance Agency (PHEAA), the Pennsylvania Industrial Development Authority, the Pennsylvania Turnpike Commission (PTC) and the Pennsylvania Infrastructure Investment Authority, discretely presented component units, have pledged substantially all of their revenues for the redemption of revenue bonds outstanding. Revenue bonds outstanding as reported in this note disclosure for the fiscal year ended June 30, 2006 (May 31, 2006 for the PTC) include bond premiums, deferred costs of refunding, and deferred refunding losses of \$47.2 million, \$26.7 million, and \$3.4 million, respectively.

The following table presents annual principal and interest payments for long-term debt outstanding for the primary government and discretely presented component units at June 30, 2006 (May 31, 2006 for the Pennsylvania Turnpike Commission) (amounts in thousands):

**PRIMARY GOVERNMENT**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012-16</u>	<u>2017-21</u>
<b>GENERAL OBLIGATION BONDS:</b>							
Capital Facilities.....	\$ 485,690	\$ 476,219	\$ 457,053	\$ 440,038	\$ 419,950	\$ 1,431,486	\$ 985,902
Disaster Relief.....	1,961	1,879	1,797	1,711	1,625	526	69
Land and Water Development.....	253	253	251	255	257	505	-
Nursing Home Loan Development.....	-	-	-	-	-	-	-
Volunteer Companies Loan.....	616	403	239	86	82	165	-
Vietnam Conflict Veterans Compensation.....	-	-	-	-	-	-	-
Water Facilities Loan.....	2,057	1,860	1,858	1,856	1,852	3,695	-
Pennsylvania Economic Revitalization..	506	510	507	509	503	1,010	-
Pennsylvania Infrastructure Investment Authority.....	7,798	7,710	7,230	6,830	6,445	24,874	20,336
Agricultural Conservation Easement Purchase.....	1,897	1,853	1,808	1,762	1,274	3,522	-
Local Criminal Justice.....	926	938	909	637	522	2,117	1,692
Keystone Recreation, Park and Conservation.....	776	741	256	-	-	-	-
Water Supply and Wastewater, Treatment.....	2823	3,982	3,973	3,969	3,972	19,803	19,782
Growing Greener.....	9,400	14,488	14,481	14,469	14,473	72,284	72,236
Refunding Bonds.....	<u>368,944</u>	<u>366,473</u>	<u>360,540</u>	<u>342,805</u>	<u>342,388</u>	<u>1,584,562</u>	<u>790,547</u>
Total Principal and Interest.....	883,647	877,309	850,902	814,927	793,343	3,144,549	1,890,564
Less: Interest Payments.....	<u>357,743</u>	<u>333,257</u>	<u>306,079</u>	<u>277,681</u>	<u>249,337</u>	<u>851,160</u>	<u>380,004</u>
Total general obligation bonds.....	525,904	544,052	544,823	537,246	544,006	2,293,389	1,510,560
Other General Long-Term Obligations..	<u>146,474</u>	<u>126,460</u>	<u>127,438</u>	<u>128,661</u>	<u>123,280</u>	<u>641,349</u>	<u>725,247</u>
<b>TOTAL GENERAL LONG-TERM OBLIGATIONS</b> .....	<u>\$ 672,378</u>	<u>\$ 670,512</u>	<u>\$ 672,261</u>	<u>\$ 665,907</u>	<u>\$ 667,286</u>	<u>\$ 2,934,738</u>	<u>\$ 2,235,807</u>

The portion of Total General Long-Term Obligations due by June 30, 2007 amounts to \$1,105,040 (in thousands).

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

**PRIMARY GOVERNMENT (continued)**

	<u>2022-26</u>	<u>2027-31</u>	<u>2032-36</u>	<u>2037-41</u>	<u>2042-46</u>	<u>Total</u>
<b>GENERAL OBLIGATION BONDS:</b>						
Capital Facilities .....	\$ 716,255	\$ 15,811	\$ -	\$ -	\$ -	\$ 5,428,404
Disaster Relief .....	-	-	-	-	-	9,568
Land and Water Development.....	-	-	-	-	-	1,774
Nursing Home Loan Development.....	-	-	-	-	-	-
Volunteer Companies Loan.....	-	-	-	-	-	1,591
Vietnam Conflict Veterans Compensation .....	-	-	-	-	-	-
Water Facilities Loan .....	-	-	-	-	-	13,178
Pennsylvania Economic Revitalization..	-	-	-	-	-	3,545
Pennsylvania Infrastructure Investment Authority.....	20,019	-	-	-	-	101,242
Agricultural Conservation Easement Purchase .....	-	-	-	-	-	12,116
Local Criminal Justice.....	1,060	82	-	-	-	8,883
Keystone Recreation, Park and Conservation .....	-	-	-	-	-	1,773
Water Supply and Wastewater Treatment .....	19,875	2,373	-	-	-	80,552
Growing Greener.....	72,645	10,522	-	-	-	294,998
Refunding Bonds .....	<u>27,505</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,183,764</u>
Total Principal and Interest .....	857,359	28,788	-	-	-	10,141,388
Less: Interest Payments .....	<u>90,454</u>	<u>702</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,846,417</u>
Total general obligation bonds.....	766,905	28,086	-	-	-	7,294,971
Other General Long-Term Obligations..	<u>450,558</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,469,467</u>
<b>TOTAL GENERAL LONG- TERM OBLIGATIONS .....</b>	<b><u>\$ 1,217,463</u></b>	<b><u>\$ 28,086</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 9,764,438</u></b>

**DISCRETELY PRESENTED COMPONENT UNITS**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012-16</u>	<u>2017-21</u>
Philadelphia Regional Port Authority ....	\$ 4,330	\$ 4,428	\$ 4,406	\$ 4,391	\$ 4,456	\$ 22,099	\$ 22,058
Pennsylvania Housing Finance Agency.	319,773	300,779	237,862	234,758	235,151	1,109,954	1,047,072
Pennsylvania Industrial Development Authority .....	51,581	53,595	56,012	64,550	50,331	201,449	126,163
Pennsylvania Turnpike Commission.....	156,593	154,928	155,161	155,487	155,733	783,700	695,517
Commonwealth Financing Authority....	31,386	31,377	31,379	31,380	31,379	156,893	156,894
Pennsylvania Infrastructure Investment Authority.....	17,884	15,672	14,687	13,607	9,991	14,994	-
Total Principal and Interest .....	581,547	560,779	499,507	504,173	487,041	2,289,089	2,047,704
Less: Interest Payments.....	<u>302,759</u>	<u>291,001</u>	<u>279,802</u>	<u>270,111</u>	<u>260,080</u>	<u>1,134,697</u>	<u>853,830</u>
<b>TOTAL REVENUE BONDS .....</b>	<b><u>\$ 278,788</u></b>	<b><u>\$ 269,778</u></b>	<b><u>\$ 219,705</u></b>	<b><u>\$ 234,062</u></b>	<b><u>\$ 226,961</u></b>	<b><u>\$ 1,154,392</u></b>	<b><u>\$ 1,193,874</u></b>
	<u>2022-26</u>	<u>2027-31</u>	<u>2032-36</u>	<u>2037-41</u>	<u>2042-43</u>	<u>Total</u>	
Philadelphia Regional Port Authority ....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 66,168	
Pennsylvania Housing Finance Agency.	894,148	777,485	486,402	33,286	-	5,676,670	
Pennsylvania Industrial Development Authority .....	15,380	-	-	-	-	619,061	
Pennsylvania Turnpike Commission.....	650,407	623,634	523,185	128,661	26,365	4,209,371	
Commonwealth Financing Authority....	141,188	-	-	-	-	611,876	
Pennsylvania Infrastructure Investment Authority.....	-	-	-	-	-	86,835	
Total Principal and Interest .....	1,701,123	1,401,119	1,009,587	161,947	26,365	11,269,981	
Less: Interest Payments.....	<u>592,658</u>	<u>343,601</u>	<u>117,310</u>	<u>15,717</u>	<u>450</u>	<u>4,462,016</u>	
<b>TOTAL REVENUE BONDS .....</b>	<b><u>\$ 1,108,465</u></b>	<b><u>\$ 1,057,518</u></b>	<b><u>\$ 892,277</u></b>	<b><u>\$ 146,230</u></b>	<b><u>\$ 25,915</u></b>	<b><u>\$ 6,807,965</u></b>	

Additionally, component unit organizations of the State System of Higher Education reported \$275,840 of revenue bonds payable at June 30, 2006.

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

The Commonwealth has entered into certain agreements to lease various facilities and equipment. Such agreements are in-substance purchases (capital leases) and are reported as Capital Lease Obligations. In addition, the Commonwealth also makes purchases using installment purchase arrangements. The following is a schedule by fiscal year of future minimum payments under capital leases and installment purchase obligations, together with the present value of the net minimum lease payments as of June 30, 2006 (amounts in thousands):

	<u>Primary Government</u>		<u>Discretely Presented Component Unit</u>
	<u>Capital Lease Obligations</u>	<u>Installment Purchase Obligations</u>	<u>State System of Higher Education</u>
Fiscal year ending June 30			
2007.....	\$ 6,904	\$ 881	\$ 50,114
2008.....	6,568	680	49,627
2009.....	6,477	595	48,545
2010.....	6,271	503	47,539
2011.....	6,178	501	45,018
2012-16.....	30,891	1,753	212,888
2017-21.....	-	-	193,407
2022-25.....	-	-	<u>104,205</u>
Total minimum lease payments.....	63,289	4,913	751,343
Less: amount representing estimated executory cost included in minimum lease payments.....	<u>8,101</u>	-	-
Net minimum lease payments and Installment purchases.....	55,188	4,913	751,343
Less: amount representing interest.....	<u>15,701</u>	<u>2,342</u>	<u>221,688</u>
Total Capital Lease and Installment Purchase Obligations.....	<u>\$ 39,487</u>	<u>\$ 2,571</u>	<u>\$ 529,655</u>

At June 30, 2006 general capital assets included \$89.7 million of buildings and \$9.1 million of equipment being procured by capital leases. A total of \$15.2 million in general capital assets is being procured by vendor-financed installment purchase arrangements.

Capital lease obligations outstanding as of June 30, 2006 reported by the State System of Higher Education (SSHE), a discretely presented component unit, relate to various capital projects currently under construction for which a related public financing authority is the lessor. Revenue bonds were issued by the public financing authority to provide funding for these capital projects. SSHE capital assets include \$114.2 million of construction in progress related to capital leases at June 30, 2006.

**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, 2006 the SPSBA has \$1.4 billion of debt outstanding. Neither the SPSBA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are included in the accompanying financial statements.

The Pennsylvania Higher Educational Facilities Authority (PHEFA), a discretely presented component unit, finances projects through the issuance of tax-exempt instruments (bonds, notes or other obligations) to provide a source of tax-exempt financing for colleges and universities. The debt instruments issued by the PHEFA represent limited obligations payable solely from payments made by the related borrowing institutions and related assets held by the trustees. At June 30, 2006 the PHEFA has \$5.2 billion of debt outstanding. Neither the PHEFA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are included in the accompanying financial statements.

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

The Pennsylvania Economic Development Financing Authority (PEDFA) finances projects on behalf of local industrial and commercial development authorities to promote economic growth within the Commonwealth. Revenue bonds issued by the PEDFA represent limited obligations payable solely from Authority financed project revenues. At June 30, 2006 the PEDFA has \$1.4 billion of debt outstanding. Neither PEDFA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are included in the accompanying financial statements.

The Pennsylvania Energy Development Authority (PEDA) finances projects related to energy conservation and research. Fees are assessed to recover related processing and application costs incurred. The bonds issued by the Authority represent limited obligations payable solely from payments made by the borrowing entities. The majority of the bonds are secured by the property financed. Upon repayment of a bond, ownership of acquired property transfers from the trustees to the entity served by the bond issuance. The PEDA has \$61.5 million in revenue bonds outstanding at June 30, 2006. The Commonwealth has no obligation for this debt. Accordingly, neither the financed assets nor the bonds are included in the accompanying financial statements.

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

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, 2006, \$1,547.05 million of general obligation bonds outstanding that were previously accounted for in the Commonwealth's financial statements have been defeased through advance refundings.

**Discretely Presented Component Units**

During the fiscal year ended June 30, 2006 the Pennsylvania Housing Finance Agency (PHFA) redeemed prior to maturity \$650 thousand of Moderate Rehabilitation Bonds, issue 1985B, \$8.5 million of Multi-Family Housing Bonds, issue FHA-1992, \$2.9 million of Multi-Family Development Bonds, Series 1993-F and 2003, using mortgage prepayments. An extraordinary loss of \$124 thousand resulted from the redemptions as unamortized bond discounts and the related costs of issuance for the bonds redeemed were expensed.

Also during the fiscal year ended June 30, 2006, the PHFA redeemed prior to maturity \$44.3 million of Single Family Mortgage Revenue Bonds, Series 1995-46, 1996-47, 1996-48, 1996-52, 1996-53, 1997-54, 1997-57, 1997-58, 1997-59, 1997-60, 1997-61, 1998-62, 1998-64, 1999-65, 1999-66, 1999-67, 1999-68, 2000-69, 2000-70, 2001-72, 2002-73, 2002-74, 2003-79, 2004-81, 2004-83, 2004-85, 2004-86, 2004-87, 2005-88, 2005-89, and 2005-90, using mortgage prepayments. Extraordinary losses of \$220 thousand resulted from the redemptions as unamortized bond discounts and related costs of issuance for the bonds redeemed were expensed. Additionally, during this year, the PHFA redeemed prior to maturity \$252.3 million of Single Family Mortgage Revenue Bonds, Series 1996-47, 1996-48, 1996-52, 1997-55, 1997-57, 1997-58, 1997-59, 1997-60, 1999-66, 1999-67, 1999-68, 2000-69, 2000-70, 2004-82, 2004-85, 2004-87, and 2005-89. Although a deferred loss of \$2.04 million resulted from the refundings, the PHFA in effect obtained an economic gain of \$21.8 million and was able to reduce its aggregate debt service payments as a result of these transactions by a total of \$11.4 million over the next 30 years.

At June 30, 2006, \$4.6 million of bonds outstanding that were previously accounted for in the financial statements of the PHFA have been defeased through refundings.

In August 2005, the Pennsylvania Turnpike Commission issued Series A,B,C, and D of 2005 Registration Fee Revenue Bonds in the total amount of \$465.6 million to primarily defease the Commission's Series 2001 Registration Fee Revenue Bonds. This advance refunding was undertaken to reduce total debt service payments over the next 35 years by \$33.6 million and resulted in an economic gain of \$20 million. At May 31, 2006, \$862.2 million of bonds outstanding that were previously accounted for in the financial statements of the Pennsylvania Turnpike Commission have been defeased through refundings.

During the fiscal year, the Pennsylvania Infrastructure Investment Authority (PENNVEST) defeased the Series of 1993 and 1994 Revenue Bonds by placing proceeds of the Series of 2005A Revenue Bonds into an irrevocable trust to provide for all future debt service payments on the old bonds. PENNVEST reduced its aggregate debt service payments by \$3 million over the next 10 years and obtained an economic gain of \$1.7 million. At June 30, 2006, \$44 million of bonds that were previously accounted for in the financial statements of the PENNVEST have been defeased through refundings.

During the fiscal year, the Pennsylvania Industrial Development Authority has deferred the loss on defeasement of \$11.9 million of the Series 1996 Economic Development Revenue Bonds.

On July 10, 2003, the Philadelphia Regional Port Authority (PRPA) issued \$53.9 million of Series 2003 Commonwealth Lease Revenue Bonds with a variable interest rate. PRPA issued the Series 2003 Bonds to currently refund and defease the Series 1993 Bonds. This reduced total debt service payments over the next eighteen years of approximately \$1.9 million and resulted in an economic gain of approximately \$1.3 million.



**NOTE M – SELF-INSURANCE**

The Commonwealth is self-insured for statutory workers’ compensation, which includes indemnity and medical benefits (employee disability), for its employees injured on the job. The Commonwealth is also self-insured for annuitant medical/hospital claims and for tort liability claims. Major tort risks include automobile, employee and general torts. For property losses, the Commonwealth has \$1 million retention with excess commercial insurance coverage up to \$250 million per occurrence. The Commonwealth is also self-insured for claims against the Department of Transportation (transportation claims). The Commonwealth has established various administrative policies that are intended to avoid or limit the aforementioned risks. Accrued liabilities for statutory workers’ compensation and annuitant medical/hospital claims are established based on reserves computed from the Commonwealth’s claim experience; such claims are not discounted and do not include non-incremental claims adjustment expenses.

There were no reductions in commercial insurance coverage during the fiscal year ended June 30, 2006. No settlements exceeded commercial insurance coverage during any of the past three fiscal years.

Accrued liabilities for tort and transportation claims are established based on reserves computed from the Commonwealth’s claim experience; such claims are not discounted and do not include non-incremental claims adjustment expenses. These liabilities include liabilities for allocated claim adjustment expenditures/expenses and include salvage and subrogation. Salvage and subrogation were not material for the fiscal year ended June 30, 2006. No accrued liability has been reported for property losses.

At June 30, 2006, none of the accrued liabilities for governmental activities were payable from current expendable available financial resources. It is anticipated that the **General Fund** and the **Motor License Fund**, respectively, will fund governmental activities liabilities of \$460,473 and \$258,999. Business-type activities liabilities are primarily owed by the **State Lottery Fund** (\$1,043), **State Workers’ Insurance Fund** (\$1,640) and the State Stores Fund (\$17,496), Enterprise Funds. All accrued self-insurance liabilities at June 30, 2006 are summarized as follows (amounts in thousands):

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Fiduciary Fund Types</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Employee disability.....	\$ 80,901	\$ 315,170	\$ 4,364	\$ 17,001	\$ 58	\$ 227
Annuitant medical/hospital ..	43,574	-	-	-	-	-
Automobile tort.....	3,500	14,535	-	-	-	-
Employee tort.....	3,250	31,190	-	-	-	-
General tort.....	1,525	39,835	-	-	-	-
Transportation.....	15,000	187,892	-	-	-	-
Totals.....	<u>\$147,750</u>	<u>\$ 588,622</u>	<u>\$ 4,364</u>	<u>\$ 17,001</u>	<u>\$ 58</u>	<u>\$ 227</u>

The following summary provides aggregated information on June 30, 2005 reported self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2006 and reported self-insurance liabilities at June 30, 2006 (amounts in thousands):

	<u>June 30,</u>	<u>Incurred</u>		<u>Payments</u>		<u>June 30,</u>
	<u>2005</u>	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	<u>2006</u>
	<u>Liability</u>					<u>Liability</u>
Employee disability.....	\$ 399,689	\$ 67,425	\$ 36,895	\$ 10,629	\$ 75,659	\$ 417,721
Annuitant medical/hospital ..	34,497	410,558	-	366,984	34,497	43,574
Automobile tort.....	20,581	3,919	(4,091)	1,001	1,373	18,035
Employee tort.....	31,038	1,835	5,687	-	4,120	34,440
General tort.....	42,464	8,310	(8,707)	66	641	41,360
Transportation.....	310,398	52,361	(147,823)	416	11,628	202,892
Totals.....	<u>\$ 838,667</u>	<u>\$ 544,408</u>	<u>\$(118,039)</u>	<u>\$ 379,096</u>	<u>\$127,918</u>	<u>\$ 758,022</u>

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

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

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

**NOTE N – COMMITMENTS AND CONTINGENCIES**

**Construction and Other Commitments:** At June 30, 2006, the Department of Transportation and at May 31, 2006, the Pennsylvania Turnpike Commission, a discretely presented component unit, had contractual commitments of approximately \$2,156 million and \$1,236 million, respectively, for various highway construction and mass transit projects. Financing for these future expenditures will be primarily from approved federal grants and general obligation bond proceeds. In addition, the Commonwealth has a variety of contractual and other commitments for future subsidies and purchases of goods and services for approximately \$7.3 billion at June 30, 2006. Actual expenditures are contingent upon approved spending authority and/or availability of financial resources.

**Investment Commitments:** At December 31, 2005, the SERS had contractual commitments totaling approximately \$3.0 billion to fund future alternative investments and \$236 million to fund future real estate investments.

**Loan Commitments:** At June 30, 2006, the following discretely presented component units had approved loans that had not been disbursed (amounts in millions):

Pennsylvania Housing Finance Agency.....	\$	48
Pennsylvania Industrial Development Authority.....	\$	21
Pennsylvania Infrastructure Investment Authority .....	\$	521

**Commitment to Purchase Student Loans:** At June 30, 2006 the Pennsylvania Higher Education Assistance Agency, a discretely presented component unit, had commitments to purchase approximately \$1.1 billion of student loans.

**Operating Lease Commitments:** The Commonwealth and its discretely presented component units have commitments to lease certain buildings and equipment. Future minimum rental commitments for non-cancelable operating leases as of June 30, 2006 were as follows (amounts in thousands):

Fiscal year ending June 30:	<b>Primary Government</b>	<b>Discretely Presented Component Units</b>
2007 .....	\$ 270,093	\$ 13,981
2008 .....	177,097	9,343
2009 .....	139,569	5,743
2010 .....	109,866	2,691
2011 .....	77,681	2,232
2012-2024 .....	<u>179,179</u>	<u>2,685</u>
Total Minimum Lease Payments .....	<u>\$ 953,485</u>	<u>\$ 36,675</u>

Rental expenditures/expenses for all operating leases for the fiscal year ended June 30, 2006 amounted to \$281.1 million (\$269.5 million for primary government and \$11.6 million for discretely presented component units).

**Child Support Payments:** At June 30, 2006, the Commonwealth is contingently liable for approximately \$22 million in payments received by a contractor to be used for child support payments.

**Litigation:** The Commonwealth is a defendant in numerous legal proceedings pertaining to matters normally incidental to routine operations. Such litigation includes, but is not limited to, claims asserted against the Commonwealth arising from alleged torts, alleged breaches of contracts, condemnation proceedings and other alleged violations of Commonwealth and Federal laws. The Commonwealth has recorded accrued liabilities at June 30, 2006 with respect to torts as described in Note M, and other General Long-Term Obligations with respect to other matters of litigation in the amount of \$101 million for which the likelihood of an unfavorable outcome is probable.

Additionally, the Commonwealth is currently involved in certain legal proceedings for which the likelihood of an unfavorable outcome is reasonably possible, for which liabilities have not been accrued as of June 30, 2006. Unfavorable outcomes for such cases, which the Commonwealth is vigorously contesting, could range from approximately \$527 million to \$2,409 million for the **General Fund**; \$37 million to \$704 million for Special Revenue Funds; and \$.1 million to \$1.1 billion of possible additional liabilities for the State Employees’ Retirement System, a fiduciary fund. The range for the **Motor License Fund**, a Special Revenue Fund, is from \$1 million to \$426 million.

The range of potential liability for governmental activities is from \$564 million to \$3.1 billion and \$0 for business-type activities, respectively, at June 30, 2006.

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

**Federal Grants:** The Commonwealth receives significant financial assistance from the Federal government in the form of grants and entitlements, including several non-cash programs (which are not included in the basic financial statements). Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit Act or to financial and compliance audits by the grantor agencies of the Federal government or their designees. Disallowances and sanctions as a result of these audits may become liabilities of the Commonwealth. The Commonwealth is currently involved in administrative and legal proceedings, with certain Federal agencies, contesting various disallowances and sanctions related to Federal Assistance Programs ranging from \$175 million to \$1,722 million at June 30, 2006. The Commonwealth's management believes ultimate disallowances and sanctions, if any, will not have a material effect on the basic financial statements.

**Student Loan Guarantees:** The Pennsylvania Higher Education Assistance Agency (PHEAA), a discretely presented component unit, guarantees loans made by private lenders to certain resident students. Total original principal of outstanding guarantees issued by PHEAA approximated \$40.8 billion at June 30, 2006. Under the Federal Family Education Loan Program, as amended, the PHEAA has entered into agreements with the U.S. Department of Education for reinsurance of death, disability, bankruptcy, default, school closure and borrower ineligibility claims paid to lenders. Pursuant to these agreements, PHEAA receives reimbursement of claims paid to lenders, provided that PHEAA is in compliance with numerous Federal requirements. Reinsurance rates vary from 75 percent to 100 percent depending upon default rates in the portfolio guaranteed by PHEAA and upon the time period when specific loans were guaranteed by PHEAA. During the fiscal year ended June 30, 2006, PHEAA's default rate was in a range that permitted the maximum reinsurance reimbursement from the U.S. Department of Education.

**Lottery Prizes:** The **State Lottery Fund**, an Enterprise Fund, awards a variety of prizes, including immediate, lump-sum cash prizes and certain large prizes, which provide for periodic payments to winners for specific periods of time (in some cases throughout the winners' lifetimes, and to designated beneficiaries). At June 30, 2006, the amount of future payments owed to prizewinners is \$941 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, 2006, prizewinners have voluntarily assigned future payments of \$460.9 million.

**NOTE O - CERTAIN AGENCY FUND CLAIMS LIABILITIES**

The Pennsylvania Medical Care Availability and Reduction of Error Fund, an Agency Fund, acts as a service agent to facilitate the payment of medical malpractice claims exceeding basic liability coverage carried by healthcare providers practicing in the Commonwealth. The fund levies healthcare provider surcharges, as a percentage of insurance premiums for basic coverage, to pay claims and administrative expenses paid on behalf of healthcare providers during the prior year. The actuarially computed liability to the healthcare providers for claims outstanding at June 30, 2006 totals \$2.3 billion. The claims will be funded exclusively through surcharge assessment in future years as claims are settled and paid.

The Underground Storage Tank Indemnification Fund (the Fund), an Agency Fund, is used to collect fees from underground storage tank owners and operators sufficient to pay owners and operators for costs associated with corrective actions or for bodily injury or property damage caused by underground tank leaks and other releases. Owners and operators are assessed actuarially determined amounts to accumulate sufficient assets to pay claims. The Fund actuary has estimated potential claims of \$4.3 billion at June 30, 2006. 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, 2006. Owners and operators will be assessed for any claims exceeding Fund assets and no financial liability is reported for those claims.

**NOTE P - DEFERRED COMPENSATION**

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

Of the \$1,502 million in net assets reported in the Deferred Compensation Fund, a Pension Trust Fund, at December 31, 2005, \$1,448 million relates to primary government employees and \$49 million relates to employees of discretely presented component units. The remaining balance of \$5 million relates to organizations not included in the Commonwealth's financial reporting entity.

**NOTE Q - JOINT VENTURE**

The Commonwealth and various labor unions representing Commonwealth employees participate in a joint venture, the Pennsylvania Employees Benefit Trust Fund (PEBTF). The PEBTF establishes and provides health and welfare benefits for active Commonwealth employees and is a third party administrator for Commonwealth annuitant medical/hospital benefits. The Commonwealth has, in its collective bargaining agreements with unions subject to the agreement, obligated itself to provide certain contributions on behalf of all bargaining unit employees. The Commonwealth also remits contractually established contributions on behalf of non-union employees and other employees covered by contracts between the Commonwealth and other unions. During the fiscal year ended June 30, 2006, total contributions amounted to approximately \$1,174 million. Neither the Commonwealth nor the unions have an equity interest in the PEBTF.

At June 30, 2006, the PEBTF reported total assets of \$194 million, total liabilities of \$87 million, total benefit obligations of \$82 million, and an excess of net assets over benefit obligations of \$25 million. The financial status of the PEBTF is monitored on an ongoing basis; financial stress is evident as a result of increasing benefit and other expenses. During the fiscal year ended June 30, 2006 the PEBTF reported an increase in net assets over benefit obligations of \$15 million for the Active Plan program.

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

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

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

**NOTE R – SUBSEQUENT EVENTS**

Subsequent to June 30, 2006 (May 31, 2006 for the Pennsylvania Turnpike Commission), general obligation bonds or other bonds were issued, as follows:

**Primary Government**

On December 21, 2006 the Commonwealth issued \$700 million of General Obligation Bonds, Second Series of 2006, at interest rates ranging from 4.1 to 5.0 percent. The Commonwealth issued the bonds to finance capital facilities projects, PA Infrastructure Investment Authority loans, Pennworks Acts grants and loans and maintenance and protection of the environment, open space and farmland preservations, watershed protections, abandoned mine reclamation, acid mine drainage remediation and other environmental initiatives related to the Growing Greener program.

Also, on December 21, 2006, the Commonwealth issued \$250.67 million of General Obligation Bonds, First Refunding Series of 2006, at interest rates of 4.00 or 4.75 percent. The Commonwealth issued the bonds to refund all or a portion of six separate issues of previously issued general obligation bonds to reduce debt service payment requirements on the general obligation bonds to be refunded.

**Discretely Presented Component Units**

On June 7, 2006, the Pennsylvania Turnpike Commission (PTC) entered into a fixed-to-variable swap agreement with counterparty with respect to the Series A of 2006 Revenue Bonds. The total notional amount of the swap is \$118 million.

On June 22, 2006, the PTC issued \$236 million Series A, B, and C of 2006 Revenue Bonds. The proceeds of the bond issuance will be used to pay bond issuance costs and finance costs of various capital expenditures.

On July 20, 2006, the Pennsylvania Housing Finance Agency (PHFA) issued \$124 million Single Family Mortgage Revenue Bonds, Series 2006-94. The proceeds from these bond issuances were used to finance new loan purchases.

In July 2006 Pennsylvania Higher Educational Facilities Authority (PHEFA), issued Series AE tax-exempt bonds in the amount of \$103 million. In connection with the bond issuance, Pennsylvania State System of Higher Education (PASSHE) entered into a loan agreement with PHEFA under which PASSHE pledged its full faith and credit for repayment of the bonds. The bonds were issued to provide funds to undertake various capital projects at Universities within PASSHE.

On August 3, 2006, the Pennsylvania Higher Education Assistance Agency (PHEAA) issued \$225 million of variable-rate student loan demand revenue bonds that reset based upon auctions every seven days with an initial rate of 3.52 percent.

On August 10, 2006, the PHEAA issued \$500 million of variable-rate student loan demand revenue bonds indexed to the three month LIBOR with an initial weighted average rate of 5.57 percent.

On September 7, 2006, the PHFA issued \$199 million of Single Family Mortgage Revenue Bonds, Series 2006-95. The proceeds from these bond issuances were used to finance new loans purchases.

On November 17, 2006, the PHEAA issued \$750 million of variable-rate student loan demand revenue bonds indexed to the three month LIBOR with an initial weighted average rate of 5.44 percent.



# Required Supplementary Information



*Dauphin County Courthouse, Harrisburg*

**BUDGETARY COMPARISON SCHEDULE**

**Budgeted Major Funds**

**General Fund**

*For the Fiscal Year Ended June 30, 2006*

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

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
<b>REVENUES:</b>					
State Programs:					
Taxes, net of refunds.....	\$ 23,369,300	\$ 406,736	\$ 23,776,036	\$ 559,104	\$ 24,335,140
Liquor store profits transfer.....	80,000	-	80,000	-	80,000
Licenses and fees.....	115,200	252	115,452	384	115,836
Fines, penalties and interest.....	31,300	1,672	32,972	2,550	35,522
Investment income.....	127,100	9,424	136,524	14,368	150,892
Unclaimed property.....	115,500	(26,274)	89,226	(40,057)	49,169
Departmental services.....	3,032,858	(99,208)	2,933,650	-	2,933,650
Miscellaneous.....	76,500	(9,413)	67,087	(14,350)	52,737
<b>TOTAL STATE PROGRAMS.....</b>	<b>26,947,758</b>	<b>283,189</b>	<b>27,230,947</b>	<b>521,999</b>	<b>27,752,946</b>
Federal Programs.....	15,828,769	113,896	15,942,665	(148,919)	15,793,746
<b>TOTAL REVENUES.....</b>	<b>42,776,527</b>	<b>397,085</b>	<b>43,173,612</b>	<b>373,080</b>	<b>43,546,692</b>
<b>EXPENDITURES:</b>					
State Programs:					
Direction and supportive services.....	992,416	12,039	1,004,455	(112)	1,004,343
Protection of persons and property.....	2,705,871	468,554	3,174,425	(121)	3,174,304
Health and human services.....	11,468,137	(191,716)	11,276,421	(2,926)	11,273,495
Public education.....	10,074,056	(15,902)	10,058,154	(12,176)	10,045,978
Recreation and cultural enrichment.....	304,785	(7,176)	297,609	-	297,609
Debt service.....	712,814	(118)	712,696	-	712,696
Economic development.....	660,111	35,950	696,061	(504)	695,557
Transportation.....	392,273	2,155	394,428	(150)	394,278
<b>TOTAL STATE PROGRAMS.....</b>	<b>27,310,463</b>	<b>303,786</b>	<b>27,614,249</b>	<b>(15,989)</b>	<b>27,598,260</b>
Federal Programs.....	15,828,769	113,896	15,942,665	(148,919)	15,793,746
<b>TOTAL EXPENDITURES.....</b>	<b>43,139,232</b>	<b>417,682</b>	<b>43,556,914</b>	<b>(164,908)</b>	<b>43,392,006</b>
<b>REVENUES OVER/(UNDER)</b>					
<b>EXPENDITURES.....</b>	<b>(362,705)</b>	<b>(20,597)</b>	<b>(383,302)</b>	<b>537,988</b>	<b>154,686</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Prior year lapses.....	-	165,943	165,943	-	165,943
Transfer to Budget Stabilization Reserve Fund.....	-	-	-	(171,362)	(171,362)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>165,943</b>	<b>165,943</b>	<b>(171,362)</b>	<b>(5,419)</b>
<b>REVENUES AND OTHER SOURCES OVER</b>					
<b>(UNDER) EXPENDITURES AND OTHER USES.....</b>	<b>(362,705)</b>	<b>145,346</b>	<b>(217,359)</b>	<b>366,626</b>	<b>149,267</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2005, RESTATED.....</b>	<b>364,819</b>	<b>-</b>	<b>364,819</b>	<b>-</b>	<b>364,819</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2006.....</b>	<b>\$ 2,114</b>	<b>\$ 145,346</b>	<b>\$ 147,460</b>	<b>\$ 366,626</b>	<b>\$ 514,086</b>

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

**BUDGETARY COMPARISON SCHEDULE**

**Budgeted Major Funds**

**Special Revenue Fund-Motor License**

*For the Fiscal Year Ended June 30, 2006*

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

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
<b>REVENUES:</b>					
State Programs:					
Taxes, net of refunds.....	\$ 1,238,520	\$ -	\$ 1,238,520	\$ (12,425)	\$ 1,226,095
Licenses and fees.....	872,220	-	872,220	5,593	877,813
Fines, penalties and interest.....	30,590	-	30,590	3,559	34,149
Investment income.....	60,000	-	60,000	37,065	97,065
Departmental services.....	53,630	(6,360)	47,270	-	47,270
Miscellaneous.....	27,880	-	27,880	2,890	30,770
<b>TOTAL STATE PROGRAMS.....</b>	<b>2,282,840</b>	<b>(6,360)</b>	<b>2,276,480</b>	<b>36,682</b>	<b>2,313,162</b>
Federal Programs.....	1,435,510	7,300	1,442,810	(198,622)	1,244,188
<b>TOTAL REVENUES.....</b>	<b>3,718,350</b>	<b>940</b>	<b>3,719,290</b>	<b>(161,940)</b>	<b>3,557,350</b>
<b>EXPENDITURES:</b>					
State Programs:					
Direction and supportive services.....	66,442	3,372	69,814	(2,357)	67,457
Protection of persons and property.....	601,688	6,438	608,126	(4,250)	603,876
Public education.....	1,230	-	1,230	-	1,230
Recreation and cultural enrichment.....	1,000	-	1,000	-	1,000
Debt service.....	22,772	-	22,772	(51)	22,721
Transportation.....	1,698,517	(7,143)	1,691,374	(1,200)	1,690,174
<b>TOTAL STATE PROGRAMS.....</b>	<b>2,391,649</b>	<b>2,667</b>	<b>2,394,316</b>	<b>(7,858)</b>	<b>2,386,458</b>
Federal Programs.....	1,435,510	7,300	1,442,810	(198,622)	1,244,188
<b>TOTAL EXPENDITURES.....</b>	<b>3,827,159</b>	<b>9,967</b>	<b>3,837,126</b>	<b>(206,480)</b>	<b>3,630,646</b>
<b>REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(108,809)</b>	<b>(9,027)</b>	<b>(117,836)</b>	<b>44,540</b>	<b>(73,296)</b>
<b>OTHER FINANCING SOURCES:</b>					
Prior year lapses.....	-	144,606	144,606	-	144,606
<b>TOTAL OTHER FINANCING SOURCES.....</b>	<b>-</b>	<b>144,606</b>	<b>144,606</b>	<b>-</b>	<b>144,606</b>
<b>REVENUES AND OTHER SOURCES OVER EXPENDITURES.....</b>	<b>(108,809)</b>	<b>135,579</b>	<b>26,770</b>	<b>44,540</b>	<b>71,310</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2005.....</b>	<b>212,409</b>	<b>-</b>	<b>212,409</b>	<b>-</b>	<b>212,409</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2006.....</b>	<b>\$ 103,600</b>	<b>\$ 135,579</b>	<b>\$ 239,179</b>	<b>\$ 44,540</b>	<b>\$ 283,719</b>

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

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

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

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

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

## **Note 2 – Basis of Budgeting**

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

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

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

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

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

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

	<b><u>Major Budgeted Funds</u></b>	
	<b><u>General Fund</u></b>	<b><u>Motor License Fund</u></b>
<b>Budgetary basis</b> — revenues and other sources over expenditures and other uses.....	<u>\$149,267</u>	<u>\$71,310</u>
Adjustments:		
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(911,628)	830,006
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	<u>862,801</u>	<u>(628,763)</u>
Net adjustments.....	<u>(48,827)</u>	<u>201,243</u>
<b>Modified accrual basis</b> – net change in governmental fund balance.....	<u><u>\$100,440</u></u>	<u><u>\$272,553</u></u>

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

### **Note 4 – Budgetary Compliance**

The General Assembly passes, and the Governor approves (or reduces or vetoes), individual appropriations as part of the annual budget adoption process. Budgetary expenditure control occurs at the appropriation level; this is the lowest level of legislative spending control. Encumbrances and expenditures within individual appropriations may not exceed total amounts appropriated plus actual augmentations (certain revenues credited to specific appropriations). Also, appropriation transfers between or within departments and any supplemental appropriations require both legislative and gubernatorial approval. The legislatively adopted budget for the **General Fund** includes \$229.6 million in supplemental appropriations approved during the fiscal year ended June 30, 2006.

A separately available report, the “*Status of Appropriations*,” demonstrates budgetary expenditure compliance for the **General Fund** for the fiscal year ended June 30, 2006. This report includes a variety of detail information and summaries related to individual appropriations. A second “*Status of Appropriations*” report (for Special Funds) demonstrates compliance for the four budgeted Special Revenue funds: **Motor License**, Workers’ Compensation Administration, Banking Department and Milk Marketing. Both “*Status*” reports are available online at the Office of the Budget internet site: <http://www.budget.state.pa.us>. The Governor controls spending by using executive authorizations for Special Revenue funds not controlled by legislatively adopted budgets.

## **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

Total reported actual expenditures for “Total State Programs” included in the Budgetary Comparison Schedule – Budgeted Major Funds are based on appropriation, augmentation and lapse amounts reported in the respective June 30, 2006 “*Status of Appropriations*” (Total All Current State Ledgers) as follows (in thousands):

		“ <i>Status</i> ” Page	Total Approved <u>Appropriations</u>	Total Actual <u>Augmentations</u>	Total Actual <u>Lapses</u>	Actual Expenditure <u>Amounts</u>
<b>General Fund</b> amounts .....		7 <sup>1</sup>	\$ 25,715,599	\$ 2,933,650	\$ 15,989	\$ 28,633,260
Less: tax refunds .....		7 <sup>1</sup>	<u>(1,035,000)</u>	<u>-</u>	<u>-</u>	<u>(1,035,000)</u>
Amount reported .....			<u>\$ 24,680,599</u>	<u>\$ 2,933,650</u>	<u>\$ 15,989</u>	<u>\$ 27,598,260</u>
 Special Revenue Funds:						
<b>Motor License Fund</b> .....		55	\$ 3,273,625	\$ 1,267,756	\$ 7,858	\$ 4,533,523
less: reductions <sup>2</sup> .....			<u>(926,579)</u>	<u>(1,220,486)</u>	<u>-</u>	<u>(2,147,065)</u>
Amount reported .....			<u>\$ 2,347,046</u>	<u>\$ 47,270</u>	<u>\$ 7,858</u>	<u>\$ 2,386,458</u>
 Workers’ Compensation						
Administration Fund .....		258	\$ 57,525	\$ 184	\$ -	\$ 57,709
Banking Department Fund .....		100	\$ 18,479	\$ -	\$ 2	\$ 18,477
Milk Marketing Fund .....		106	\$ 2,742	\$ -	\$ 5	\$ 2,737

Total actual expenditures for “Federal Programs” for the **General Fund** are derived from the **General Fund** “*Status*”, page no. 239 “Summary of All Current Federal Ledgers by Character of Expenditure” as follows (in thousands): Commitments of \$747,578, Expenditures of \$12,995,472, and Available Balances of \$2,050,696 for a total of \$15,793,746.

Total actual expenditures for “Federal Programs,” for the **Motor License Fund** are derived from the **Special Funds** “*Status*”, page no. 84 “Summary of Federal Ledgers by Type” as follows (in thousands): Commitments of \$1,450, Expenditures of \$18,052, and Available Balances of \$6,123 for a total of \$25,625; plus \$1,218,563 (source in footnote 3 below) for a Motor License Fund total of \$1,244,188.

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

<sup>2</sup> Excludes the following appropriation symbols, beginning on page 58, **Special Funds** “*Status of Appropriations*”: 010-78-571-05-10; 010-78-572-05-10; 010-78-579-05-10; 010-73-132-05-20; 010-38-226-05-20; 010-78-172-05-20; 010-78-173-05-20; 010-78-174-05-20; and 010-78-177-05-20 through 010-78-185-05-20.

<sup>3</sup> The amount of \$1,218,563 is found in the Year-to-Date column for “Total Federal Revenue Augmenting Current State Expenditure Symbols” on page 116 of the June 30, 2006 “*Report of Revenues and Receipts*”. This amount, less \$190,765 (for revenue codes 010811-008181-101; 010811-008232-101; 010811-008284-101; 010811-008284-102; 010811-008289-101; and 010811-008289-102) equals \$1,027,798, the net reduction of federal funds from Motor License Fund Actual Augmentations.

# Combining Financial Statements

Including  
Nonmajor Budgetary Comparison Schedules



*Amish Farm, New Holland  
Lancaster County*

COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS

June 30, 2006

COMMONWEALTH OF PENNSYLVANIA  
(Expressed in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
<b>ASSETS</b>				
Cash.....	\$ 7,365	\$ -	\$ 9,419	\$ 16,784
Temporary investments.....	1,372,916	8,623	653,725	2,035,264
Long-term investments.....	464,888	-	-	464,888
Receivables, net:				
Taxes.....	25,391	-	-	25,391
Accounts.....	34,079	3,480	6,620	44,179
Accrued interest.....	5,134	34	2,356	7,524
Notes and loans.....	32,684	-	-	32,684
Lease rentals.....	-	862	-	862
Investment sale proceeds.....	5,654	-	-	5,654
Other.....	19,058	-	-	19,058
Due from other funds.....	52,377	-	30,201	82,578
Due from component units.....	-	-	15,473	15,473
Due from Federal government.....	15,787	-	-	15,787
Due from political subdivisions.....	-	-	91	91
Advances to other funds.....	3,000	-	-	3,000
<b>TOTAL ASSETS.....</b>	<b>\$ 2,038,333</b>	<b>\$ 12,999</b>	<b>\$ 717,885</b>	<b>\$ 2,769,217</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities.....	\$ 143,758	\$ -	\$ 167,123	\$ 310,881
Investment purchases payable.....	9,482	-	-	9,482
Securities lending obligations.....	213,983	540	40,852	255,375
Due to other funds.....	26,380	-	7,295	33,675
Due to pension trust funds.....	146	-	-	146
Due to political subdivisions.....	11,170	-	72,204	83,374
Due to other governments.....	345	-	-	345
Unearned revenue.....	25,291	4,341	-	29,632
Advances from other funds.....	10,333	-	-	10,333
<b>TOTAL LIABILITIES.....</b>	<b>440,888</b>	<b>4,881</b>	<b>287,474</b>	<b>733,243</b>
<b>Fund balances:</b>				
Reserved for:				
Encumbrances.....	266,825	-	897,589	1,164,414
Advances.....	3,000	-	-	3,000
Loans receivable.....	32,684	-	-	32,684
Other.....	71,420	-	3,619	75,039
Unreserved:				
Designated for:				
Capital projects.....	-	-	131,026	131,026
Debt service:				
Retirement of general obligation bonds.....	-	8,118	-	8,118
Other.....	4,528	-	-	4,528
Undesignated (deficit).....	1,218,988	-	(601,823)	617,165
<b>TOTAL FUND BALANCES.....</b>	<b>1,597,445</b>	<b>8,118</b>	<b>430,411</b>	<b>2,035,974</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 2,038,333</b>	<b>\$ 12,999</b>	<b>\$ 717,885</b>	<b>\$ 2,769,217</b>



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

*For the Fiscal Year Ended June 30, 2006*

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

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
<b>REVENUES:</b>				
Taxes.....	\$ 211,770	\$ -	\$ 89,786	\$ 301,556
Licenses and fees.....	417,450	-	-	417,450
Intergovernmental.....	146,374	-	-	146,374
Charges for sales and services.....	121,956	-	-	121,956
Investment income.....	89,018	242	16,885	106,145
Lease rental principal and interest.....	-	183	-	183
Other.....	20,154	-	17	20,171
<b>TOTAL REVENUES .....</b>	<b>1,006,722</b>	<b>425</b>	<b>106,688</b>	<b>1,113,835</b>
<b>EXPENDITURES:</b>				
Current:				
Direction and supportive services.....	1,532	-	221,729	223,261
Protection of persons and property.....	435,984	-	8,775	444,759
Health and human services.....	584,065	-	-	584,065
Public education.....	44,144	-	19,787	63,931
Recreation and cultural enrichment.....	115,035	-	34,375	149,410
Economic development.....	183,154	-	274,243	457,397
Transportation.....	172,035	-	153,343	325,378
Capital outlay.....	47,084	-	82,981	130,065
Debt service:				
Principal retirement.....	-	492,355	-	492,355
Interest and fiscal charges.....	-	343,354	-	343,354
<b>TOTAL EXPENDITURES .....</b>	<b>1,583,033</b>	<b>835,709</b>	<b>795,233</b>	<b>3,213,975</b>
<b>REVENUES UNDER EXPENDITURES .....</b>	<b>(576,311)</b>	<b>(835,284)</b>	<b>(688,545)</b>	<b>(2,100,140)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Bonds issued.....	233,000	-	681,000	914,000
Premium on bonds/refunding bonds issued.....	12,613	-	41,807	54,420
Transfers in.....	559,904	759,517	-	1,319,421
Transfers out.....	(38,380)	-	-	(38,380)
<b>NET OTHER FINANCING SOURCES.....</b>	<b>767,137</b>	<b>759,517</b>	<b>722,807</b>	<b>2,249,461</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>190,826</b>	<b>(75,767)</b>	<b>34,262</b>	<b>149,321</b>
<b>FUND BALANCES JULY 1, 2005.....</b>	<b>1,406,619</b>	<b>83,885</b>	<b>396,149</b>	<b>1,886,653</b>
<b>FUND BALANCES JUNE 30, 2006.....</b>	<b>\$ 1,597,445</b>	<b>\$ 8,118</b>	<b>\$ 430,411</b>	<b>\$ 2,035,974</b>

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# Special Revenue Funds

Including  
Nonmajor Budgetary Comparison Schedules



*Carnegie Museum of Natural History, Pittsburgh*  
*Allegheny County*

**SPECIAL REVENUE FUNDS  
DESCRIPTION  
NONMAJOR FUNDS**

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

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

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

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

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

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

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

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

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

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

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

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

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

**COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS**

**Special Revenue Funds**

**June 30, 2006**

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Budgeted Funds											Total
	Banking Department	Milk Marketing	Workers' Compensation Admin.	Workers' Compensation Security	Catastrophic Loss Benefits	Pharmaceutical Assistance	Recycling	Fish and Boat	Game	Hazardous Sites Cleanup	Other	
<b>ASSETS</b>												
Cash.....	\$ -	\$ -	\$ -	\$ 520	\$ -	\$ 4,196	\$ -	\$ 654	\$ 94	\$ 1,138	\$ 763	\$ 7,365
Temporary investments.....	36,784	2,416	70,581	121,091	123,118	56,778	79,185	57,344	45,798	29,680	750,141	1,372,916
Long-term investments.....	-	-	-	464,888	-	-	-	-	-	-	-	464,888
Receivables, net:												
Taxes.....	-	-	-	-	-	-	-	-	-	-	25,391	25,391
Accounts.....	4,642	-	5	1	-	10,204	-	6	176	21	19,024	34,079
Accrued interest.....	59	-	-	3,404	-	-	-	-	-	-	1,671	5,134
Loans.....	-	-	-	-	-	-	-	-	-	-	32,684	32,684
Investment sale proceeds.....	-	-	-	5,654	-	-	-	-	-	-	-	5,654
Other.....	-	-	-	-	-	-	-	-	-	-	19,058	19,058
Due from other funds.....	-	-	-	-	-	34,834	-	-	228	-	17,315	52,377
Due from Federal government.....	-	-	-	-	-	-	-	6,456	2,085	-	7,246	15,787
Advances to other funds.....	-	-	-	-	-	-	-	-	-	3,000	-	3,000
<b>TOTAL ASSETS.....</b>	<b>\$ 41,485</b>	<b>\$ 2,416</b>	<b>\$ 70,586</b>	<b>\$ 595,558</b>	<b>\$ 123,118</b>	<b>\$ 106,012</b>	<b>\$ 79,185</b>	<b>\$ 64,460</b>	<b>\$ 48,381</b>	<b>\$ 33,839</b>	<b>\$ 873,293</b>	<b>\$ 2,038,333</b>
<b>LIABILITIES AND FUND BALANCES</b>												
<b>Liabilities:</b>												
Accounts payable and accrued liabilities.....	\$ 1,054	\$ 94	\$ 3,421	\$ 2,340	\$ 1,716	\$ 56,851	\$ 2,114	\$ 2,853	\$ 3,455	\$ 4,395	\$ 65,465	\$ 143,758
Investment purchases payable.....	-	-	-	9,482	-	-	-	-	-	-	-	9,482
Securities lending obligations.....	4,212	277	-	92,100	14,096	6,501	9,066	6,566	5,244	3,398	72,523	213,983
Due to other funds.....	80	35	102	56	16	-	3	161	483	3	25,441	26,380
Due to pension trust funds.....	5	2	17	-	-	-	-	28	41	4	49	146
Due to political subdivisions.....	6	-	-	-	-	-	5,080	3	-	10	6,071	11,170
Due to other governments.....	12	4	39	-	-	-	-	64	93	8	125	345
Unearned revenue.....	3,848	434	258	-	-	-	-	3,117	508	-	17,126	25,291
Advances from other funds.....	-	-	-	-	-	10,333	-	-	-	-	-	10,333
<b>TOTAL LIABILITIES.....</b>	<b>9,217</b>	<b>846</b>	<b>3,837</b>	<b>103,978</b>	<b>15,828</b>	<b>73,685</b>	<b>16,263</b>	<b>12,792</b>	<b>9,824</b>	<b>7,818</b>	<b>186,800</b>	<b>440,888</b>
<b>Fund balances:</b>												
Reserved for:												
Encumbrances.....	455	227	1,526	10,704	158	-	18,274	3,722	3,001	8,838	219,920	266,825
Advances.....	-	-	-	-	-	-	-	-	-	3,000	-	3,000
Loans receivable.....	-	-	-	-	-	-	-	-	-	-	32,684	32,684
Other.....	-	-	686	-	-	7,343	1,304	2,415	537	-	59,135	71,420
Unreserved:												
Designated for:												
Other.....	-	-	-	-	-	-	-	-	-	-	4,528	4,528
Undesignated.....	31,813	1,343	64,537	480,876	107,132	24,984	43,344	45,531	35,019	14,183	370,226	1,218,988
<b>TOTAL FUND BALANCES.....</b>	<b>32,268</b>	<b>1,570</b>	<b>66,749</b>	<b>491,580</b>	<b>107,290</b>	<b>32,327</b>	<b>62,922</b>	<b>51,668</b>	<b>38,557</b>	<b>26,021</b>	<b>686,493</b>	<b>1,597,445</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 41,485</b>	<b>\$ 2,416</b>	<b>\$ 70,586</b>	<b>\$ 595,558</b>	<b>\$ 123,118</b>	<b>\$ 106,012</b>	<b>\$ 79,185</b>	<b>\$ 64,460</b>	<b>\$ 48,381</b>	<b>\$ 33,839</b>	<b>\$ 873,293</b>	<b>\$ 2,038,333</b>

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

*For the Fiscal Year Ended June 30, 2006*

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

	Budgeted Funds											Total
	Banking Department	Milk Marketing	Workers' Compensation Admin.	Workers' Compensation Security	Catastrophic Loss Benefits	Pharmaceutical Assistance	Recycling	Fish and Boat	Game	Hazardous Sites Cleanup	Other	
<b>REVENUES:</b>												
Taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 211,770	\$ 211,770
Licenses and fees.....	7,290	2,575	6	42,465	-	-	44,643	31,698	37,770	2,075	248,928	417,450
Intergovernmental.....	-	-	-	-	-	-	-	11,239	12,786	-	122,349	146,374
Charges for sales and services.....	9,088	-	52,694	-	-	-	-	1,806	21,988	-	36,380	121,956
Investment income.....	2,162	144	3,042	27,019	5,577	3,854	4,251	2,454	2,347	1,753	36,415	89,018
Interest on notes and loans.....	-	-	-	-	-	-	-	-	-	-	-	-
Other.....	19	1	313	68	373	-	913	677	34	2,550	15,206	20,154
<b>TOTAL REVENUES</b> .....	<b>18,559</b>	<b>2,720</b>	<b>56,055</b>	<b>69,552</b>	<b>5,950</b>	<b>3,854</b>	<b>49,807</b>	<b>47,874</b>	<b>74,925</b>	<b>6,378</b>	<b>671,048</b>	<b>1,006,722</b>
<b>EXPENDITURES:</b>												
Current:												
Direction and supportive services.....	-	-	23	43	-	-	-	-	-	-	1,466	1,532
Protection of persons and property.....	17,928	2,646	-	66,878	8,645	-	37,992	-	-	34,759	267,136	435,984
Health and human services.....	-	-	48,856	-	-	473,359	-	-	-	-	61,850	584,065
Public education.....	-	-	-	-	-	-	-	-	-	-	44,144	44,144
Recreation and cultural enrichment.....	-	-	-	-	-	-	-	39,914	62,644	-	12,477	115,035
Economic development.....	-	-	136	-	-	-	-	-	-	-	183,018	183,154
Transportation.....	-	-	-	-	-	-	-	-	-	-	172,035	172,035
Capital outlay.....	-	-	-	-	-	-	-	146	817	-	46,121	47,084
<b>TOTAL EXPENDITURES</b> .....	<b>17,928</b>	<b>2,646</b>	<b>49,015</b>	<b>66,921</b>	<b>8,645</b>	<b>473,359</b>	<b>37,992</b>	<b>40,060</b>	<b>63,461</b>	<b>34,759</b>	<b>788,247</b>	<b>1,583,033</b>
<b>REVENUES OVER (UNDER)</b>												
<b>EXPENDITURES</b> .....	<b>631</b>	<b>74</b>	<b>7,040</b>	<b>2,631</b>	<b>(2,695)</b>	<b>(469,505)</b>	<b>11,815</b>	<b>7,814</b>	<b>11,464</b>	<b>(28,381)</b>	<b>(117,199)</b>	<b>(576,311)</b>
<b>OTHER FINANCING SOURCES (USES):</b>												
Bonds issued.....	-	-	-	-	-	-	-	-	-	-	233,000	233,000
Premium on bonds/refunding bonds issued.....	-	-	-	-	-	-	-	-	-	-	12,613	12,613
Transfers in.....	-	-	-	-	-	409,301	-	2,092	-	20,000	128,511	559,904
Transfers out.....	-	-	-	-	-	-	-	-	-	-	(38,380)	(38,380)
<b>NET OTHER FINANCING SOURCES (USES)</b> .....	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>409,301</b>	<b>-</b>	<b>2,092</b>	<b>-</b>	<b>20,000</b>	<b>335,744</b>	<b>767,137</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>631</b>	<b>74</b>	<b>7,040</b>	<b>2,631</b>	<b>(2,695)</b>	<b>(60,204)</b>	<b>11,815</b>	<b>9,906</b>	<b>11,464</b>	<b>(8,381)</b>	<b>218,545</b>	<b>190,826</b>
<b>FUND BALANCES, JULY 1, 2005</b> .....	<b>31,637</b>	<b>1,496</b>	<b>59,709</b>	<b>488,949</b>	<b>109,985</b>	<b>92,531</b>	<b>51,107</b>	<b>41,762</b>	<b>27,093</b>	<b>34,402</b>	<b>467,948</b>	<b>1,406,619</b>
<b>FUND BALANCES, JUNE 30, 2006</b> .....	<b>\$ 32,268</b>	<b>\$ 1,570</b>	<b>\$ 66,749</b>	<b>\$ 491,580</b>	<b>\$ 107,290</b>	<b>\$ 32,327</b>	<b>\$ 62,922</b>	<b>\$ 51,668</b>	<b>\$ 38,557</b>	<b>\$ 26,021</b>	<b>\$ 686,493</b>	<b>\$ 1,597,445</b>

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

*For the Fiscal Year Ended June 30, 2006*

COMMONWEALTH OF PENNSYLVANIA  
 (Expressed in Thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
<b>REVENUES:</b>					
State Programs:					
Licenses and fees.....	\$ 16,262	\$ (1,983)	\$ 14,279	\$ 1,503	\$ 15,782
Fines, penalties and interest.....	275	125	400	507	907
Investment income.....	1,096	225	1,321	942	2,263
Miscellaneous.....	1	(1)	-	-	-
<b>TOTAL REVENUES.....</b>	<b>17,634</b>	<b>(1,634)</b>	<b>16,000</b>	<b>2,952</b>	<b>18,952</b>
<b>EXPENDITURES:</b>					
State Programs:					
Direction and supportive services.....	359	-	359	(2)	357
Protection of persons and property.....	18,120	-	18,120	-	18,120
<b>TOTAL EXPENDITURES.....</b>	<b>18,479</b>	<b>-</b>	<b>18,479</b>	<b>(2)</b>	<b>18,477</b>
<b>REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(845)</b>	<b>(1,634)</b>	<b>(2,479)</b>	<b>2,954</b>	<b>475</b>
<b>OTHER FINANCING SOURCES:</b>					
Prior year lapses.....	-	48	48	-	48
<b>TOTAL OTHER FINANCING SOURCES.....</b>	<b>-</b>	<b>48</b>	<b>48</b>	<b>-</b>	<b>48</b>
<b>REVENUES AND OTHER SOURCES OVER (UNDER)</b>					
<b>EXPENDITURES.....</b>	<b>(845)</b>	<b>(1,586)</b>	<b>(2,431)</b>	<b>2,954</b>	<b>523</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2005.....</b>	<b>28,125</b>	<b>-</b>	<b>28,125</b>	<b>-</b>	<b>28,125</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2006.....</b>	<b>\$ 27,280</b>	<b>\$ (1,586)</b>	<b>\$ 25,694</b>	<b>\$ 2,954</b>	<b>\$ 28,648</b>

**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 over expenditures (from Actual column above).....	\$ 523
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(441)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	549
Net adjustments.....	108
<b>Modified accrual basis</b> — net change in governmental fund balance.....	\$ 631

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.

**BUDGETARY COMPARISON SCHEDULE**

**Budgeted Nonmajor Funds**

**Special Revenue Fund-Milk Marketing**

*For the Fiscal Year Ended June 30, 2006*

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

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
<b>REVENUES:</b>					
State Programs:					
Licenses and fees.....	\$ 2,509	\$ (89)	\$ 2,420	\$ 59	\$ 2,479
Fines, penalties and interest.....	20	30	50	45	95
Investment income.....	91	10	101	59	160
Miscellaneous.....	2	(2)	-	1	1
<b>TOTAL REVENUES.....</b>	<b>2,622</b>	<b>(51)</b>	<b>2,571</b>	<b>164</b>	<b>2,735</b>
<b>EXPENDITURES:</b>					
State Programs:					
Direction and supportive services.....	5	-	5	(5)	-
Protection of persons and property.....	2,737	-	2,737	-	2,737
<b>TOTAL EXPENDITURES.....</b>	<b>2,742</b>	<b>-</b>	<b>2,742</b>	<b>(5)</b>	<b>2,737</b>
<b>REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(120)</b>	<b>(51)</b>	<b>(171)</b>	<b>169</b>	<b>(2)</b>
<b>OTHER FINANCING SOURCES:</b>					
Prior year lapses.....	-	24	24	-	24
<b>TOTAL OTHER FINANCING SOURCES.....</b>	<b>-</b>	<b>24</b>	<b>24</b>	<b>-</b>	<b>24</b>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....</b>	<b>(120)</b>	<b>(27)</b>	<b>(147)</b>	<b>169</b>	<b>22</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
(BUDGETARY BASIS), JUNE 30, 2005.....	1,144	-	1,144	-	1,144
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
(BUDGETARY BASIS), JUNE 30, 2006.....	<u>\$ 1,024</u>	<u>\$ (27)</u>	<u>\$ 997</u>	<u>\$ 169</u>	<u>\$ 1,166</u>

**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 under expenditures (from Actual column above).....	<u>\$ 22</u>
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(39)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	<u>91</u>
Net adjustments.....	<u>52</u>
<b>Modified accrual basis</b> — net change in governmental fund balance.....	<u>\$ 74</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.



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

*For the Fiscal Year Ended June 30, 2006*

COMMONWEALTH OF PENNSYLVANIA  
 (Expressed in Thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
<b>REVENUES:</b>					
State Programs:					
Taxes, net of refunds.....	\$ 55,006	\$ 2,519	\$ 57,525	\$ (18)	\$ 57,507
Fines, penalties and interest.....	3	-	3	3	6
Investment income.....	1,194	27	1,221	1,818	3,039
Departmental services.....	184	-	184	-	184
Miscellaneous.....	123	3	126	188	314
<b>TOTAL REVENUES.....</b>	<b>56,510</b>	<b>2,549</b>	<b>59,059</b>	<b>1,991</b>	<b>61,050</b>
<b>EXPENDITURES:</b>					
State Programs:					
Direction and supportive services.....	54,250	3,275	57,525	-	57,525
Economic development.....	184	-	184	-	184
<b>TOTAL EXPENDITURES.....</b>	<b>54,434</b>	<b>3,275</b>	<b>57,709</b>	<b>-</b>	<b>57,709</b>
<b>REVENUES OVER (UNDER)</b>					
<b>EXPENDITURES.....</b>	<b>2,076</b>	<b>(726)</b>	<b>1,350</b>	<b>1,991</b>	<b>3,341</b>
<b>OTHER FINANCING SOURCES:</b>					
Prior year lapses.....	-	5,456	5,456	-	5,456
<b>TOTAL OTHER FINANCING SOURCES.....</b>	<b>-</b>	<b>5,456</b>	<b>5,456</b>	<b>-</b>	<b>5,456</b>
<b>REVENUES AND OTHER SOURCES OVER</b>					
<b>EXPENDITURES.....</b>	<b>2,076</b>	<b>4,730</b>	<b>6,806</b>	<b>1,991</b>	<b>8,797</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2005.....</b>	<b>52,983</b>	<b>-</b>	<b>52,983</b>	<b>-</b>	<b>52,983</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2006.....</b>	<b>\$ 55,059</b>	<b>\$ 4,730</b>	<b>\$ 59,789</b>	<b>\$ 1,991</b>	<b>\$ 61,780</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 over expenditures (from Actual column above).....	<u>\$ 8,797</u>
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(10,451)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	<u>8,694</u>
Net adjustments.....	<u>(1,757)</u>
<b>Modified accrual basis</b> — net change in governmental fund balance.....	<u>\$ 7,040</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.

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# Debt Service Funds



*Phillie Phanatic, Citizens Bank Park  
Philadelphia*

**DEBT SERVICE FUNDS  
DESCRIPTION  
NONMAJOR FUNDS**

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

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

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

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

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

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

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

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

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

COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS

Debt Service Funds

June 30, 2006

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)	Pennsylvania		Pennsylvania	Water	Land and	Other	Total	
	Disaster Relief Redemption	Infrastructure Investment Authority Redemption						Capital Debt
<b>ASSETS</b>								
Temporary investments.....	\$ 2	\$ -	\$ 8,265	\$ -	\$ -	\$ 201	\$ 155	\$ 8,623
Receivables, net								
Accounts.....	-	-	3,480	-	-	-	-	3,480
Accrued interest.....	-	-	25	-	-	8	1	34
Lease rentals.....	-	-	862	-	-	-	-	862
<b>TOTAL ASSETS.....</b>	<b>\$ 2</b>	<b>\$ -</b>	<b>\$ 12,632</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 209</b>	<b>\$ 156</b>	<b>\$ 12,999</b>
<b>LIABILITIES AND FUND BALANCES</b>								
<b>Liabilities:</b>								
Securities lending obligations.....	\$ -	\$ -	\$ 517	\$ -	\$ -	\$ 13	\$ 10	\$ 540
Unearned revenue.....	-	-	4,341	-	-	-	-	4,341
<b>TOTAL LIABILITIES.....</b>	<b>-</b>	<b>-</b>	<b>4,858</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>10</b>	<b>4,881</b>
<b>Fund balances:</b>								
Reserved for:								
Unreserved:								
Designated for:								
Debt service:								
Retirement of general obligation bonds.....	2	-	7,774	-	-	196	146	8,118
<b>TOTAL FUND BALANCES.....</b>	<b>2</b>	<b>-</b>	<b>7,774</b>	<b>-</b>	<b>-</b>	<b>196</b>	<b>146</b>	<b>8,118</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 2</b>	<b>\$ -</b>	<b>\$ 12,632</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 209</b>	<b>\$ 156</b>	<b>\$ 12,999</b>

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

**Debt Service Funds**

*For the Fiscal Year Ended June 30, 2006*

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)	Pennsylvania		Capital Debt	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Land and Water Development Sinking	Other	Total
	Disaster Relief Redemption	Infrastructure Investment Authority Redemption						
<b>REVENUES:</b>								
Investment income.....	\$ 2	\$ -	\$ -	\$ -	\$ -	\$ 240	\$ -	\$ 242
Lease rental principal and interest.....	-	-	183	-	-	-	-	183
<b>TOTAL REVENUES .....</b>	<b>2</b>	<b>-</b>	<b>183</b>	<b>-</b>	<b>-</b>	<b>240</b>	<b>-</b>	<b>425</b>
<b>EXPENDITURES:</b>								
Debt service:								
Principal retirement.....	1,510	6,010	477,305	425	2,325	160	4,620	492,355
Interest and fiscal charges.....	533	1,200	339,475	188	735	93	1,130	343,354
<b>TOTAL EXPENDITURES .....</b>	<b>2,043</b>	<b>7,210</b>	<b>816,780</b>	<b>613</b>	<b>3,060</b>	<b>253</b>	<b>5,750</b>	<b>835,709</b>
<b>REVENUES UNDER EXPENDITURES .....</b>	<b>(2,041)</b>	<b>(7,210)</b>	<b>(816,597)</b>	<b>(613)</b>	<b>(3,060)</b>	<b>(13)</b>	<b>(5,750)</b>	<b>(835,284)</b>
<b>OTHER FINANCING SOURCES:</b>								
Transfers in.....	2,043	7,210	740,721	613	3,060	120	5,750	759,517
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>2</b>	<b>-</b>	<b>(75,876)</b>	<b>-</b>	<b>-</b>	<b>107</b>	<b>-</b>	<b>(75,767)</b>
<b>FUND BALANCES, JULY 1, 2005.....</b>	<b>-</b>	<b>-</b>	<b>83,650</b>	<b>-</b>	<b>-</b>	<b>89</b>	<b>146</b>	<b>83,885</b>
<b>FUND BALANCES, JUNE 30, 2006.....</b>	<b>\$ 2</b>	<b>\$ -</b>	<b>\$ 7,774</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 196</b>	<b>\$ 146</b>	<b>\$ 8,118</b>

# Capital Projects Funds



*Brandywine River Museum, Chadds Ford  
Delaware County*

**CAPITAL PROJECTS FUNDS  
DESCRIPTION  
NONMAJOR FUNDS**

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

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

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

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

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

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



**COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS**  
**Capital Projects Funds**

*June 30, 2006*

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

	<u>Capital Facilities</u>	<u>Keystone Recreation, Park and Conservation</u>	<u>Local Criminal Justice</u>	<u>Land and Water Development</u>	<u>Total</u>
<b>ASSETS</b>					
Cash.....	\$ 9,419	\$ -	\$ -	\$ -	\$ 9,419
Temporary investments.....	431,714	218,811	1,480	1,720	653,725
Receivables, net:					
Accounts.....	6,620	-	-	-	6,620
Accrued interest.....	1,525	826	5	-	2,356
Due from other funds.....	28,963	1,238	-	-	30,201
Due from component units.....	15,473	-	-	-	15,473
Due from political subdivisions.....	91	-	-	-	91
<b>TOTAL ASSETS.....</b>	<u>\$ 493,805</u>	<u>\$ 220,875</u>	<u>\$ 1,485</u>	<u>\$ 1,720</u>	<u>\$ 717,885</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities.....	\$ 161,504	\$ 5,183	\$ 436	\$ -	\$ 167,123
Securities lending obligations.....	26,979	13,674	92	107	40,852
Due to other funds.....	620	6,675	-	-	7,295
Due to political subdivisions.....	71,364	654	186	-	72,204
<b>TOTAL LIABILITIES.....</b>	<u>260,467</u>	<u>26,186</u>	<u>714</u>	<u>107</u>	<u>287,474</u>
<b>Fund balances:</b>					
Reserved for:					
Encumbrances.....	832,983	63,663	943	-	897,589
Other.....	1,982	-	-	1,637	3,619
Unreserved:					
Designated for:					
Capital projects.....	-	131,026	-	-	131,026
Undesignated deficit.....	(601,627)	-	(172)	(24)	(601,823)
<b>TOTAL FUND BALANCES.....</b>	<u>233,338</u>	<u>194,689</u>	<u>771</u>	<u>1,613</u>	<u>430,411</u>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<u>\$ 493,805</u>	<u>\$ 220,875</u>	<u>\$ 1,485</u>	<u>\$ 1,720</u>	<u>\$ 717,885</u>

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

**Capital Projects Funds**

*For the Fiscal Year Ended June 30, 2006*

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

	<b>Capital Facilities</b>	<b>Keystone Recreation, Park and Conservation</b>	<b>Local Criminal Justice</b>	<b>Land and Water Development</b>	<b>Total</b>
<b>REVENUES:</b>					
Taxes.....	\$ -	\$ 89,786	\$ -	\$ -	\$ 89,786
Investment income.....	9,526	7,347	18	(6)	16,885
Other.....	-	17	-	-	17
<b>TOTAL REVENUES .....</b>	<b>9,526</b>	<b>97,150</b>	<b>18</b>	<b>(6)</b>	<b>106,688</b>
<b>EXPENDITURES:</b>					
Current:					
Direction and supportive services.....	221,728	-	1	-	221,729
Protection of persons and property.....	7,976	-	799	-	8,775
Public education.....	1,829	17,958	-	-	19,787
Recreation and cultural enrichment.....	-	34,375	-	-	34,375
Economic development.....	274,243	-	-	-	274,243
Transportation.....	153,343	-	-	-	153,343
Capital outlay.....	60,683	22,298	-	-	82,981
<b>TOTAL EXPENDITURES .....</b>	<b>719,802</b>	<b>74,631</b>	<b>800</b>	<b>-</b>	<b>795,233</b>
<b>REVENUES OVER (UNDER) EXPENDITURES .....</b>	<b>(710,276)</b>	<b>22,519</b>	<b>(782)</b>	<b>(6)</b>	<b>(688,545)</b>
<b>OTHER FINANCING SOURCES:</b>					
Bonds issued.....	680,000	-	1,000	-	681,000
Premium on bonds/refunding bonds issued.....	41,758	-	49	-	41,807
<b>NET OTHER FINANCING SOURCES.....</b>	<b>721,758</b>	<b>-</b>	<b>1,049</b>	<b>-</b>	<b>722,807</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>11,482</b>	<b>22,519</b>	<b>267</b>	<b>(6)</b>	<b>34,262</b>
<b>FUND BALANCES JULY 1, 2005.....</b>	<b>221,856</b>	<b>172,170</b>	<b>504</b>	<b>1,619</b>	<b>396,149</b>
<b>FUND BALANCES JUNE 30, 2006.....</b>	<b>\$ 233,338</b>	<b>\$ 194,689</b>	<b>\$ 771</b>	<b>\$ 1,613</b>	<b>\$ 430,411</b>

# Enterprise Funds



*Eastern Sports and Outdoor Show, State Farm Show Complex, Harrisburg  
Dauphin County*

**ENTERPRISE FUNDS  
DESCRIPTION  
NONMAJOR FUNDS**

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

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

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

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

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

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

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

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

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

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

COMBINING STATEMENT OF NET ASSETS-NONMAJOR PROPRIETARY FUNDS  
Enterprise Funds

June 30, 2006

COMMONWEALTH OF PENNSYLVANIA  
(Expressed in Thousands)

	State Stores (June 27, 2006)	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Sub. Insurance	PA Infrastructure Bank	Minority Business Development	Other	Total
<b>ASSETS</b>									
Current assets:									
Cash .....	\$ 17,294	\$ 362	\$ 161	\$ 135	\$ 88	\$ -	\$ 16	\$ 54	\$ 18,110
Temporary investments.....	109,864	45,234	19,286	48,968	62,182	34,000	6,140	20,391	346,065
Receivables:									
Accounts .....	2,717	-	-	-	-	335	-	463	3,515
Accrued interest.....	-	154	93	75	-	-	21	4	347
Loans.....	-	17,184	13,974	10,786	-	3,191	661	440	46,236
Other .....	-	3	-	104	-	-	3	-	110
Due from other funds .....	164	-	-	-	-	-	-	1,940	2,104
Due from pension trust funds.....	-	-	-	-	-	-	-	19	19
Due from component units.....	-	-	-	-	-	-	-	7	7
Inventory.....	215,288	-	-	-	-	-	-	4	215,292
Prepaid expenses.....	4	-	-	-	-	-	-	-	4
Total current assets .....	345,331	62,937	33,514	60,068	62,270	37,526	6,841	23,322	631,809
Noncurrent assets:									
Receivables:									
Loans.....	-	69,546	95,289	26,626	-	19,327	1,551	1,214	213,553
Non-depreciable capital assets:									
Land.....	323	-	-	-	-	-	-	-	323
Construction in progress.....	-	-	-	-	-	-	-	3,522	3,522
Depreciable capital assets:									
Buildings and building improvements.....	21,707	-	-	-	-	-	-	18,307	40,014
Machinery and equipment.....	61,688	-	-	-	-	-	-	4,844	66,532
Less: accumulated depreciation .....	(46,744)	-	-	-	-	-	-	(14,305)	(61,049)
Net depreciable capital assets.....	36,651	-	-	-	-	-	-	8,846	45,497
Total noncurrent assets .....	36,974	69,546	95,289	26,626	-	19,327	1,551	13,582	262,895
<b>TOTAL ASSETS.....</b>	<b>382,305</b>	<b>132,483</b>	<b>128,803</b>	<b>86,694</b>	<b>62,270</b>	<b>56,853</b>	<b>8,392</b>	<b>36,904</b>	<b>894,704</b>
<b>LIABILITIES</b>									
Current liabilities:									
Accounts payable and accrued liabilities.....	114,655	-	-	26	289	-	-	1,620	116,590
Securities lending obligations.....	12,336	5,235	2,209	5,647	7,119	3,893	703	2,208	39,350
Due to other funds.....	3,385	8	-	2	1	-	2	107	3,505
Due to pension trust funds.....	159	-	-	-	-	-	-	1	160
Due to other governments.....	674	-	-	-	1	-	-	2	677
Unearned revenue.....	-	100	89	-	2,778	-	-	2	2,969
Self insurance.....	3,574	5	-	4	17	-	2	214	3,816
Compensated absences.....	4,021	-	-	-	60	-	-	16	4,097
Advances from other funds.....	85,000	3,000	-	-	-	-	-	-	88,000
Total current liabilities.....	223,804	8,348	2,298	5,679	10,265	3,893	707	4,170	259,164
Non-current liabilities:									
Insurance loss liability.....	-	-	-	-	610	-	-	-	610
Compensated absences.....	24,698	-	-	-	317	-	-	1,783	26,798
Self insurance.....	13,922	20	-	16	66	-	7	835	14,866
Total non-current liabilities.....	38,620	20	-	16	993	-	7	2,618	42,274
<b>TOTAL LIABILITIES.....</b>	<b>262,424</b>	<b>8,368</b>	<b>2,298</b>	<b>5,695</b>	<b>11,258</b>	<b>3,893</b>	<b>714</b>	<b>6,788</b>	<b>301,438</b>
<b>NET ASSETS:</b>									
Invested in capital assets, net of related debt.....	36,974	-	-	-	-	-	-	12,366	49,340
Restricted for:									
Smoking cessation and other health-related programs	-	-	-	-	-	-	-	4,814	4,814
Transportation.....	-	-	-	-	-	52,960	-	-	52,960
Economic stimulus.....	-	124,115	-	80,999	-	-	7,678	-	212,792
Emergency support.....	-	-	126,505	-	-	-	-	-	126,505
Other purposes.....	82,907	-	-	-	51,012	-	-	12,936	146,855
<b>TOTAL NET ASSETS.....</b>	<b>\$ 119,881</b>	<b>\$ 124,115</b>	<b>\$ 126,505</b>	<b>\$ 80,999</b>	<b>\$ 51,012</b>	<b>\$ 52,960</b>	<b>\$ 7,678</b>	<b>\$ 30,116</b>	<b>\$ 593,266</b>

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

**Enterprise Funds**

*For the Fiscal Year Ended June 30, 2006*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	<u>State Stores (June 27, 2006)</u>	<u>Small Business First</u>	<u>Volunteer Companies Loan</u>	<u>Machinery and Equipment Loan</u>	<u>Coal and Clay Mine Sub. Insurance</u>	<u>PA Infrastructure Bank</u>	<u>Minority Business Development</u>	<u>Other</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>									
Sales and services.....	\$ 1,272,101	\$ -	\$ -	\$ 294	\$ 5,829	\$ -	\$ 16	\$ 473	\$ 1,278,713
Interest on loans.....	-	3,676	2,347	1,224	-	350	109	619	8,325
Other.....	-	4	-	3	-	46	2	2,581	2,636
<b>OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTABLE ACCOUNTS.....</b>	<b>1,272,101</b>	<b>3,680</b>	<b>2,347</b>	<b>1,521</b>	<b>5,829</b>	<b>396</b>	<b>127</b>	<b>3,673</b>	<b>1,289,674</b>
Provision for uncollectable accounts.....	-	(3,757)	95	-	-	-	(573)	-	(4,235)
<b>NET OPERATING REVENUES.....</b>	<b>1,272,101</b>	<b>(77)</b>	<b>2,442</b>	<b>1,521</b>	<b>5,829</b>	<b>396</b>	<b>(446)</b>	<b>3,673</b>	<b>1,285,439</b>
<b>OPERATING EXPENSES:</b>									
Cost of sales and services.....	1,174,999	872	209	3,723	2,474	-	213	4,949	1,187,439
Depreciation.....	3,416	-	-	-	-	-	-	1,758	5,174
<b>TOTAL OPERATING EXPENSES.....</b>	<b>1,178,415</b>	<b>872</b>	<b>209</b>	<b>3,723</b>	<b>2,474</b>	<b>-</b>	<b>213</b>	<b>6,707</b>	<b>1,192,613</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>93,686</b>	<b>(949)</b>	<b>2,233</b>	<b>(2,202)</b>	<b>3,355</b>	<b>396</b>	<b>(659)</b>	<b>(3,034)</b>	<b>92,826</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>									
Investment income.....	8,465	1,230	677	1,434	3,631	2,131	393	3,195	21,156
Other revenues.....	-	12	-	-	-	-	-	-	12
Other expenses.....	(19)	-	-	-	-	-	-	-	(19)
<b>NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>8,446</b>	<b>1,242</b>	<b>677</b>	<b>1,434</b>	<b>3,631</b>	<b>2,131</b>	<b>393</b>	<b>3,195</b>	<b>21,149</b>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS.....</b>	<b>102,132</b>	<b>293</b>	<b>2,910</b>	<b>(768)</b>	<b>6,986</b>	<b>2,527</b>	<b>(266)</b>	<b>161</b>	<b>113,975</b>
<b>CONTRIBUTIONS AND TRANSFERS:</b>									
Capital contributions.....	-	-	-	15,000	-	-	-	-	15,000
Transfers out.....	(82,000)	-	-	-	-	-	-	-	(82,000)
<b>TOTAL CONTRIBUTIONS AND TRANSFERS.....</b>	<b>(82,000)</b>	<b>-</b>	<b>-</b>	<b>15,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(67,000)</b>
<b>CHANGE IN NET ASSETS.....</b>	<b>20,132</b>	<b>293</b>	<b>2,910</b>	<b>14,232</b>	<b>6,986</b>	<b>2,527</b>	<b>(266)</b>	<b>161</b>	<b>46,975</b>
<b>TOTAL NET ASSETS, JULY 1, 2005.....</b>	<b>99,749</b>	<b>123,822</b>	<b>123,595</b>	<b>66,767</b>	<b>44,026</b>	<b>50,433</b>	<b>7,944</b>	<b>29,955</b>	<b>546,291</b>
<b>TOTAL NET ASSETS, JUNE 30, 2006.....</b>	<b>\$ 119,881</b>	<b>\$ 124,115</b>	<b>\$ 126,505</b>	<b>\$ 80,999</b>	<b>\$ 51,012</b>	<b>\$ 52,960</b>	<b>\$ 7,678</b>	<b>\$ 30,116</b>	<b>\$ 593,266</b>

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# COMBINING STATEMENT OF CASH FLOWS-NONMAJOR PROPRIETARY FUNDS

## Enterprise Funds

For the Fiscal Year Ended June 30, 2006

COMMONWEALTH OF PENNSYLVANIA  
(Expressed in Thousands)

	State Stores (June 27, 2006)	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Insurance	PA Infrastructure Bank	Minority Business Development	Other	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>									
Receipts from customers.....	\$ 1,273,095	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,515	\$ 1,275,610
Receipts from borrowers.....	-	7,177	3,167	(2,685)	-	(8,214)	(969)	51	(1,473)
Receipt of premiums.....	-	-	-	-	6,171	-	-	-	6,171
Payments to claimants.....	-	-	-	-	(2,526)	-	-	-	(2,526)
Payments to borrowers.....	-	-	(209)	-	-	(1,000)	-	-	(1,209)
Payments for vendors, employees and other costs.....	(1,186,030)	(922)	-	(3,714)	(5)	-	(208)	(4,673)	(1,195,552)
Other receipts (payments).....	(19)	16	-	3	-	-	2	2,581	2,583
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>87,046</b>	<b>6,271</b>	<b>2,958</b>	<b>(6,396)</b>	<b>3,640</b>	<b>(9,214)</b>	<b>(1,175)</b>	<b>474</b>	<b>83,604</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>									
Transfers out.....	(82,000)	-	-	-	-	-	-	-	(82,000)
Capital contributions.....	-	-	-	15,000	-	-	-	-	15,000
<b>NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES.....</b>	<b>(82,000)</b>	<b>-</b>	<b>-</b>	<b>15,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(67,000)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>									
Acquisition and construction of capital assets.....	(6,282)	-	-	-	-	-	-	(144)	(6,426)
Disposition of capital assets.....	19	-	-	-	-	-	-	-	19
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(6,263)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(144)</b>	<b>(6,407)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>									
Purchase of investments.....	(752,493)	(21,354)	(14,526)	(27,307)	(6,725)	(1,600)	(564)	(27,185)	(851,754)
Sales and maturities of investments.....	753,565	12,944	11,050	16,491	1,681	11,741	1,828	26,883	836,183
Investment income.....	8,465	2,434	860	2,519	3,353	2,256	398	1,202	21,487
Change in securities lending obligations.....	(6,134)	(765)	(348)	(569)	(1,970)	(3,183)	(481)	(1,270)	(14,720)
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....</b>	<b>3,403</b>	<b>(6,741)</b>	<b>(2,964)</b>	<b>(8,866)</b>	<b>(3,661)</b>	<b>9,214</b>	<b>1,181</b>	<b>(370)</b>	<b>(8,804)</b>
<b>NET INCREASE (DECREASE) IN CASH.....</b>	<b>2,186</b>	<b>(470)</b>	<b>(6)</b>	<b>(262)</b>	<b>(21)</b>	<b>-</b>	<b>6</b>	<b>(40)</b>	<b>1,393</b>
<b>CASH AT JULY 1, 2005.....</b>	<b>15,108</b>	<b>832</b>	<b>167</b>	<b>397</b>	<b>109</b>	<b>-</b>	<b>10</b>	<b>94</b>	<b>16,717</b>
<b>CASH AT JUNE 30, 2006.....</b>	<b>\$ 17,294</b>	<b>\$ 362</b>	<b>\$ 161</b>	<b>\$ 135</b>	<b>\$ 88</b>	<b>\$ -</b>	<b>\$ 16</b>	<b>\$ 54</b>	<b>\$ 18,110</b>



# COMBINING STATEMENT OF CASH FLOWS-NONMAJOR PROPRIETARY FUNDS

## Enterprise Funds

For the Fiscal Year Ended June 30, 2006

COMMONWEALTH OF PENNSYLVANIA  
(Expressed in Thousands)

	State Stores (June 27, 2006)	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine 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).....	\$ 93,686	\$ (949)	\$ 2,233	\$ (2,202)	\$ 3,355	\$ 396	\$ (659)	\$ (3,034)	\$ 92,826
Depreciation and amortization.....	3,416	-	-	-	-	-	-	1,758	5,174
Provision for uncollectible accounts.....	-	3,757	(95)	-	-	-	573	-	4,235
Non-operating revenues (expenses).....	(19)	12	-	-	-	-	-	-	(7)
Change in assets and liabilities:									
Accounts receivable.....	91	3,401	826	(4,203)	-	(8,610)	(1,094)	(234)	(9,823)
Inventory.....	(27,438)	-	-	-	-	-	-	-	(27,438)
Due from other funds.....	(141)	-	-	-	-	-	-	1,692	1,551
Due from component units.....	-	-	-	-	-	-	-	16	16
Other current assets.....	1,044	-	-	-	-	-	-	-	1,044
Accounts payable and accrued liabilities.....	13,278	(56)	-	1	40	(1,000)	(3)	250	12,510
Due to other funds.....	361	8	-	2	(6)	-	2	47	414
Due to other governments.....	(52)	-	-	-	(2)	-	-	(3)	(57)
Unearned revenue.....	-	100	(6)	-	342	-	-	-	436
Insurance loss liability.....	-	-	-	-	(96)	-	-	-	(96)
Other liabilities.....	2,820	(2)	-	6	7	-	6	(18)	2,819
<b>Total Adjustments.....</b>	<b>(6,640)</b>	<b>7,220</b>	<b>725</b>	<b>(4,194)</b>	<b>285</b>	<b>(9,610)</b>	<b>(516)</b>	<b>3,508</b>	<b>(9,222)</b>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>\$ 87,046</b>	<b>\$ 6,271</b>	<b>\$ 2,958</b>	<b>\$ (6,396)</b>	<b>\$ 3,640</b>	<b>\$ (9,214)</b>	<b>\$ (1,175)</b>	<b>\$ 474</b>	<b>\$ 83,604</b>
Increase (decrease) in fair value of investments during the fiscal year.....	\$ (1,318)	\$ (168)	\$ (182)	\$ (399)	\$ 279	\$ (125)	\$ 3	\$ (38)	\$ (1,948)

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

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# Internal Service Funds



*Three Rivers Regatta, Pittsburgh  
Allegheny County*

## **INTERNAL SERVICE FUNDS DESCRIPTION**

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

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

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

There are a total of two individual internal service funds.

**COMBINING STATEMENT OF NET ASSETS- NONMAJOR PROPRIETARY FUNDS**

**Internal Service Funds**

*June 30, 2006*

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

	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Current assets:			
Cash .....	\$ 4,511	\$ 491	\$ 5,002
Temporary investments.....	33,484	42,317	75,801
Receivables:			
Accounts .....	5,064	337	5,401
Due from other funds .....	15,519	1,788	17,307
Due from pension trust funds.....	8	-	8
Due from component units.....	502	5	507
Due from Federal government.....	-	1	1
Due from political subdivisions.....	6	44	50
Due from other governments .....	-	215	215
Inventory.....	278	10,242	10,520
Other assets.....	-	88	88
Total current assets .....	<u>59,372</u>	<u>55,528</u>	<u>114,900</u>
Noncurrent assets:			
Non-depreciable capital assets:			
Land.....	-	6	6
Depreciable capital assets:			
Land improvements.....	-	317	317
Buildings and building improvements.....	-	3,521	3,521
Machinery and equipment.....	71,345	23,460	94,805
Less: accumulated depreciation .....	<u>(44,719)</u>	<u>(14,711)</u>	<u>(59,430)</u>
Net depreciable capital assets.....	<u>26,626</u>	<u>12,587</u>	<u>39,213</u>
Total noncurrent assets .....	<u>26,626</u>	<u>12,593</u>	<u>39,219</u>
<b>TOTAL ASSETS</b> .....	<u><b>85,998</b></u>	<u><b>68,121</b></u>	<u><b>154,119</b></u>
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable and accrued liabilities.....	15,028	3,505	18,533
Securities lending obligations.....	3,834	4,845	8,679
Due to other funds.....	424	13	437
Due to pension trust funds.....	5	16	21
Due to other governments.....	12	28	40
Unearned revenue.....	-	8	8
Self insurance liabilities.....	88	215	303
Compensated absences.....	92	200	292
Advances from other funds.....	14,300	-	14,300
Total current liabilities.....	<u>33,783</u>	<u>8,830</u>	<u>42,613</u>
Non-current liabilities:			
Compensated absences.....	566	1,051	1,617
Self insurance.....	342	836	1,178
Total non-current liabilities.....	<u>908</u>	<u>1,887</u>	<u>2,795</u>
<b>TOTAL LIABILITIES</b> .....	<u><b>34,691</b></u>	<u><b>10,717</b></u>	<u><b>45,408</b></u>
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt.....	26,626	12,593	39,219
Restricted for:			
Administrative and internal services.....	24,681	44,811	69,492
<b>TOTAL NET ASSETS</b> .....	<u><b>\$ 51,307</b></u>	<u><b>\$ 57,404</b></u>	<u><b>\$ 108,711</b></u>

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

**Internal Service Funds**

*For the Fiscal Year Ended June 30, 2006*

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

	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>			
Sales and services.....	\$ 69,597	\$ 27,667	\$ 97,264
Other.....	-	422	422
<b>NET OPERATING REVENUES.....</b>	<u>69,597</u>	<u>28,089</u>	<u>97,686</u>
<b>OPERATING EXPENSES:</b>			
Cost of sales and services.....	30,603	30,156	60,759
Depreciation.....	5,732	779	6,511
<b>TOTAL OPERATING EXPENSES .....</b>	<u>36,335</u>	<u>30,935</u>	<u>67,270</u>
<b>OPERATING INCOME/(LOSS).....</b>	<u>33,262</u>	<u>(2,846)</u>	<u>30,416</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment income.....	1,306	2,226	3,532
Other revenues.....	1	-	1
Other expenses.....	(683)	-	(683)
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b>	<u>624</u>	<u>2,226</u>	<u>2,850</u>
<b>CHANGE IN NET ASSETS.....</b>	33,886	(620)	33,266
<b>TOTAL NET ASSETS, JULY 1, 2005.....</b>	<u>17,421</u>	<u>58,024</u>	<u>75,445</u>
<b>TOTAL NET ASSETS, JUNE 30, 2006.....</b>	<u>\$ 51,307</u>	<u>\$ 57,404</u>	<u>\$ 108,711</u>

# COMBINING STATEMENT OF CASH FLOWS-NONMAJOR PROPRIETARY FUNDS

## Internal Service Funds

*For the Fiscal Year Ended June 30, 2006*

### COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	<b>Purchasing</b>	<b>Manufacturing</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers.....	\$ 55,460	\$ 30,309	\$ 85,769
Payments for vendors, employees and other costs.....	(35,447)	(30,547)	(65,994)
Other receipts.....	-	422	422
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES.....</b>	<b>20,013</b>	<b>184</b>	<b>20,197</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets.....	(4,475)	(1,085)	(5,560)
Disposition of capital assets.....	683	-	683
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(3,792)</b>	<b>(1,085)</b>	<b>(4,877)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of investments.....	(284,401)	(17,819)	(302,220)
Sales and maturities of investments.....	266,254	18,359	284,613
Investment income.....	1,422	2,482	3,904
Change in securities lending obligations.....	1,431	(2,102)	(671)
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....</b>	<b>(15,294)</b>	<b>920</b>	<b>(14,374)</b>
<b>NET INCREASE IN CASH.....</b>	<b>927</b>	<b>19</b>	<b>946</b>
<b>CASH AT JULY 1, 2005.....</b>	<b>3,584</b>	<b>472</b>	<b>4,056</b>
<b>CASH AT JUNE 30, 2006.....</b>	<b>\$ 4,511</b>	<b>\$ 491</b>	<b>\$ 5,002</b>

#### RECONCILIATION OF OPERATING INCOME TO NET

##### CASH PROVIDED BY OPERATING ACTIVITIES

Operating income (loss).....	\$ 33,262	\$ (2,846)	\$ 30,416
Depreciation and amortization.....	5,732	779	6,511
Non-operating expenses.....	(682)	-	(682)
<b>Change in assets and liabilities:</b>			
Accounts receivable.....	(5,058)	166	(4,892)
Inventory.....	(41)	334	293
Due from other funds.....	(8,841)	2,095	(6,746)
Due from other governments.....	-	(150)	(150)
Due from component units.....	(198)	179	(19)
Due from political subdivisions.....	-	1	1
Other current assets.....	-	17	17
Accounts payable and accrued liabilities.....	(4,381)	(317)	(4,698)
Due to other funds.....	62	(79)	(17)
Due to other governments.....	(3)	(1)	(4)
Other liabilities.....	161	6	167
<b>Total Adjustments.....</b>	<b>(13,249)</b>	<b>3,030</b>	<b>(10,219)</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES.....</b>	<b>\$ 20,013</b>	<b>\$ 184</b>	<b>\$ 20,197</b>
Decrease in fair value of investments during the fiscal year.....	\$ (116)	\$ (256)	\$ (372)

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

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# Pension (and Other Employee Benefit) Trust Funds



*Boalsburg  
Centre County*

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

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

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

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

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

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

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

*June 30, 2006*

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

	Pension (and Other Employee Benefit) Trust			Total
	State Employees' Retirement System (December 31, 2005)	Deferred Compensation (December 31, 2005)	Public School Employees' Retirement System	
<b>ASSETS</b>				
Cash.....	\$ -	\$ 4,750	\$ -	\$ 4,750
Temporary investments.....	-	29,824	-	29,824
Short-term funds.....	1,253,567	-	4,061,926	5,315,493
Corporate obligations.....	1,971,518	-	3,051,855	5,023,373
Collective trust funds.....	3,896,820	1,463,806	6,577,070	11,937,696
Real estate.....	1,948,283	-	2,542,399	4,490,682
Alternative.....	3,611,344	-	5,200,772	8,812,116
Securities lending collateral.....	3,115,916	-	6,337,173	9,453,089
Domestic equities.....	6,969,744	-	13,647,660	20,617,404
International equities.....	5,158,703	-	13,032,195	18,190,898
International private debt securities.....	63,955	-	-	63,955
International public debt securities.....	874,038	-	1,781,539	2,655,577
Mortgage-backed securities.....	-	-	5,670,890	5,670,890
Mortgage loans.....	37,504	-	-	37,504
U.S. Treasury obligations.....	2,234,146	-	2,964,175	5,198,321
U.S. government agency debt securities.....	557,144	-	188,788	745,932
Receivables, net:				
Accounts.....	-	-	1,018	1,018
Accrued interest.....	94,824	170	-	94,994
Pension contributions.....	-	4,596	428,791	433,387
Investment sale proceeds.....	622,848	-	960,326	1,583,174
Other.....	1,257	52	194,448	195,757
Due from other funds.....	1,919	-	-	1,919
Due from primary government.....	-	-	1,959	1,959
Due from component units.....	4,736	-	-	4,736
Due from political subdivisions.....	2,340	-	-	2,340
Due from other governments.....	-	-	21	21
Depreciable capital assets:				
Machinery and equipment.....	-	-	11,045	11,045
Less: accumulated depreciation.....	-	-	(10,402)	(10,402)
Net depreciable capital assets.....	-	-	643	643
<b>TOTAL ASSETS.....</b>	<b>32,420,606</b>	<b>1,503,198</b>	<b>66,643,648</b>	<b>100,567,452</b>
<b>LIABILITIES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities.....	72,284	816	39,970	113,070
Investment purchases payable.....	480,535	-	2,657,966	3,138,501
Securities lending obligations.....	3,115,916	-	6,337,173	9,453,089
Due to primary government.....	-	-	5,476	5,476
Other liabilities.....	-	114	185,762	185,876
<b>TOTAL LIABILITIES.....</b>	<b>3,668,735</b>	<b>930</b>	<b>9,226,347</b>	<b>12,896,012</b>
<b>NET ASSETS:</b>				
Held in trust for:				
Pension and other employee benefits.....	28,751,871	-	57,235,667	85,987,538
Healthcare benefits.....	-	-	181,634	181,634
Employee salary deferrals.....	-	1,502,268	-	1,502,268
<b>TOTAL NET ASSETS.....</b>	<b>\$ 28,751,871</b>	<b>\$ 1,502,268</b>	<b>\$ 57,417,301</b>	<b>\$ 87,671,440</b>

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

*For the Fiscal Year Ended June 30, 2006*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust			
	State Employees'	Deferred	Public School	Total
	Retirement System (December 31, 2005)	Compensation (December 31, 2005)	Employees' Retirement System	
<b>ADDITIONS:</b>				
Pension contributions:				
Employer.....	\$ 148,375	\$ -	\$ 530,943	\$ 679,318
Employee.....	305,624	134,350	982,846	1,422,820
Transfer in from other plans.....	-	28,975	13,941	42,916
Total contributions.....	<u>453,999</u>	<u>163,325</u>	<u>1,527,730</u>	<u>2,145,054</u>
Investment income:				
Net appreciation in fair value of investments.....	3,232,358	47,520	5,968,866	9,248,744
Interest income.....	368,610	22,408	2,162,096	2,553,114
Dividend income.....	128,480	-	-	128,480
Rental and other income.....	115,594	-	-	115,594
Total investment activity income.....	<u>3,845,042</u>	<u>69,928</u>	<u>8,130,962</u>	<u>12,045,932</u>
Less: investment expenses				
Investment activity expense.....	(234,760)	(1,551)	(211,279)	(447,590)
Net investment earnings.....	<u>3,610,282</u>	<u>68,377</u>	<u>7,919,683</u>	<u>11,598,342</u>
Securities lending activities:				
Income.....	116,477	-	270,447	386,924
Expenses.....	(103,939)	-	(247,491)	(351,430)
Total securities lending income.....	<u>12,538</u>	<u>-</u>	<u>22,956</u>	<u>35,494</u>
Total net investment income.....	<u>3,622,820</u>	<u>68,377</u>	<u>7,942,639</u>	<u>11,633,836</u>
<b>TOTAL ADDITIONS.....</b>	<b><u>4,076,819</u></b>	<b><u>231,702</u></b>	<b><u>9,470,369</u></b>	<b><u>13,778,890</u></b>
<b>DEDUCTIONS:</b>				
Benefit payments.....	1,936,428	39,058	4,091,073	6,066,559
Refunds of contributions.....	7,215	-	16,330	23,545
Transfers to other plans.....	-	69,685	8,462	78,147
Administrative expenses.....	22,704	228	48,629	71,561
Other expenses.....	-	2,565	-	2,565
<b>TOTAL DEDUCTIONS.....</b>	<b><u>1,966,347</u></b>	<b><u>111,536</u></b>	<b><u>4,164,494</u></b>	<b><u>6,242,377</u></b>
<b>CHANGE IN PLAN NET ASSETS HELD IN TRUST FOR:</b>				
Pension and other employee benefits.....	2,110,472	-	5,299,270	7,409,742
Healthcare benefits.....	-	-	6,605	6,605
Employee salary deferrals.....	-	120,166	-	120,166
<b>Net assets, July 1, 2005.....</b>	<b>26,641,399</b>	<b>1,382,102</b>	<b>52,111,426</b>	<b>80,134,927</b>
<b>Net assets, June 30, 2006.....</b>	<b><u>\$ 28,751,871</u></b>	<b><u>\$ 1,502,268</u></b>	<b><u>\$ 57,417,301</u></b>	<b><u>\$ 87,671,440</u></b>

# Agency Funds



*Fishing, Presque Isle State Park, Erie  
Erie County*

## AGENCY FUNDS DESCRIPTION

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

### AGENCY FUNDS

***Statutory Liquidator Fund*** — to convert the 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.

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

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

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

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

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

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

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

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

There are a total of fifteen individual agency funds.

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**

**Agency Funds**

*June 30, 2006*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Statutory Liquidator	Medical Care Availability & Reduction of Error	Medical Prof. Liability Catastrophe Loss	Underground Storage Tank Indemnification	Municipal Pension Aid	Fire Insurance Tax	Agency Custodian Accounts	Other	PA Life and Health Insurance Guaranty Association (December 31, 2005)	PA Property and Casualty Insurance Guaranty Association (December 31, 2005)	Total Agency Funds
<b>ASSETS</b>											
Cash.....	\$ -	\$ -	\$ -	\$ 596	\$ -	\$ -	\$ 9,446	\$ 194	\$ 4,562	\$ 1,911	\$ 16,709
Cash with fiscal agents.....	63,869	-	-	-	-	-	-	-	-	-	63,869
Temporary investments.....	174,781	173,083	-	55,742	215,498	87,827	13,393	48,655	244,817	116,183	1,129,979
Long-term investments.....	1,856,381	-	-	74,690	-	-	-	-	-	7,907	1,938,978
Receivables, net:											
Taxes.....	-	-	-	-	-	-	-	24,682	-	-	24,682
Accounts.....	224,159	5,367	-	-	-	-	2,242	-	-	1,125	232,893
Accrued interest.....	358	-	-	480	802	-	-	76	-	-	1,716
Loans.....	-	-	-	3,097	-	-	-	-	-	-	3,097
Investment sale proceeds.....	-	-	-	180	-	-	-	-	-	-	180
Other.....	-	-	-	-	-	-	-	-	-	177,371	177,371
Advances to other funds.....	-	-	-	82,500	-	-	-	-	-	-	82,500
Other assets.....	1,928,428	-	-	-	-	-	3,538	-	-	151	1,932,117
<b>TOTAL ASSETS.....</b>	<b>\$ 4,247,976</b>	<b>\$ 178,450</b>	<b>\$ -</b>	<b>\$ 217,285</b>	<b>\$ 216,300</b>	<b>\$ 87,827</b>	<b>\$ 28,619</b>	<b>\$ 73,607</b>	<b>\$ 249,379</b>	<b>\$ 304,648</b>	<b>\$ 5,604,091</b>
<b>LIABILITIES</b>											
Accounts payable and accrued liabilities.....	\$ 180	\$ 2,373	\$ -	\$ 16,784	\$ -	\$ -	\$ 7,527	\$ 173	\$ -	\$ -	\$ 27,037
Investment purchases payable.....	-	-	-	151	-	-	-	-	-	-	151
Securities lending obligations.....	19,457	19,817	-	6,786	13,467	5,489	-	3,204	-	-	68,220
Due to political subdivisions.....	-	-	-	29	202,833	82,338	-	67,462	-	-	352,662
Due to other governments.....	-	9	-	2	-	-	-	-	-	-	11
Self insurance liabilities.....	-	244	-	41	-	-	-	-	-	-	285
Other liabilities.....	4,228,339	156,007	-	193,492	-	-	21,092	2,768	249,379	304,648	5,155,725
<b>TOTAL LIABILITIES.....</b>	<b>\$ 4,247,976</b>	<b>\$ 178,450</b>	<b>\$ -</b>	<b>\$ 217,285</b>	<b>\$ 216,300</b>	<b>\$ 87,827</b>	<b>\$ 28,619</b>	<b>\$ 73,607</b>	<b>\$ 249,379</b>	<b>\$ 304,648</b>	<b>\$ 5,604,091</b>

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**Agency Funds**

*For the Fiscal Year Ended June 30, 2006*

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

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<b>STATUTORY LIQUIDATOR FUND</b>				
<b>ASSETS</b>				
Cash with fiscal agents.....	\$ 137,005	\$ 202,303	\$ 275,439	\$ 63,869
Temporary investments.....	566,351	52,870	444,440	174,781
Long-term investments.....	1,298,675	2,893,286	2,335,580	1,856,381
Receivables, net:				
Accounts.....	277,135	-	52,976	224,159
Accrued interest.....	225	133	-	358
Other assets.....	1,730,605	704,965	507,142	1,928,428
<b>TOTAL ASSETS</b> .....	<u>\$ 4,009,996</u>	<u>\$ 3,853,557</u>	<u>\$ 3,615,577</u>	<u>\$ 4,247,976</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 74	\$ 106	\$ -	\$ 180
Securities lending obligations.....	42,261	19,457	42,261	19,457
Other liabilities.....	3,967,661	1,928,428	1,667,750	4,228,339
<b>TOTAL LIABILITIES</b> .....	<u>\$ 4,009,996</u>	<u>\$ 1,947,991</u>	<u>\$ 1,710,011</u>	<u>\$ 4,247,976</u>
<b>MEDICAL CARE AVAILABILITY AND REDUCTION OF ERROR FUND</b>				
<b>ASSETS</b>				
Cash.....	\$ 683	\$ 10,436,703	\$ 10,437,386	\$ -
Temporary investments.....	168,826	2,882,131	2,877,874	173,083
Receivables, net:				
Accounts.....	75,682	6,052	76,367	5,367
<b>TOTAL ASSETS</b> .....	<u>\$ 245,191</u>	<u>\$ 13,324,886</u>	<u>\$ 13,391,627</u>	<u>\$ 178,450</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 10,948	\$ 1,795,980	\$ 1,804,555	\$ 2,373
Securities lending obligations.....	26,987	19,817	26,987	19,817
Due to other funds.....	-	58	58	-
Due to political subdivisions.....	-	21	21	-
Due to other governments.....	8	9	8	9
Advances from other funds.....	207,000	291,000	498,000	-
Self insurance liabilities.....	248	438	442	244
Other liabilities.....	-	227,564	71,557	156,007
<b>TOTAL LIABILITIES</b> .....	<u>\$ 245,191</u>	<u>\$ 2,334,887</u>	<u>\$ 2,401,628</u>	<u>\$ 178,450</u>
<b>MEDICAL PROFESSIONAL LIABILITY CATASTROPHE LOSS FUND</b>				
<b>ASSETS</b>				
Cash.....	\$ -	\$ 561,022	\$ 561,022	\$ -
<b>TOTAL ASSETS</b> .....	<u>\$ -</u>	<u>\$ 561,022</u>	<u>\$ 561,022</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ -	\$ 2,637	\$ 2,637	\$ -
<b>TOTAL LIABILITIES</b> .....	<u>\$ -</u>	<u>\$ 2,637</u>	<u>\$ 2,637</u>	<u>\$ -</u>
<b>UNDERGROUND STORAGE TANK INDEMNIFICATION FUND</b>				
<b>ASSETS</b>				
Cash.....	\$ 893	\$ 9,572,478	\$ 9,572,775	\$ 596
Temporary investments.....	57,720	13,655,986	13,657,964	55,742
Long-term investments.....	87,426	3,194,878	3,207,614	74,690
Receivables, net:				
Accrued interest.....	593	4,270	4,383	480
Loans.....	3,097	-	-	3,097
Investment sale proceeds.....	-	180	-	180
Advances to other funds.....	90,000	-	7,500	82,500
<b>TOTAL ASSETS</b> .....	<u>\$ 239,729</u>	<u>\$ 26,427,792</u>	<u>\$ 26,450,236</u>	<u>\$ 217,285</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 17,242	\$ 428,227	\$ 428,685	\$ 16,784
Investment purchases payable.....	-	151	-	151
Securities lending obligations.....	26,366	12,546	32,126	6,786
Due to other funds.....	-	29	29	-
Due to political subdivisions.....	192	1,162	1,325	29
Due to other governments.....	1	2	1	2
Self insurance liabilities.....	40	45	44	41
Other liabilities.....	195,888	146,640	149,036	193,492
<b>TOTAL LIABILITIES</b> .....	<u>\$ 239,729</u>	<u>\$ 588,802</u>	<u>\$ 611,246</u>	<u>\$ 217,285</u>

(continued)



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

*For the Fiscal Year Ended June 30, 2006*

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

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<b>MUNICIPAL PENSION AID FUND</b>				
<b>ASSETS</b>				
Cash.....	\$ -	\$ 7,708,687	\$ 7,708,687	\$ -
Temporary investments.....	224,546	822,268	831,316	215,498
Receivables, net:				
Accrued interest.....	779	801	778	802
<b>TOTAL ASSETS</b> .....	<u>\$ 225,325</u>	<u>\$ 8,531,756</u>	<u>\$ 8,540,781</u>	<u>\$ 216,300</u>
<b>LIABILITIES</b>				
Securities lending obligations.....	\$ 32,780	\$ 19,226	\$ 38,539	\$ 13,467
Due to political subdivisions.....	192,545	10,288	-	202,833
<b>TOTAL LIABILITIES</b> .....	<u>\$ 225,325</u>	<u>\$ 29,514</u>	<u>\$ 38,539</u>	<u>\$ 216,300</u>
<b>FIRE INSURANCE TAX FUND</b>				
<b>ASSETS</b>				
Cash.....	\$ -	\$ 2,221,352	\$ 2,221,352	\$ -
Temporary investments.....	98,075	245,847	256,095	87,827
Receivables, net:				
Accrued interest.....	332	-	332	-
<b>TOTAL ASSETS</b> .....	<u>\$ 98,407</u>	<u>\$ 2,467,199</u>	<u>\$ 2,477,779</u>	<u>\$ 87,827</u>
<b>LIABILITIES</b>				
Securities lending obligations.....	\$ 16,412	\$ 5,489	\$ 16,412	\$ 5,489
Due to political subdivisions.....	81,995	10,235	9,892	82,338
<b>TOTAL LIABILITIES</b> .....	<u>\$ 98,407</u>	<u>\$ 15,724</u>	<u>\$ 26,304</u>	<u>\$ 87,827</u>
<b>AGENCY CUSTODIAL ACCOUNTS</b>				
<b>ASSETS</b>				
Cash.....	\$ 8,327	\$ 7,788	\$ 6,669	\$ 9,446
Temporary investments.....	13,003	10,799	10,409	13,393
Receivables, net:				
Accounts.....	15,027	14,323	27,108	2,242
Accrued interest.....	1	-	1	-
Other assets.....	4,761	3,426	4,649	3,538
<b>TOTAL ASSETS</b> .....	<u>\$ 41,119</u>	<u>\$ 36,336</u>	<u>\$ 48,836</u>	<u>\$ 28,619</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 6,909	\$ 19,606	\$ 18,988	\$ 7,527
Other liabilities.....	34,210	16,730	29,848	21,092
<b>TOTAL LIABILITIES</b> .....	<u>\$ 41,119</u>	<u>\$ 36,336</u>	<u>\$ 48,836</u>	<u>\$ 28,619</u>

(continued)

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

*For the Fiscal Year Ended June 30, 2006*

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

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<b>OTHER FUNDS</b>				
<b>ASSETS</b>				
Cash.....	\$ 145	\$ 16,003,658	\$ 16,003,609	\$ 194
Temporary investments.....	41,729	3,721,794	3,714,868	48,655
Receivables, net:				
Taxes.....	26,791	25,823	27,932	24,682
Accounts.....	-	4,077	4,077	-
Accrued interest.....	130	123	177	76
<b>TOTAL ASSETS</b> .....	<b>\$ 68,795</b>	<b>\$ 19,755,475</b>	<b>\$ 19,750,663</b>	<b>\$ 73,607</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 221	\$ 100,556	\$ 100,604	\$ 173
Securities lending obligations.....	6,959	3,204	6,959	3,204
Due to other funds.....	-	331	331	-
Due to political subdivisions.....	58,954	65,973	57,465	67,462
Other liabilities.....	2,661	111	4	2,768
<b>TOTAL LIABILITIES</b> .....	<b>\$ 68,795</b>	<b>\$ 170,175</b>	<b>\$ 165,363</b>	<b>\$ 73,607</b>
<b>PENNSYLVANIA LIFE AND HEALTH</b>				
<b>INSURANCE GUARANTY ASSOCIATION</b>				
<b>ASSETS</b>				
Cash.....	\$ 2,529	\$ 9,616	\$ 7,583	\$ 4,562
Temporary investments.....	247,169	249,520	251,872	244,817
<b>TOTAL ASSETS</b> .....	<b>\$ 249,698</b>	<b>\$ 259,136</b>	<b>\$ 259,455</b>	<b>\$ 249,379</b>
<b>LIABILITIES</b>				
Other liabilities.....	\$ 249,698	\$ -	\$ 319	\$ 249,379
<b>TOTAL LIABILITIES</b> .....	<b>\$ 249,698</b>	<b>\$ -</b>	<b>\$ 319</b>	<b>\$ 249,379</b>
<b>PENNSYLVANIA PROPERTY AND CASUALTY</b>				
<b>INSURANCE GUARANTY ASSOCIATION</b>				
<b>ASSETS</b>				
Cash.....	\$ 6,981	\$ 43,608	\$ 48,678	\$ 1,911
Temporary investments.....	82,933	34,350	1,100	116,183
Long-term investments.....	40,283	-	32,376	7,907
Receivables, net:				
Accounts.....	2,416	-	1,291	1,125
Other.....	183,671	1,100	7,400	177,371
Other assets.....	282	-	131	151
<b>TOTAL ASSETS</b> .....	<b>\$ 316,566</b>	<b>\$ 79,058</b>	<b>\$ 90,976</b>	<b>\$ 304,648</b>
<b>LIABILITIES</b>				
Other liabilities.....	\$ 316,566	\$ 43,058	\$ 54,976	\$ 304,648
<b>TOTAL LIABILITIES</b> .....	<b>\$ 316,566</b>	<b>\$ 43,058</b>	<b>\$ 54,976</b>	<b>\$ 304,648</b>

(continued)

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

*For the Fiscal Year Ended June 30, 2006*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2006</u>
<b>TOTAL — AGENCY FUNDS</b>				
<b>ASSETS</b>				
Cash.....	\$ 19,558	\$ 46,564,912	\$ 46,567,761	\$ 16,709
Cash with fiscal agents.....	137,005	202,303	275,439	63,869
Temporary investments.....	1,500,352	21,675,565	22,045,938	1,129,979
Long-term investments.....	1,426,384	6,088,164	5,575,570	1,938,978
Receivables, net:				
Taxes.....	26,791	25,823	27,932	24,682
Accounts.....	370,260	24,452	161,819	232,893
Accrued interest.....	2,060	5,327	5,671	1,716
Loans.....	3,097	-	-	3,097
Investment sale proceeds.....	-	180	-	180
Other.....	183,671	1,100	7,400	177,371
Advances to other funds.....	90,000	-	7,500	82,500
Other assets.....	1,735,648	708,391	511,922	1,932,117
<b>TOTAL ASSETS .....</b>	<u>\$ 5,494,826</u>	<u>\$ 75,296,217</u>	<u>\$ 75,186,952</u>	<u>\$ 5,604,091</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 35,394	\$ 2,347,112	\$ 2,355,469	\$ 27,037
Investment purchases payable.....	-	151	-	151
Securities lending obligations.....	151,765	79,739	163,284	68,220
Due to other funds.....	-	418	418	-
Due to political subdivisions.....	333,686	87,679	68,703	352,662
Due to other governments.....	9	11	9	11
Advances from other funds.....	207,000	291,000	498,000	-
Self insurance liabilities.....	288	483	486	285
Other liabilities.....	4,766,684	2,362,531	1,973,490	5,155,725
<b>TOTAL LIABILITIES .....</b>	<u>\$ 5,494,826</u>	<u>\$ 5,169,124</u>	<u>\$ 5,059,859</u>	<u>\$ 5,604,091</u>

# Nonmajor Discretely Presented Component Units



*Krepps Bridge  
Washington County*

## 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, 2005 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 PTDA, 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.

**Thaddeus Stevens College of Technology (College)** — presents a financial burden to the PG, as the PG appropriates monies for College operations. The College was financially reported as part of the PG through and including the fiscal year ended June 30, 2003; legislation effective July 1, 2003 made the College a legally separate entity.

There are a total of twenty-two component units; sixteen are discretely presented. The State Employees' Retirement System (SERS) and Public School Employee's 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.

**COMBINING STATEMENT OF NET ASSETS**  
**Nonmajor Discretely Presented Component Units**

COMMONWEALTH OF PENNSYLVANIA  
 (Expressed in Thousands)

	State Public School Building Authority	Philadelphia Shipyard Development Corporation (December 31, 2005)	Ben Franklin Technology Development Authority	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority
<b>ASSETS</b>					
Current assets:					
Cash.....	\$ -	\$ 6,769	\$ -	\$ 2,941	\$ -
Temporary investments.....	17,493	-	31,197	-	-
Receivables:					
Accounts.....	-	-	-	14	10
Accrued interest.....	147	-	-	-	-
Loans.....	2,847	-	36,657	-	-
Lease rentals.....	-	-	-	-	-
Other.....	-	262	-	-	-
Due from primary government.....	-	-	-	-	-
Due from other governments.....	-	336	-	138	-
Inventory.....	-	-	-	-	-
Prepaid and deferred expenses.....	-	41	-	22	-
Other assets.....	-	-	-	-	-
Total current assets.....	<u>20,487</u>	<u>7,408</u>	<u>67,854</u>	<u>3,115</u>	<u>10</u>
Noncurrent assets:					
Long-term investments.....	8,290	-	-	-	-
Receivables (net):					
Loans.....	3,617	27,115	-	-	-
Lease rentals.....	-	-	-	-	-
Non-depreciable capital assets:					
Land.....	-	161	-	-	-
Construction in progress.....	-	-	-	-	-
Depreciable capital assets:					
Buildings and building improvements.....	-	-	-	-	-
Machinery and equipment.....	506	-	-	72	-
Library books.....	-	-	-	-	-
Other capital assets.....	-	-	-	-	-
Less: accumulated depreciation.....	(447)	-	-	(39)	-
Net depreciable capital assets.....	<u>59</u>	<u>-</u>	<u>-</u>	<u>33</u>	<u>-</u>
Other assets.....	-	-	-	4	-
Total noncurrent assets.....	<u>11,966</u>	<u>27,276</u>	<u>-</u>	<u>37</u>	<u>-</u>
<b>TOTAL ASSETS.....</b>	<b><u>32,453</u></b>	<b><u>34,684</u></b>	<b><u>67,854</u></b>	<b><u>3,152</u></b>	<b><u>10</u></b>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable and accrued liabilities.....	815	998	13,321	1,341	10
Securities lending obligations.....	-	-	3,572	-	-
Due to primary government.....	-	-	-	-	-
Due to other governments.....	-	-	-	-	-
Interest payable.....	-	-	-	-	-
Unearned revenue.....	40	-	-	-	-
Notes payable.....	-	-	-	-	-
Revenue bonds payable.....	-	-	-	-	-
Compensated absences.....	48	-	-	-	-
Other liabilities.....	63	613	-	12	-
Total current liabilities.....	<u>966</u>	<u>1,611</u>	<u>16,893</u>	<u>1,353</u>	<u>10</u>
Non-current liabilities:					
Unearned revenue.....	-	-	-	-	-
Notes payable.....	-	27,115	-	-	-
Revenue bond payable.....	-	-	-	-	-
Capital lease/installment purchase obligations.....	-	-	-	-	-
Compensated absences.....	187	-	-	-	-
Other liabilities.....	692	-	-	-	-
Total non-current liabilities.....	<u>879</u>	<u>27,115</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES.....</b>	<b><u>1,845</u></b>	<b><u>28,726</u></b>	<b><u>16,893</u></b>	<b><u>1,353</u></b>	<b><u>10</u></b>
<b>NET ASSETS:</b>					
Invested in capital assets, net of related debt.....	59	161	-	33	-
Restricted for:					
Capital projects.....	-	-	-	-	-
Other purposes.....	30,549	5,797	50,961	1,766	-
Unrestricted.....	-	-	-	-	-
<b>TOTAL NET ASSETS.....</b>	<b><u>\$ 30,608</u></b>	<b><u>\$ 5,958</u></b>	<b><u>\$ 50,961</u></b>	<b><u>\$ 1,799</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	Thaddeus Stevens College of Technology	Total
\$ -	\$ 4	\$ 994	\$ 887	\$ 315,911	\$ 2,131	\$ 329,637
5,112	2,092	126,883	-	-	-	182,777
-	2	-	794	-	95	915
-	8	2,330	-	56	-	2,541
-	327	57,191	-	998	-	98,020
-	-	3,565	621	-	-	4,186
-	27	615	-	-	641	1,545
-	-	63	-	-	-	63
-	-	-	-	-	-	474
-	-	-	-	-	310	310
-	-	-	-	-	65	128
-	-	-	742	-	-	742
<u>5,112</u>	<u>2,460</u>	<u>191,641</u>	<u>3,044</u>	<u>316,965</u>	<u>3,242</u>	<u>621,338</u>
-	-	69,401	-	-	867	78,558
-	-	472,645	-	38,482	-	541,859
-	-	14,075	-	-	-	14,075
-	-	-	-	-	-	161
-	-	-	6,066	-	-	6,066
-	-	-	139,992	-	565	140,557
-	2,106	-	33,321	-	3,103	39,108
-	-	-	-	-	477	477
-	-	-	2,629	-	151	2,780
-	(564)	-	(88,955)	-	(2,190)	(92,195)
-	1,542	-	86,987	-	2,106	90,727
-	-	8,011	10,282	4,223	784	23,304
-	1,542	564,132	103,335	42,705	3,757	754,750
<u>5,112</u>	<u>4,002</u>	<u>755,773</u>	<u>106,379</u>	<u>359,670</u>	<u>6,999</u>	<u>1,376,088</u>
605	71	46	5,219	294	1,647	24,367
585	-	-	-	-	-	4,157
5	-	-	-	-	2	7
1	-	-	-	-	-	1
-	-	12,528	-	-	-	12,528
-	-	193	9	-	142	384
-	-	-	378	-	-	378
-	-	28,040	2,000	10,280	-	40,320
-	-	210	-	-	317	575
-	-	206	351	-	15	1,260
<u>1,196</u>	<u>71</u>	<u>41,223</u>	<u>7,957</u>	<u>10,574</u>	<u>2,123</u>	<u>83,977</u>
-	-	-	89	-	-	89
-	-	-	2,790	-	-	29,905
-	-	439,525	43,900	369,253	-	852,678
-	2,000	-	-	-	-	2,000
-	34	-	579	-	911	1,711
-	-	8,408	3,305	-	382	12,787
-	2,034	447,933	50,663	369,253	1,293	899,170
<u>1,196</u>	<u>2,105</u>	<u>489,156</u>	<u>58,620</u>	<u>379,827</u>	<u>3,416</u>	<u>983,147</u>
-	(458)	-	41,705	-	2,106	43,606
-	-	-	5,762	-	-	5,762
3,916	2,355	-	292	-	1,477	97,113
-	-	266,617	-	(20,157)	-	246,460
<u>\$ 3,916</u>	<u>\$ 1,897</u>	<u>\$ 266,617</u>	<u>\$ 47,759</u>	<u>\$ (20,157)</u>	<u>\$ 3,583</u>	<u>\$ 392,941</u>

**COMBINING STATEMENT OF ACTIVITIES**  
**Nonmajor Discretely Presented Component Units**

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	State Public School Building Authority	Philadelphia Shipyards Development Corporation (December 31, 2005)	Ben Franklin Technology Development Authority	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority
Expenses.....	\$ 2,297	\$ 6,452	\$ 49,540	\$ 11,087	\$ 1,206
Program revenues:					
Charges for goods and services.....	1,415	-	601	10,287	1,206
Operating grants and contributions.....	836	5,032	52,612	277	-
Capital grants and contributions.....	-	-	-	-	-
<b>Total program revenues.....</b>	<b>2,251</b>	<b>5,032</b>	<b>53,213</b>	<b>10,564</b>	<b>1,206</b>
<b>Net (expense) revenue.....</b>	<b>(46)</b>	<b>(1,420)</b>	<b>3,673</b>	<b>(523)</b>	<b>-</b>
General revenues:					
Taxes and other general revenues.....	-	-	-	-	-
<b>Change in net assets.....</b>	<b>(46)</b>	<b>(1,420)</b>	<b>3,673</b>	<b>(523)</b>	<b>-</b>
<b>Net assets, July 1, 2005.....</b>	<b>30,654</b>	<b>7,378</b>	<b>47,288</b>	<b>2,322</b>	<b>-</b>
<b>Net assets, June 30, 2006.....</b>	<b>\$ 30,608</b>	<b>\$ 5,958</b>	<b>\$ 50,961</b>	<b>\$ 1,799</b>	<b>\$ -</b>



Patient Safety Trust Authority	Port of Pittsburgh Commission	Pennsylvania Industrial Development Authority	Philadelphia Regional Port Authority	Commonwealth Financing Authority	Thaddeus Stevens College of Technology	Total
\$ 3,266	\$ 1,173	\$ 28,377	\$ 25,038	\$ 30,694	\$ 15,781	\$ 174,911
-	73	25,328	5,506	150	3,361	47,927
2,949	1,201	9,596	11,494	10,387	11,664	106,048
-	-	-	13,233	-	-	13,233
<u>2,949</u>	<u>1,274</u>	<u>34,924</u>	<u>30,233</u>	<u>10,537</u>	<u>15,025</u>	<u>167,208</u>
<u>(317)</u>	<u>101</u>	<u>6,547</u>	<u>5,195</u>	<u>(20,157)</u>	<u>(756)</u>	<u>(7,703)</u>
-	137	-	1,675	-	-	1,812
<u>(317)</u>	<u>238</u>	<u>6,547</u>	<u>6,870</u>	<u>(20,157)</u>	<u>(756)</u>	<u>(5,891)</u>
4,233	1,659	260,070	40,889	-	4,339	398,832
<u>\$ 3,916</u>	<u>\$ 1,897</u>	<u>\$ 266,617</u>	<u>\$ 47,759</u>	<u>\$ (20,157)</u>	<u>\$ 3,583</u>	<u>\$ 392,941</u>

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# Statistical Section



*State Capitol, Harrisburg  
Dauphin County*

Statistical Section Table of Contents

**Financial Trends**

*These tables illustrate how the Commonwealth’s financial position has changed over time by providing information on the Commonwealth’s net assets, change in net assets, fund balance and changes in fund balance.*

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**Revenue Capacity**

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**FINANCIAL TRENDS**  
**Net Assets by Component**

**TABLE 1**  
*For the Last Five Fiscal Years Ended June 30*

**COMMONWEALTH OF PENNSYLVANIA**  
**(Accrual basis of accounting-expressed in thousands)**

	(Restated) 2002	2003	2004	2005	2006
<b>GOVERNMENTAL ACTIVITIES</b>					
Invested in capital assets, net of related debt.....	\$ 14,806,435	\$ 16,106,064	\$ 16,944,913	\$ 18,258,125	\$ 19,068,573
Restricted for:					
Smoking cessation and other health-related programs.....	N/A	N/A	N/A	1,215,291	1,320,703
Transportation.....	605,606	553,212	775,900	990,743	1,578,753
Capital projects.....	3,937	301,628	245,926	173,790	196,301
Debt service.....	-	32,685	61,029	83,885	8,118
Unemployment/worker's compensation.....	141,678	48,847	-	-	29,754
Elderly programs.....	1,434	111,659	90,713	92,531	32,327
Environmental and conservation programs.....	480,182	445,350	430,071	420,600	435,976
Economic stimulus.....	N/A	N/A	N/A	N/A	18,171
Gaming licensing/regulation.....	N/A	N/A	N/A	N/A	2,128
Administrative and internal services.....	N/A	N/A	N/A	N/A	133,934
Emergency support.....	N/A	N/A	N/A	N/A	56,543
Other purposes.....	384,027	1,003,117	1,366,072	303,409	82,770
Unrestricted (deficit).....	1,312,334	(603,472)	(228,981)	(739,160)	(372,089)
<b>TOTAL GOVERNMENTAL ACTIVITIES NET ASSETS.....</b>	<b>17,735,633</b>	<b>17,999,090</b>	<b>19,685,643</b>	<b>20,799,214</b>	<b>22,591,962</b>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Invested in capital assets, net of related debt.....	30,426	42,421	45,927	46,567	82,694
Restricted for:					
Smoking cessation and other health-related programs.....	N/A	N/A	N/A	-	4,814
Transportation.....	30,336	31,742	33,227	50,433	52,960
Unemployment/worker's compensation.....	2,836,069	1,960,499	1,506,877	1,808,170	2,397,720
Elderly programs.....	180,814	142,284	158,343	291,329	325,925
Economic stimulus.....	N/A	N/A	N/A	N/A	212,792
Emergency support.....	N/A	N/A	N/A	N/A	126,505
Other purposes.....	422,971	361,993	403,527	450,961	152,629
Unrestricted (deficit).....	(26,005)	(71,756)	(47,849)	(43,812)	-
<b>TOTAL BUSINESS-TYPE ACTIVITIES NET ASSETS.....</b>	<b>3,474,611</b>	<b>2,467,183</b>	<b>2,100,052</b>	<b>2,603,648</b>	<b>3,356,039</b>
<b>PRIMARY GOVERNMENT</b>					
Invested in capital assets, net of related debt.....	14,836,861	16,148,485	16,990,840	18,304,692	19,151,267
Restricted for:					
Smoking cessation and other health-related programs.....	N/A	N/A	N/A	1,215,291	1,325,517
Transportation.....	635,942	584,954	809,127	1,041,176	1,631,713
Capital projects.....	3,937	301,628	245,926	173,790	196,301
Debt service.....	-	32,685	61,029	83,885	8,118
Unemployment/worker's compensation.....	2,977,747	2,009,346	1,506,877	1,808,170	2,427,474
Elderly programs.....	182,248	253,943	249,056	383,860	358,252
Environmental and conservation programs.....	480,182	445,350	430,071	420,600	435,976
Economic stimulus.....	N/A	N/A	N/A	N/A	230,963
Gaming licensing/regulation.....	N/A	N/A	N/A	N/A	2,128
Administrative and internal services.....	N/A	N/A	N/A	N/A	133,934
Emergency support.....	N/A	N/A	N/A	N/A	183,048
Other purposes.....	806,998	1,365,110	1,769,599	754,370	235,399
Unrestricted (deficit).....	1,286,329	(675,228)	(276,830)	(782,972)	(372,089)
<b>TOTAL PRIMARY GOVERNMENT NET ASSETS.....</b>	<b>\$ 21,210,244</b>	<b>\$ 20,466,273</b>	<b>\$ 21,785,695</b>	<b>\$ 23,402,862</b>	<b>\$ 25,948,001</b>

**Source:** Statement of Net Assets, as presented in the Commonwealth's Comprehensive Annual Financial Report for the applicable fiscal year.

**Note:** This schedule presents information beginning with the 2002 fiscal year, when the Commonwealth implemented GASB Statement 34. Also, since implementation additional restricted net asset categories have been created to provide a more refined description of the restrictions. These restrictions were not applied retroactively and are marked with N/A in the years prior to the creation of the new restricted net asset category. These new categories were created either for new funds or funds previously reported in the "Other purposes" category. The "Gaming licensing/regulation" category was created for a new fund, the Gaming Fund, in the 2006 fiscal year. The most significant fund previously reported in the "Other purposes" category that is now being reported in a new classification is the Tobacco Settlement Fund, a major governmental fund type, which beginning with the 2005 fiscal year is now being reported in the "Smoking cessation and other health-related programs" category. Other notable funds being reported in new categories are the Internal Service funds-reported in the "Administrative and internal services" category; Machinery and Equipment Loan Fund and Small Business First Fund (both Proprietary fund types)-reported in the "Economic Stimulus" category; and the Volunteer Companies Loan fund (a Proprietary Fund Type)-reported in the "Emergency support" category.

**FINANCIAL TRENDS**  
**Changes in Net Assets**

**TABLE 2**  
*For the Last Five Fiscal Years*

**COMMONWEALTH OF PENNSYLVANIA**

(Accrual basis of accounting-expressed in thousands)

	(Restated) 2002	2003	2004	2005	2006
<b>GOVERNMENTAL ACTIVITIES:</b>					
<b>Expenses:</b>					
Direction and supportive services.....	\$ 1,262,359	\$ 1,024,071	\$ 2,034,883	\$ 2,229,850	\$ 2,162,552
Protection of persons and property .....	3,758,867	3,921,413	3,873,972	4,244,332	4,439,794
Public education.....	9,642,272	10,219,211	10,571,307	11,428,452	11,816,608
Health and human services.....	18,893,434	20,454,323	21,750,153	24,166,791	24,139,762
Economic development.....	1,416,557	1,455,272	1,340,015	1,314,636	1,409,506
Transportation.....	2,581,898	2,998,824	3,164,086	3,261,642	3,229,351
Recreation and cultural enrichment.....	481,948	435,864	394,273	448,585	520,330
Interest.....	344,482	370,284	341,455	296,267	337,142
<b>Total expenses.....</b>	<b>38,381,817</b>	<b>40,879,262</b>	<b>43,470,144</b>	<b>47,390,555</b>	<b>48,055,045</b>
<b>Program revenues:</b>					
Charges for sales and services:					
Direction and supportive services.....	393,856	347,910	1,097,730	1,377,293	991,541
Protection of persons and property .....	373,329	627,529	925,502	831,785	1,080,708
Public education.....	6,043	-	3,514	1,702	13,161
Health and human services.....	2,095,669	2,049,640	1,297,338	2,871,487	1,913,377
Economic development.....	145,119	142,914	1,011	11,028	16,373
Transportation.....	956,406	914,129	1,008,886	1,029,406	949,533
Recreation and cultural enrichment.....	188,829	143,221	138,750	153,641	166,750
Operating grants and contributions.....	13,122,608	14,574,283	16,556,717	16,773,012	16,532,924
Capital grants and contributions.....	125,502	136,140	30,473	14,944	55,761
<b>Total program revenues.....</b>	<b>17,407,361</b>	<b>18,935,766</b>	<b>21,059,921</b>	<b>23,064,298</b>	<b>21,720,128</b>
<b>Total governmental activities net program revenues/(expenses).....</b>	<b>(20,974,456)</b>	<b>(21,943,496)</b>	<b>(22,410,223)</b>	<b>(24,326,257)</b>	<b>(26,334,917)</b>
<b>General revenues and other changes in net assets</b>					
<b>General revenues:</b>					
Taxes:					
Personal income.....	6,713,861	6,691,957	7,352,877	8,312,440	9,093,338
Sales and use.....	7,419,373	7,511,233	7,654,405	7,917,396	8,381,262
Corporation.....	3,160,714	3,418,599	4,004,112	4,400,995	5,074,730
Liquid fuels and motor carriers.....	1,696,418	1,666,795	1,723,816	1,863,223	2,033,227
Inheritance.....	N/A	634,365	726,605	668,992	793,279
Cigarette.....	N/A	N/A	933,973	811,578	1,033,099
Real estate.....	N/A	N/A	N/A	N/A	646,870
Other.....	1,642,731	1,616,368	893,589	992,343	418,110
<b>Total taxes.....</b>	<b>20,633,097</b>	<b>21,539,317</b>	<b>23,289,377</b>	<b>24,966,967</b>	<b>27,473,915</b>
Investment income.....	15,394	115,829	199,151	131,629	188,750
<b>Total general revenues.....</b>	<b>20,648,491</b>	<b>21,655,146</b>	<b>23,488,528</b>	<b>25,098,596</b>	<b>27,662,665</b>
Special item-revenues from component unit.....	256,206	-	-	-	-
Transfers from business-type activities.....	481,022	551,807	422,786	341,232	465,000
<b>Net general revenues, special items and transfers.....</b>	<b>21,385,719</b>	<b>22,206,953</b>	<b>23,911,314</b>	<b>25,439,828</b>	<b>28,127,665</b>
<b>Total governmental activities change in net assets.....</b>	<b>411,263</b>	<b>263,457</b>	<b>1,501,091</b>	<b>1,113,571</b>	<b>1,792,748</b>

**FINANCIAL TRENDS**  
**Changes in Net Assets**

**TABLE 2**  
*For the Last Five Fiscal Years*

**COMMONWEALTH OF PENNSYLVANIA**  
**(Accrual basis of accounting-expressed in thousands)**

	(Restated) 2002	2003	2004	2005	2006
<b>BUSINESS-TYPE ACTIVITIES</b>					
<b>Expenses</b>					
State lottery.....	1,682,675	1,827,306	2,051,646	2,298,417	2,704,265
State workers' insurance.....	174,929	225,483	435,429	449,880	412,104
Tuition payment.....	191,188	288,118	293,737	192,802	138,275
Unemployment compensation.....	2,819,878	3,470,257	2,563,318	1,774,676	1,998,613
Liquor control.....	907,261	954,763	1,024,365	1,088,875	1,178,434
Economic development and other.....	16,820	12,663	13,980	16,456	18,433
<b>Total expenses.....</b>	<b>5,792,751</b>	<b>6,778,590</b>	<b>6,382,475</b>	<b>5,821,106</b>	<b>6,450,124</b>
<b>Program revenues</b>					
Charges for sales and services:					
State lottery.....	1,955,820	2,103,644	2,349,644	2,644,407	3,047,978
State workers' insurance.....	149,688	180,664	266,551	355,883	427,970
Tuition payment.....	151,149	234,460	206,739	141,817	113,831
Unemployment compensation.....	1,862,530	1,532,213	1,628,215	1,961,085	2,373,163
Liquor control.....	975,300	1,025,813	1,121,853	1,183,667	1,272,101
Economic development and other.....	24,031	15,878	21,467	17,201	17,585
Operating grants and contributions.....	463,554	1,223,591	840,763	361,874	414,887
Capital grants and contributions.....	-	6,706	1,121	-	-
<b>Total program revenues.....</b>	<b>5,582,072</b>	<b>6,322,969</b>	<b>6,436,353</b>	<b>6,665,934</b>	<b>7,667,515</b>
<b>Total business-type activities net program revenues/(expenses).....</b>	<b>(210,679)</b>	<b>(455,621)</b>	<b>53,878</b>	<b>844,828</b>	<b>1,217,391</b>
<b>Other changes in net assets</b>					
Transfers to governmental activities.....	(481,022)	(551,807)	(422,786)	(341,232)	(465,000)
<b>Total business-type activities change in net assets.....</b>	<b>(691,701)</b>	<b>(1,007,428)</b>	<b>(368,908)</b>	<b>503,596</b>	<b>752,391</b>
<b>Total primary government change in net assets.....</b>	<b>\$ (280,438)</b>	<b>\$ (743,971)</b>	<b>\$ 1,132,183</b>	<b>\$ 1,617,167</b>	<b>\$ 2,545,139</b>

**Source:** Statement of Activities, as presented in the Commonwealth's Comprehensive Annual Financial Report for the applicable fiscal year.

**Note:** This schedule presents information beginning with the 2002 fiscal year, when the Commonwealth implemented GASB Statement 34. With the original implementation, inheritance, cigarette and real estate taxes were reported within the "Other" taxes category. To provide a more refined description of the Commonwealth's taxes, separate captions were created in the Statement of Activities for these taxes in succeeding fiscal years. Beginning with the 2003 fiscal year, inheritance taxes were reported separately; in the 2004 fiscal year, cigarette taxes were reported separately; and in the 2006 fiscal year, real estate 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.

**FINANCIAL TRENDS**  
**Governmental Fund Type Fund Balances**

**TABLE 3**  
*For the Last Ten Fiscal Years Ended June 30*

**COMMONWEALTH OF PENNSYLVANIA**

(Modified accrual basis of accounting-expressed in thousands)

	1997	1998	1999	2000	2001	(Restated) 2002 (1)	2003	2004	2005	2006
<b>GENERAL FUND</b>										
Reserved for:										
Encumbrances.....	\$ 242,435	\$ 224,929	\$ 279,912	\$ 397,827	\$ 426,956	\$ 479,314	\$ 341,881	\$ 259,178	\$ 617,861	\$ 709,115
Advances.....	74,808	74,808	74,808	20,808	52,808	29,111	114,108	114,108	114,108	114,108
Loans receivable.....	-	-	-	-	-	-	9,470	6,283	4,496	10,953
Tax Stabilization/Budget Stabilization Reserve (2)....	-	-	944,031	1,104,954	1,093,213	-	-	-	70,303	171,362
Other.....	27,918	17,502	329,014	362,027	308,125	286,711	307,974	501,901	621,004	454,639
Unreserved:										
Designated for:										
Budget Stabilization Reserve Fund.....	-	-	-	-	-	300,000	-	70,303	-	-
Other.....	832,435	1,144,001	180,490	677,897	1,079,047	323,884	269,775	421,415	514,174	719,414
Undesignated.....	187,304	497,641	1,055,165	1,700,128	1,524,846	1,603,822	1,314,505	1,633,326	927,163	789,958
<b>TOTAL GENERAL FUND.....</b>	<b>1,364,900</b>	<b>1,958,881</b>	<b>2,863,420</b>	<b>4,263,641</b>	<b>4,484,995</b>	<b>3,022,842</b>	<b>2,357,713</b>	<b>3,006,514</b>	<b>2,869,109</b>	<b>2,969,549</b>
<b>ALL OTHER GOVERNMENTAL FUNDS</b>										
Reserved for:										
Encumbrances.....	611,276	1,041,392	916,662	1,233,014	1,220,710	1,336,227	1,168,535	1,444,875	1,454,129	1,630,382
Advances.....	3,000	3,000	3,000	3,000	3,000	3,000	3,000	223,000	210,000	3,000
Loans receivable.....	77,956	70,803	60,483	68,834	56,264	39,963	38,186	39,804	32,065	32,684
Other.....	138,203	16,976	31,754	38,020	38,050	407,029	445,411	560,284	817,668	857,253
Unreserved:										
Designated for:										
Capital projects.....	67,846	86,981	81,817	86,644	79,867	79,286	54,026	96,787	133,024	131,026
Debt service:										
Retirement of general obligation bonds.....	116,028	195,691	396,847	409,762	152,085	21,887	32,685	61,029	83,885	8,118
Highways.....	169,444	223,234	213,622	250,743	182,670	175,249	215,946	209,647	218,885	203,118
Other.....	29,064	33,552	275	264	264	12	-	-	4,355	4,528
Unreserved: Undesignated, reported in:										
Special Revenue funds.....	688,295	891,798	983,723	992,985	970,427	1,791,400	1,703,534	1,520,236	1,631,980	2,412,047
Debt Service funds (deficit).....	-	(40)	-	(53)	(8)	(3,782)	-	-	-	-
Capital Projects funds (deficit).....	(365,079)	(730,438)	(399,809)	(710,378)	(668,091)	(494,795)	(398,644)	(368,295)	(473,110)	(601,823)
<b>TOTAL ALL OTHER GOVERNMENTAL FUNDS.....</b>	<b>\$ 1,536,033</b>	<b>\$ 1,832,949</b>	<b>\$ 2,288,374</b>	<b>\$ 2,372,835</b>	<b>\$ 2,035,238</b>	<b>\$ 3,355,476</b>	<b>\$ 3,262,679</b>	<b>\$ 3,787,367</b>	<b>\$ 4,112,881</b>	<b>\$ 4,680,333</b>

**Source:** The Commonwealth's Comprehensive Annual Financial Report, as presented for the applicable fiscal year. For fiscal years 1997-2001, the information can be found in the Combined Balance Sheet-All Fund Types, Account Groups and Discretely Presented Component Units statement. Beginning with the 2002 fiscal year, the information can be found in the Balance Sheet-Governmental Funds statement.

- Notes:**
- (1)-Beginning with the 2002 fiscal year, the Commonwealth implemented GASB Statement 34. As a result, two funds (State Lottery Fund and Historical Preservation Fund) were reclassified from the Special Revenue governmental fund type classification to a Proprietary fund type classification. Two additional funds (Workmen's Compensation Security Trust Fund and Catastrophic Loss Trust Fund) were reclassified from an Expendable Trust fund type classification to a Special Revenue governmental fund type classification.
- (2)-The Tax Stabilization Fund was abolished and its last year of existence was the 2001 fiscal year. In the 2002 fiscal year, the new Budget Stabilization Reserve Fund was created by Act 91 of 2002. The reservations for both funds are reported on the same line because they are considered to be the Commonwealth's Rainy Day Fund within the General Fund. Note A in the Notes to the Financial Statements provides additional details.



**FINANCIAL TRENDS**

**Revenues by Source and Expenditures by Function-All Governmental Fund Types**

**TABLE 4**

*For the Last Ten Fiscal Years Ended June 30*

**COMMONWEALTH OF PENNSYLVANIA**

(Modified accrual basis of accounting-expressed in thousands)

	1997	1998	1999	2000	2001	(Restated) 2002 (1)	2003	2004	2005	2006
<b>REVENUES BY SOURCE</b>										
Taxes.....	\$ 18,168,581	\$ 19,043,735	\$ 20,105,276	\$ 20,956,743	\$ 21,232,196	\$ 20,636,762	\$ 21,469,170	\$ 23,237,117	\$ 24,973,125	\$ 27,117,823
Licenses and fees.....	804,429	1,004,050	1,019,256	1,143,789	1,172,372	1,246,232	1,350,016	1,475,948	1,568,659	1,611,868
Intergovernmental.....	9,499,083	9,669,407	10,563,455	11,093,738	12,086,372	13,259,463	14,575,716	16,379,096	16,585,336	16,347,975
Charges for sales and services.....	1,516,527	1,697,933	2,057,375	2,489,196	2,388,536	2,535,775	2,019,842	2,068,019	4,027,745	2,970,585
Investment income.....	174,604	225,805	258,525	396,499	307,202	29,615	249,791	402,132	322,199	425,356
Lottery receipts (2).....	1,722,558	1,684,015	1,659,305	1,695,371	1,788,333	N/A	N/A	N/A	N/A	N/A
Other (3).....	187,592	178,042	214,254	656,086	539,830	755,226	837,918	957,494	552,422	576,180
<b>TOTAL REVENUES</b> .....	<b>32,073,374</b>	<b>33,502,987</b>	<b>35,877,446</b>	<b>38,431,422</b>	<b>39,514,841</b>	<b>38,463,073</b>	<b>40,502,453</b>	<b>44,519,806</b>	<b>48,029,486</b>	<b>49,049,787</b>
<b>EXPENDITURES BY FUNCTION</b>										
Direction and supportive services .....	2,468,746	2,586,529	2,722,917	2,817,426	3,292,188	968,563	914,794	1,538,729	2,134,421	2,337,112
Protection of persons and property.....	2,462,026	2,613,021	2,785,269	2,933,612	3,044,074	3,876,449	3,882,843	3,886,666	3,892,572	4,410,969
Health and human services.....	13,907,167	14,341,539	15,320,410	16,486,542	17,483,315	18,990,802	20,510,849	21,689,392	24,118,288	24,103,077
Public education.....	7,397,274	7,714,443	7,842,732	8,283,144	8,677,284	8,814,273	10,198,076	10,529,504	11,400,985	11,731,884
Recreation and cultural enrichment.....	369,467	396,087	436,601	510,732	568,757	480,245	471,920	382,179	442,783	447,264
Economic development.....	300,310	338,984	469,005	539,068	745,143	1,245,292	1,507,584	1,334,071	1,310,093	1,413,995
Transportation.....	2,912,583	3,243,334	3,654,269	3,679,188	4,065,124	4,003,291	3,935,785	2,310,434	2,607,793	2,448,165
Capital outlay.....	253,758	360,238	582,863	586,801	655,248	694,219	407,080	2,008,141	1,805,913	2,082,644
Debt service:										
Principal retirement.....	437,880	435,090	443,675	479,350	477,001	479,395	998,396	455,890	478,112	492,355
Interest and fiscal charges.....	287,866	263,356	262,669	277,044	281,590	278,428	313,681	311,686	320,887	348,418
<b>TOTAL EXPENDITURES</b> .....	<b>30,797,077</b>	<b>32,292,621</b>	<b>34,520,410</b>	<b>36,592,907</b>	<b>39,289,724</b>	<b>39,830,957</b>	<b>43,141,008</b>	<b>44,446,692</b>	<b>48,511,847</b>	<b>49,815,883</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b> .....	<b>1,276,297</b>	<b>1,210,366</b>	<b>1,357,036</b>	<b>1,838,515</b>	<b>225,117</b>	<b>(1,367,884)</b>	<b>(2,638,555)</b>	<b>73,114</b>	<b>(482,361)</b>	<b>(766,096)</b>
<b>OTHER FINANCING SOURCES/(USES)</b>										
Bonds issued.....	189,629	415,135	856,839	590,731	663,919	1,042,813	1,324,167	625,247	401,816	914,000
Refunding bonds issued.....	364,785	-	-	-	-	376,854	837,991	459,223	1,468,439	-
Premium on bonds/refunding bonds issued.....	-	-	-	-	-	-	-	88,006	197,291	54,420
Transfers in.....	1,169,730	1,179,051	1,344,985	1,372,501	1,097,698	2,272,414	1,729,539	1,337,090	1,276,443	1,408,351
Transfers out.....	(1,101,389)	(1,126,251)	(1,292,832)	(1,320,181)	(1,056,533)	(1,791,392)	(1,177,733)	(914,304)	(1,035,211)	(943,351)
Transfers from component units (4).....	-	-	-	-	-	256,206	N/A	N/A	N/A	N/A
Transfers to component units (4).....	(717,517)	(760,758)	(781,636)	(833,976)	(877,609)	(1,079,197)	N/A	N/A	N/A	N/A
Payment to refunded bond escrow agent.....	(364,785)	-	-	-	-	(376,854)	(837,991)	(511,884)	(1,639,510)	-
Capital lease and installment purchase obligations.....	5,283	5,250	28,835	14,556	6,607	5,767	4,656	1,535	1,202	568
<b>TOTAL OTHER FINANCING SOURCES/(USES)</b> .....	<b>(454,264)</b>	<b>(287,573)</b>	<b>156,191</b>	<b>(176,369)</b>	<b>(165,918)</b>	<b>706,611</b>	<b>1,880,629</b>	<b>1,084,913</b>	<b>670,470</b>	<b>1,433,988</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>\$ 822,033</b>	<b>\$ 922,793</b>	<b>\$ 1,513,227</b>	<b>\$ 1,662,146</b>	<b>\$ 59,199</b>	<b>\$ (661,273)</b>	<b>\$ (757,926)</b>	<b>\$ 1,158,027</b>	<b>\$ 188,109</b>	<b>\$ 667,892</b>
Debt Service as a Percentage of Noncapital Expenditures....	2.38%	2.19%	2.08%	2.10%	1.96%	1.94%	3.07%	1.81%	1.71%	1.76%

**Source:** The Commonwealth's Comprehensive Annual Financial Report, as presented for the applicable fiscal year. For fiscal years 1997-2001, the information can be found in the Combined Statement of Revenues, Expenditures and Changes in Fund Balance statement. Beginning with the 2002 fiscal year, the information can be found in the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds statement.

**Notes:**

- (1)-Beginning with the 2002 fiscal year, the Commonwealth implemented GASB Statement 34. As a result, two funds (State Lottery Fund and Historical Preservation Fund) were reclassified from the Special Revenue governmental fund type classification to a Proprietary fund type classification. Two additional funds (Workmen's Compensation Security Trust Fund and Catastrophic Loss Trust Fund) were reclassified from an Expendable Trust fund type classification to a Special Revenue governmental fund type classification.
- (2)-The change in the State Lottery fund type classification was not retroactively applied, thus the lottery receipts are reported in the Governmental Fund Types through the 2001 fiscal year. Subsequent years after the reclassification are marked with an N/A.
- (3)-Other revenues include immaterial amounts of lease rentals revenues and interest on notes and loans.
- (4)-With the implementation of GASB Statement 34, the Commonwealth was required to begin reporting transfers from and to component units as ordinary revenues and expenditures. These changes were made to the Commonwealth's accounting system beginning with the 2003 fiscal year and were not retroactively applied. Subsequent fiscal years are marked with a N/A.

**REVENUE CAPACITY-PERSONAL INCOME TAX**

**Personal Income by Industry**

**TABLE 5**

*For the Last Ten Calendar Years*

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

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>TOTAL PERSONAL INCOME BY INDUSTRY</b>										
<b>Workplace Earnings:</b>										
Farm Earnings.....	\$ 1,128	\$ 786	\$ 921	\$ 881	\$ 1,148	\$ 943	\$ 675	\$ 1,090	\$ 1,371	\$ 1,297
<b>Nonfarm Earnings:</b>										
<b>Private earnings:</b>										
Forestry, fishing/hunting, agriculture.....	351	359	416	445	509	553	466	451	426	433
Mining.....	1,419	1,552	1,475	1,463	1,406	1,703	1,517	1,659	1,897	2,169
Utilities.....	2,702	2,730	2,821	2,912	3,153	3,311	3,593	3,515	3,544	3,504
Construction.....	11,642	12,358	13,188	15,007	15,258	16,019	16,406	17,193	18,102	19,716
Manufacturing.....	39,937	41,486	43,083	44,471	47,143	45,299	45,458	44,752	46,793	48,449
Wholesale trade.....	10,083	10,602	11,557	12,128	12,936	13,273	13,680	14,495	15,769	16,807
Retail trade.....	15,251	16,067	17,014	17,874	18,213	19,174	19,391	20,067	20,441	21,009
Transportation and warehousing.....	7,577	8,025	8,706	9,265	9,874	10,485	10,606	10,688	11,361	11,637
Broadcasting/publishing/internet technology.....	6,173	6,619	7,362	8,125	8,798	9,007	8,511	8,925	8,937	8,837
Finance and insurance.....	13,934	14,655	16,063	17,144	18,678	18,792	19,708	20,512	21,577	22,144
Real estate and rental and leasing.....	3,073	3,613	5,313	4,869	5,872	5,504	5,652	6,224	6,572	6,970
Professional and technical services.....	16,781	18,530	21,172	23,602	25,184	25,716	25,726	26,226	28,745	30,969
Management of companies and enterprises.....	4,632	4,875	4,168	4,540	4,205	4,726	5,144	6,182	7,085	8,202
Administrative services.....	6,366	7,079	7,601	8,080	8,498	8,514	8,864	8,789	9,529	9,985
Educational services.....	5,070	5,289	5,622	5,897	6,342	6,837	7,332	7,722	8,150	8,624
Health care and social assistance.....	25,876	26,774	27,991	29,109	30,410	31,467	33,702	35,462	38,051	40,135
Arts, entertainment, and recreation.....	1,746	1,828	1,987	2,130	2,359	2,330	2,473	2,663	2,670	2,765
Accommodation and food services.....	4,741	5,086	5,310	5,576	5,873	6,129	6,470	6,693	6,998	7,293
Other services, except public administration.....	6,871	7,112	7,580	7,846	8,285	8,242	8,889	9,160	9,480	9,801
<b>Total private earnings.....</b>	<b>184,225</b>	<b>194,639</b>	<b>208,429</b>	<b>220,483</b>	<b>232,996</b>	<b>237,081</b>	<b>243,588</b>	<b>251,378</b>	<b>266,127</b>	<b>279,449</b>
<b>Government:</b>										
Federal, civilian.....	6,698	6,794	6,842	7,005	7,460	7,633	7,971	8,196	8,825	9,101
Military.....	864	842	830	863	882	992	1,198	1,623	1,698	1,910
State government.....	6,717	6,494	6,659	6,833	7,089	7,422	7,900	8,430	8,905	9,040
Local government.....	16,425	17,016	18,156	17,928	18,593	19,327	20,429	21,464	22,538	23,083
<b>Total government earnings.....</b>	<b>30,704</b>	<b>31,146</b>	<b>32,487</b>	<b>32,629</b>	<b>34,024</b>	<b>35,374</b>	<b>37,498</b>	<b>39,713</b>	<b>41,966</b>	<b>43,134</b>
<b>Total nonfarm earnings.....</b>	<b>214,929</b>	<b>225,785</b>	<b>240,916</b>	<b>253,112</b>	<b>267,020</b>	<b>272,455</b>	<b>281,086</b>	<b>291,091</b>	<b>308,093</b>	<b>322,583</b>
<b>Total workplace earnings.....</b>	<b>216,057</b>	<b>226,571</b>	<b>241,837</b>	<b>253,993</b>	<b>268,168</b>	<b>273,398</b>	<b>281,761</b>	<b>292,181</b>	<b>309,464</b>	<b>323,880</b>
<b>Other earnings/deductions (1).....</b>	<b>81,437</b>	<b>84,936</b>	<b>88,324</b>	<b>88,619</b>	<b>96,669</b>	<b>98,941</b>	<b>100,491</b>	<b>101,556</b>	<b>104,105</b>	<b>109,269</b>
<b>Total personal income.....</b>	<b>\$ 297,494</b>	<b>\$ 311,507</b>	<b>\$ 330,161</b>	<b>\$ 342,612</b>	<b>\$ 364,837</b>	<b>\$ 372,339</b>	<b>\$ 382,252</b>	<b>\$ 393,737</b>	<b>\$ 413,569</b>	<b>\$ 433,149</b>
<b>Total personal income subject to the direct personal income tax rate (2)(3).....</b>	<b>\$ 186,216</b>	<b>\$ 202,024</b>	<b>\$ 215,027</b>	<b>\$ 224,591</b>	<b>\$ 237,070</b>	<b>\$ 230,926</b>	<b>\$ 229,685</b>	<b>\$ 237,961</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>2.80%</b>	<b>2.80%</b>	<b>2.80%</b>	<b>2.80%</b>	<b>2.80%</b>	<b>2.80%</b>	<b>3.07%</b>	<b>3.07%</b>

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**Sources:**

Personal income by industry provided by U.S. Department of Commerce, Bureau of Economic Analysis (<http://www.bea.gov/bea/regional/spi/default.cfm>).

Total personal income subject to the direct tax rate and the direct personal income tax rate are provided by the Pennsylvania Department of Revenue.

**Notes:**

(1)-Other earning/deductions include dividends, interest and miscellaneous employee/employer contributions/deductions.

(2)-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 2004 and 2005 tax years.

(3)-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 (i.e. March 31st). The information presented is based on those returns of the filers whose tax year ended during the applicable calendar year.

**REVENUE CAPACITY-PERSONAL INCOME TAX**  
**Personal Income Tax Filers and Liability by Income Level**

**TABLE 6**  
**1994 and 2003 Tax Years**

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

1994 Tax Year (1)(2)(3)					2003 Tax Year (1)(2)(3)				
Taxable Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability(4)	Percentage of Total	Taxable Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability(4)	Percentage of Total
\$0	65,794	1.19%	\$ -	0.00%	\$0	77,101	1.37%	\$ -	0.00%
\$1-999	475,625	8.60%	5,865	0.13%	\$1-999	428,393	7.59%	4,728	0.07%
\$1,000-2,999	553,235	10.01%	29,832	0.64%	\$1,000-2,999	434,731	7.70%	23,528	0.35%
\$3,000-4,999	389,066	7.04%	43,030	0.93%	\$3,000-4,999	322,067	5.70%	35,664	0.54%
\$5,000-6,999	300,106	5.43%	50,052	1.08%	\$5,000-6,999	255,931	4.53%	42,722	0.64%
\$7,000-8,999	234,106	4.23%	52,284	1.13%	\$7,000-8,999	209,817	3.72%	46,821	0.70%
\$9,000-10,999	201,841	3.65%	56,375	1.22%	\$9,000-10,999	182,753	3.24%	51,090	0.77%
\$11,000-12,999	184,294	3.33%	61,860	1.33%	\$11,000-12,999	166,412	2.95%	55,838	0.84%
\$13,000-14,999	173,556	3.14%	67,989	1.47%	\$13,000-14,999	154,418	2.74%	60,490	0.91%
\$15,000-16,999	165,982	3.00%	74,314	1.60%	\$15,000-16,999	150,622	2.67%	67,439	1.01%
\$17,000-18,999	159,157	2.88%	80,176	1.73%	\$17,000-18,999	145,360	2.57%	73,249	1.10%
\$19,000-21,999	225,674	4.08%	129,416	2.79%	\$19,000-21,999	213,523	3.78%	122,501	1.84%
\$22,000-24,999	208,167	3.76%	136,854	2.95%	\$22,000-24,999	202,539	3.59%	133,203	2.00%
\$25,000-29,999	310,320	5.61%	238,383	5.14%	\$25,000-29,999	308,944	5.47%	237,437	3.56%
\$30,000-34,999	274,224	4.96%	249,137	5.37%	\$30,000-34,999	272,333	4.82%	247,331	3.71%
\$35,000-39,999	245,478	4.44%	257,410	5.55%	\$35,000-39,999	237,356	4.20%	248,912	3.74%
\$40,000-49,999	404,495	7.32%	506,919	10.93%	\$40,000-49,999	396,318	7.02%	497,194	7.46%
\$50,000-74,999	560,284	10.13%	948,750	20.46%	\$50,000-74,999	676,010	11.97%	1,160,147	17.41%
\$75,000-99,999	201,284	3.64%	481,427	10.38%	\$75,000-99,999	355,904	6.30%	857,455	12.87%
\$100,000-149,999	114,785	2.08%	382,121	8.24%	\$100,000-149,999	268,179	4.75%	898,570	13.49%
\$150,000 or more	81,792	1.48%	785,905	16.94%	\$150,000 or more	187,102	3.31%	1,798,594	26.99%
<b>Total</b>	<b>5,529,265</b>	<b>100.00%</b>	<b>\$ 4,638,100</b>	<b>100.00%</b>	<b>Total</b>	<b>5,645,813</b>	<b>100.00%</b>	<b>\$ 6,662,913</b>	<b>100.00%</b>

**Sources:**

The number of filers per taxable income level, the personal income subject to the direct personal income tax rate per income level (used in the Personal Income Tax Liability estimation) and the direct personal income tax rate are provided by the Pennsylvania Department of Revenue.

**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 (i.e. March 31st). This table presents information based on all filers whose tax year ended during the the 1994 or 2003 calendar years.
- (3)-Also, 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 2004 and 2005 tax years. This compilation is used in the calculation of the estimated personal income tax liability. Therefore, the 1994 and 2003 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 both the 1994 and 2003 tax years, the direct tax rate in effect was 2.80% for all income levels.

**REVENUE CAPACITY-SALES TAX**  
**Estimated Taxable Sales by Industry Classification of the Vendor**

**TABLE 7**  
**For the Last Ten Fiscal Years Ended June 30**

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

	By S.I.C. Group (2)					By N.A.I.C.S. Group (2)				
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005 (3)
<b>Estimated Taxable Sales by Industry (1)</b>										
Manufacturing.....	\$ 5,538,900	\$ 5,842,000	\$ 6,060,783	\$ 6,698,400	\$ 6,812,867	\$ 6,241,417	\$ 5,712,633	\$ 5,637,267	\$ 6,386,100	\$ 6,858,033
Public utilities.....	7,843,217	8,321,367	8,521,333	9,287,767	9,736,283	3,991,083	3,920,667	3,972,750	4,229,717	4,473,817
Wholesale trade.....	3,613,017	3,723,517	3,743,100	3,868,450	4,037,633	10,142,600	9,687,583	10,004,233	7,987,583	9,112,350
Building materials.....	5,462,367	6,320,167	5,948,183	6,298,083	6,741,133	6,654,533	6,969,217	7,123,617	8,209,967	8,719,850
General merchandise.....	7,020,400	7,482,583	7,472,933	7,961,050	8,262,033	9,039,983	9,295,667	9,532,667	9,882,933	10,026,217
Food stores, eating establishments.....	11,416,183	11,899,567	12,059,150	12,950,617	13,337,550	12,875,267	12,986,033	13,202,583	13,626,333	14,633,133
Automotive dealers/service stations.....	2,392,933	2,765,667	2,860,067	3,211,517	3,418,567	4,994,600	5,016,000	5,234,900	5,566,450	5,838,300
Furniture and appliances.....	3,411,100	3,605,550	3,568,050	3,864,200	4,021,383	2,544,383	2,576,667	2,611,500	2,902,017	2,975,367
Other retail stores.....	13,734,350	13,676,000	13,919,900	14,950,433	15,571,467	13,929,117	14,288,783	14,540,283	15,593,583	15,857,017
Service.....	14,582,350	15,983,300	16,223,233	17,909,917	18,881,667	22,357,250	22,490,800	23,324,350	23,778,200	25,177,850
Other.....	2,255,033	2,685,600	2,802,067	3,109,783	3,160,300	6,484,767	5,953,483	5,491,017	5,728,600	5,968,767
Government.....	81,483	88,617	69,567	105,850	105,650	298,483	264,517	285,050	278,833	296,717
Unclassified.....	3,447,300	3,676,583	3,542,817	3,448,283	4,481,200	1,457,483	1,911,367	2,345,883	2,228,017	1,505,067
Motor vehicle.....	13,101,300	13,688,767	14,861,183	15,490,150	17,495,383	18,000,200	19,362,583	20,764,767	21,144,917	20,506,467
Liquor sales.....	805,917	848,633	883,900	941,283	1,005,367	1,051,300	1,105,533	1,254,933	1,265,800	1,383,583
<b>Total sales tax estimated base.....</b>	<b>\$ 94,705,850</b>	<b>\$ 100,607,917</b>	<b>\$ 102,536,267</b>	<b>\$ 110,095,783</b>	<b>\$ 117,068,483</b>	<b>\$ 120,062,467</b>	<b>\$ 121,541,533</b>	<b>\$ 125,325,800</b>	<b>\$ 128,809,050</b>	<b>\$ 133,332,533</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.

**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. Fiscal years 1996 through 1999 are presented by Standard Industrial Classification (S.I.C. Group). Beginning with the 2000 fiscal year, the Commonwealth began reporting under the North American Industry Classification System (N.A.I.C.S. Group). The two classifications are similar, but not 100% comparable.
- (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 2006 fiscal year. Therefore, fiscal years 1996 through 2005 are presented as an alternative comparison.

**REVENUE CAPACITY-SALES TAX**

**TABLE 8**

**Sales Tax Remittances by  
Major Industry Classification**

*Fiscal Years Ended June 30, 1996 and June 30, 2005*

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

June 30, 1996 (1)(2)			June 30, 2005 (1)(2)		
Industry (S.I.C. Group)(4)	Sales(3) Tax Liability	Percentage of Total	Industry (N.A.I.C.S. Group)(4)	Sales(3) Tax Liability	Percentage of Total
Manufacturing.....	\$ 332,334	5.85%	Manufacturing.....	\$ 411,482	5.14%
Public utilities.....	470,593	8.28%	Public utilities.....	268,429	3.36%
Wholesale trade.....	216,781	3.81%	Wholesale trade.....	546,741	6.83%
Building materials.....	327,742	5.77%	Building materials.....	523,191	6.54%
General merchandise.....	421,224	7.41%	General merchandise.....	601,573	7.52%
Food stores, eating establishments.....	684,971	12.05%	Food stores, eating establishments.....	877,988	10.97%
Automotive dealers/service stations....	143,576	2.53%	Automotive dealers/service stations....	350,298	4.38%
Furniture and appliances.....	204,666	3.60%	Furniture and appliances.....	178,522	2.23%
Other retail stores.....	824,061	14.50%	Other retail stores.....	951,421	11.89%
Service.....	874,941	15.40%	Service.....	1,510,671	18.88%
Other.....	135,302	2.38%	Other.....	358,126	4.48%
Government.....	4,889	0.09%	Government.....	17,803	0.22%
Unclassified.....	206,838	3.64%	Unclassified.....	90,304	1.13%
Motor vehicle.....	786,078	13.83%	Motor vehicle.....	1,230,388	15.38%
Liquor sales.....	48,355	0.85%	Liquor sales.....	83,015	1.04%
Total.....	<u>\$ 5,682,351</u>	100.00%	Total.....	<u>\$ 7,999,952</u>	100.00%
Sales Tax Licenses (5).....	234,215		Sales Tax Licenses (5).....	246,212	

**Sources:**

Sales tax remittances by industry and the number of sales tax licenses are provided by the Pennsylvania Department of Revenue.

**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)-Also, 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 2006 fiscal year. Therefore, fiscal years 1996 and 2005 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. The 1996 fiscal year is presented using the Standard Industrial Classification (S.I.C. Group), and the 2005 fiscal year is presented using the North American Industry Classification System (N.A.I.C.S. Group). The two classifications are similar, but not 100% comparable.
- (5)-The Commonwealth does not maintain a list of sales tax filers by either the S.I.C. or N.A.I.C.S. standard industry grouping, and as noted in Note (1), can not disclose the names of the largest filers. Therefore, the number of sales tax licenses are presented to indicate the potential number of filers during the applicable fiscal year.

**REVENUE CAPACITY - CORPORATE TAX**  
**Corporate Net Income Tax**

**TABLE 9**  
*For the Last Ten Tax Years*

COMMONWEALTH OF PENNSYLVANIA

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>ESTIMATED CORPORATE NET INCOME TAXABLE BASE (1)(2)</b>										
Corporate Tax Report Compilation (expressed in thousands).....	\$ 13,893,688	\$ 13,396,710	\$ 16,440,187	\$ 14,407,934	\$ 15,667,338	\$ 15,304,130	\$ 14,164,465	\$ 12,367,911	\$ 13,280,711	\$ 13,600,085
<b>NUMBER OF FILERS BY CORPORATE NET INCOME TAX LIABILITY RANGE (3)</b>										
\$0.....	74,243	94,830	92,518	89,790	83,935	89,482	98,121	96,637	99,587	90,423
\$1-300.....	15,255	9,772	11,161	11,502	13,125	12,364	11,746	11,128	10,210	9,526
\$301-500.....	4,683	2,551	3,019	3,148	3,529	3,319	3,038	2,900	2,803	2,428
\$501-1,000.....	8,279	4,945	5,464	5,677	6,410	6,297	5,808	4,768	4,376	3,921
\$1,001-5,000.....	17,266	10,578	12,235	12,813	14,080	13,136	12,354	11,060	10,324	9,131
\$5,001-10,000.....	5,748	3,450	4,017	4,421	4,807	4,532	4,058	3,741	3,370	2,917
\$10,001-25,000.....	4,389	2,756	3,211	3,486	3,646	3,485	3,116	2,751	2,690	2,393
\$25,001-50,000.....	1,897	1,396	1,538	1,650	1,780	1,653	1,480	1,413	1,309	1,240
\$50,001-100,000.....	1,261	929	1,124	1,135	1,238	1,172	1,053	903	906	863
\$100,001-250,000.....	977	806	890	954	990	916	880	756	770	720
\$250,001-500,000.....	451	353	391	413	398	370	332	313	304	346
\$500,001-1,000,000.....	227	194	186	206	209	195	201	162	176	166
>\$1,000,000.....	199	172	177	184	190	191	201	184	188	197
<b>Total corporate net income tax filers (4)(5).....</b>	<b>134,875</b>	<b>132,732</b>	<b>135,931</b>	<b>135,379</b>	<b>134,337</b>	<b>137,112</b>	<b>142,388</b>	<b>136,716</b>	<b>137,013</b>	<b>124,271</b>
<b>Total direct corporate net income tax rate.....</b>	<b>11.99%</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.

**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). Recent legislation will gradually eliminate the capital stock tax so that the last year for which a tax will apply will be the 2010 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)-Also, 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 2004 and 2005 tax years. Therefore, tax years 1994 through 2003 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 (i.e. March 31st). This table presents information based on all filers whose tax year ended during the associated calendar years.

**REVENUE CAPACITY - CORPORATE TAX**  
**Capital Stock/Foreign Franchise Tax**

**TABLE 10**  
*For the Last Ten Tax Years*

COMMONWEALTH OF PENNSYLVANIA

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>CAPITAL STOCK AND FRANCHISE TAXABLE BASE (1)(2)</b>										
Apportioned Capital Stock Value Compilation (expressed in thousands).....	\$ 64,741,542	\$ 72,654,892	\$ 79,854,213	\$ 84,640,644	\$ 98,094,135	\$ 108,450,000	\$ 123,400,000	\$ 128,540,000	\$ 137,650,000	\$ 139,620,000
<b>NUMBER OF FILERS BY CAPITAL STOCK/ FOREIGN FRANCHISE TAX LIABILITY RANGE (3)</b>										
\$0-\$300.....	146,713	154,773	159,124	166,014	177,957	187,654	199,147	212,381	218,220	221,399
\$301-\$500.....	6,812	6,374	6,951	6,593	7,166	5,815	6,294	7,234	7,104	7,106
\$501-\$1,000.....	10,401	9,697	10,089	9,605	10,262	11,494	12,337	12,523	13,522	13,399
\$1,001-\$5,000.....	21,977	21,380	22,789	22,606	24,645	25,983	26,701	26,440	27,250	27,040
\$5,001-\$10,000.....	6,047	6,186	6,635	6,936	7,506	7,804	7,152	6,883	7,016	6,890
\$10,001-\$25,000.....	4,671	4,852	5,325	5,641	6,017	6,190	5,783	5,219	5,281	5,324
\$25,001-\$50,000.....	1,826	2,000	2,184	2,426	2,506	2,601	2,369	2,112	2,164	2,093
\$50,001-\$100,000.....	1,004	1,085	1,199	1,300	1,416	1,353	1,222	1,103	1,126	1,091
\$100,001-\$250,000.....	632	680	721	851	902	897	814	686	713	735
\$250,001-\$500,000.....	218	219	253	282	287	303	275	253	272	228
\$500,001-\$1,000,000.....	85	101	106	127	145	140	114	100	112	122
>\$1,000,000.....	90	89	95	110	104	109	117	103	100	79
<b>Total capital stock and franchise tax filers (4)(5).....</b>	<b>200,476</b>	<b>207,436</b>	<b>215,471</b>	<b>222,491</b>	<b>238,913</b>	<b>250,343</b>	<b>262,325</b>	<b>275,037</b>	<b>282,880</b>	<b>285,506</b>
<b>Total direct capital stock and franchise tax rate.....</b>	<b>12.75 mills</b>	<b>12.75 mills</b>	<b>12.75 mills</b>	<b>12.75 mills</b>	<b>11.99 mills</b>	<b>10.99 mills</b>	<b>8.99 mills</b>	<b>7.49 mills</b>	<b>7.24 mills</b>	<b>7.24 mills</b>

**Sources:**

Information provided by the Pennsylvania Department of Revenue.

**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). Recent legislation will gradually eliminate the capital stock tax so that the last year for which a tax will apply will be the 2010 tax year. This table presents the capital stock/foreign franchise apportioned tax base, as well as the number of filers associated with this tax by filing class. It also presents the statutory capital stock/foreign franchise tax rate.
- (2)-The CSFT is based on a fixed formula involving net worth and average book income. This schedule shows the compilation of all reported taxable capital stock value, as reported by corporate taxpayers required to file a tax return with the Commonwealth.
- (3)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest capital stock/foreign franchise tax filers. Therefore, the schedule of the number of filers by capital stock/foreign franchise tax liability range is presented as an alternative comparison regarding the sources of the Commonwealth's capital stock/foreign franchise tax revenue. All corporate filers were required to pay a statutory minimum tax of \$300 through 1998 and \$200 in 1999, which accounts for the large number of filers within the range of \$0-\$300. This minimum does not apply to tax years 2000 and after.
- (4)-Also, 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 2004 and 2005 tax years. Therefore, tax years 1994 through 2003 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 (i.e. March 31st). This table presents information based on all filers whose tax year ended during the the associated calendar years.

**DEBT CAPACITY**  
**Outstanding Debt and Outstanding Debt Ratios**

**TABLE 11**  
*For the Last Five Fiscal Years Ended June 30*

COMMONWEALTH OF PENNSYLVANIA  
 (Expressed in Thousands, Except Debt per Capita)

<b>PRIMARY GOVERNMENT (1)(2)</b>	<b>(Restated) 2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Governmental activities:</b>					
General obligation bonds.....	\$ 6,134,761	\$ 7,030,618	\$ 7,225,165	\$ 7,150,667	\$ 7,657,674
Capital leases/installment purchase obligations.....	629,437	62,131	53,951	47,276	42,059
Other financing obligations.....	-	-	100,000	90,000	82,500
<b>Total governmental .....</b>	<b>6,764,198</b>	<b>7,092,749</b>	<b>7,379,116</b>	<b>7,287,943</b>	<b>7,782,233</b>
<b>Business-type activities:</b>					
Capital leases/installment purchase obligations.....	-	-	-	-	28,259
<b>TOTAL PRIMARY GOVERNMENT.....</b>	<b>\$ 6,764,198</b>	<b>\$ 7,092,749</b>	<b>\$ 7,379,116</b>	<b>\$ 7,287,943</b>	<b>\$ 7,810,492</b>
<b>Debt as a Percentage of Personal Income (3)(4).....</b>	1.82%	1.86%	1.87%	1.76%	1.80%
<b>Amount of Debt per Capita (3)(4).....</b>	\$ 550	\$ 576	\$ 597	\$ 588	\$ 628

**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, 2006 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.

(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.



**DEBT CAPACITY**  
**Ratios of Net General Bonded Debt Outstanding**

**TABLE 12**

*For the Last Five Fiscal Years Ended June 30*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

<b>Fiscal Year</b>	<b>(1) General Obligation Bonds</b>	<b>(2) Less: Amounts Restricted to Paying Principal</b>	<b>Total Net General Bonded Debt Outstanding</b>	<b>(3) Percentage of Actual Tax Revenues</b>	<b>(4) Per Capita</b>
<b>2002</b>	\$ 6,134,761	\$ -	\$ 6,134,761	29.73%	\$ 499
<b>2003</b>	7,030,618	(32,685)	6,997,933	32.49%	568
<b>2004</b>	7,225,165	(61,029)	7,164,136	30.76%	579
<b>2005</b>	7,150,667	(83,885)	7,066,782	28.30%	570
<b>2006</b>	7,657,674	(8,118)	7,649,556	27.84%	615

**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 include the reported current and noncurrent amounts.

(2)-Amounts restricted to paying principal equal the amount restricted for debt service in the Statement of Net Assets.

(3)-The Commonwealth's general obligation bonds are expected to be repaid with general tax revenue. Therefore, the total taxes shown in the Governmental Activities sections of the Statement of Activities is used in this calculation.

(4)-Total net general bonded debt outstanding used in the per capita calculation is presented as of the fiscal year. The population data used in the calculation is shown in Table 15, and is as of July 1 of the applicable fiscal year.

**DEBT CAPACITY**  
**Computation of Legal Debt Margin**

**TABLE 13**  
*As of August 31 for the last ten years*

**COMMONWEALTH OF PENNSYLVANIA**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Average annual tax revenues deposited in the previous five fiscal years.....	\$ 19,590,066,226	\$ 20,392,050,801	\$ 21,241,970,890	\$ 22,097,372,526	\$ 23,008,382,095	\$ 23,661,031,603	\$ 24,285,747,191	\$ 25,091,013,830	\$ 26,141,233,164	\$ 27,536,515,720
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 x
Constitutional debt limit for debt incurred without the approval of the electors (A).....	34,282,615,896	35,686,088,902	37,173,449,058	38,670,401,921	40,264,668,666	41,406,805,305	42,500,057,585	43,909,274,203	45,747,158,037	48,188,902,510
Less outstanding net debt (non-electorate approved).....	3,674,814,671	3,682,944,258	3,882,412,712	4,106,897,637	4,554,304,562	5,257,508,994	6,021,247,141	6,230,365,064	6,146,947,312	6,399,655,454
<b>Legal debt margin (B).....</b>	<b>\$ 30,607,801,225</b>	<b>\$ 32,003,144,644</b>	<b>\$ 33,291,036,346</b>	<b>\$ 34,563,504,284</b>	<b>\$ 35,710,364,104</b>	<b>\$ 36,149,296,311</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>Total outstanding net debt applicable to the constitutional limit as a percentage of the constitutional limit.....</b>	10.72%	10.32%	10.44%	10.62%	11.31%	12.70%	14.17%	14.19%	13.44%	13.28%

Source: The Governor's Office of the Budget

**Notes:**

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

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

(1) Debt may be incurred without limit to suppress insurrection, rehabilitate areas affected by man-made or natural disaster, or to implement unissued authority by the electors prior to the adoption of this article.

(2)The Governor, State Treasurer and Auditor General, acting jointly, may (i) issue tax anticipation notes having a maturity within the fiscal year of issue and payable exclusively from revenues received in the same fiscal year, and (ii) incur debt for the purpose of refunding other debt, if such refunding debt matures within the term of the original debt.

(3) Debt may be incurred without limit for purposes specifically itemized in the law authorizing such debt, if the question whether the debt shall be incurred has been submitted to the electors and approved by a majority of those voting on the question.

(4) Debt may be incurred without the approval of the electors for capital projects specifically itemized in a capital budget if such debt will not cause the amount of all net debt outstanding to exceed one and three-quarters times the average of the annual tax revenues deposited in the previous five fiscal years as certified by the Auditor General. For the purposes of this subsection, debt outstanding shall not include debt incurred under clauses (1) and (2)(i), or debt incurred under clause (2)(ii) if the original debt would not be so considered, or debt incurred under subsection (3) unless the General Assembly shall so provide in the law authorizing such debt.

(B)-Each of the above figures used in the calculation of the legal debt margin are abstracted from a certification of the Auditor General dated August 31 of the subsequent fiscal year.

**DEMOGRAPHIC AND ECONOMIC  
Employment by Industry**

**TABLE 14  
For the Last Ten Calendar Years**

**COMMONWEALTH OF PENNSYLVANIA**

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Employment by nonfarm related industry:</b>										
<b>Private earnings:</b>										
<b>Goods producing:</b>										
Natural resources and mining .....	19,400	20,400	20,800	20,300	19,400	19,500	18,800	17,900	18,700	19,600
Construction.....	203,400	213,500	220,800	234,500	247,300	249,900	248,100	245,700	249,200	253,800
Manufacturing .....	864,800	868,800	871,800	862,400	862,300	820,600	758,900	711,600	690,100	681,800
<b>Total goods producing.....</b>	<u>1,087,600</u>	<u>1,102,700</u>	<u>1,113,400</u>	<u>1,117,200</u>	<u>1,129,000</u>	<u>1,090,000</u>	<u>1,025,800</u>	<u>975,200</u>	<u>958,000</u>	<u>955,200</u>
<b>Service providing:</b>										
Trade.....	1,058,300	1,073,600	1,084,400	1,109,500	1,136,500	1,129,900	1,119,500	1,114,600	1,119,800	1,124,800
Information.....	113,700	118,700	123,100	128,700	135,700	135,400	128,200	120,400	112,100	109,300
Financial activities .....	323,600	322,600	329,800	335,200	338,100	338,300	336,200	337,900	335,700	335,600
Professional and business services .....	510,200	539,000	571,100	594,100	611,200	612,300	604,600	609,400	637,200	656,200
Education and health services .....	859,900	879,700	897,100	903,500	917,000	939,100	963,400	979,000	997,900	1,028,100
Leisure and hospitality .....	413,100	422,700	429,200	440,300	448,800	454,400	465,200	469,400	475,700	484,500
Other services .....	227,300	232,800	235,200	242,000	249,900	254,800	259,000	259,800	263,400	264,700
<b>Total service providing.....</b>	<u>3,506,100</u>	<u>3,589,100</u>	<u>3,669,900</u>	<u>3,753,300</u>	<u>3,837,200</u>	<u>3,864,200</u>	<u>3,876,100</u>	<u>3,890,500</u>	<u>3,941,800</u>	<u>4,003,200</u>
<b>Total private earnings.....</b>	<u>4,593,700</u>	<u>4,691,800</u>	<u>4,783,300</u>	<u>4,870,500</u>	<u>4,966,200</u>	<u>4,954,200</u>	<u>4,901,900</u>	<u>4,865,700</u>	<u>4,899,800</u>	<u>4,958,400</u>
<b>Government .....</b>	<u>712,500</u>	<u>714,600</u>	<u>711,500</u>	<u>715,600</u>	<u>725,100</u>	<u>728,300</u>	<u>738,900</u>	<u>745,600</u>	<u>744,400</u>	<u>745,300</u>
<b>Total nonfarm.....</b>	<u>5,306,200</u>	<u>5,406,400</u>	<u>5,494,800</u>	<u>5,586,100</u>	<u>5,691,300</u>	<u>5,682,500</u>	<u>5,640,800</u>	<u>5,611,300</u>	<u>5,644,200</u>	<u>5,703,700</u>

**Source:** Information provided by the Pennsylvania Department of Labor and Industry.

**Notes:** 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.

**DEMOGRAPHIC AND ECONOMIC  
Population and Per Capita Personal Income**

**TABLE 15  
For the Last Ten Calendar Years**

**COMMONWEALTH OF PENNSYLVANIA**

Calendar Year	Population (Expressed in thousands)			Personal Income (Expressed in millions)			Per Capita 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.
	1996	12,220	269,394	4.54%	\$ 297,494	\$ 6,512,485	4.57%	\$ 24,344	\$ 24,175
1997	12,228	272,647	4.48%	311,507	6,907,332	4.51%	25,475	25,334	0.56%
1998	12,246	275,854	4.44%	330,161	7,415,709	4.45%	26,961	26,883	0.29%
1999	12,264	279,040	4.40%	342,612	7,796,137	4.39%	27,937	27,939	-0.01%
2000	12,286	282,193	4.35%	364,837	8,422,074	4.33%	29,695	29,845	-0.50%
2001	12,296	285,108	4.31%	372,339	8,716,992	4.27%	30,281	30,574	-0.96%
2002	12,324	287,985	4.28%	382,252	8,872,871	4.31%	31,016	30,810	0.67%
2003	12,365	290,850	4.25%	393,737	9,150,908	4.30%	31,843	31,463	1.21%
2004	12,394	293,657	4.22%	413,569	9,717,173	4.26%	33,367	33,090	0.84%
2005	12,430	296,410	4.19%	433,149	10,224,761	4.24%	34,848	34,495	1.02%

**Sources:** Population data is obtained from the U.S. Census website (<http://www.census.gov/popest/states/>). Personal income details can be found in Table 5.  
**Notes:** Population data is presented as of July 1 of the calendar year, and personal income data is provided as of the calendar year.

**DEMOGRAPHIC AND ECONOMIC  
Employment Information**

**TABLE 16  
For the Last Ten Calendar Years**

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

Calendar Year	Pennsylvania				United States				PA rate percentage Above/(Below) U.S. Rate
	Civilian Labor Force	Employed	Unemployed	Unemployment Rate	Civilian Labor Force	Employed	Unemployed	Unemployment Rate	
1996	5,988	5,662	326	5.4	133,943	126,708	7,236	5.4	0.00%
1997	6,086	5,775	311	5.1	136,297	129,558	6,739	4.9	4.08%
1998	6,068	5,788	281	4.6	137,673	131,463	6,210	4.5	2.22%
1999	6,078	5,810	268	4.4	139,368	133,488	5,880	4.2	4.76%
2000	6,086	5,831	255	4.2	142,583	136,891	5,692	4.0	5.00%
2001	6,168	5,874	293	4.8	143,734	136,933	6,801	4.7	2.13%
2002	6,235	5,886	349	5.6	144,863	136,485	8,378	5.8	-3.45%
2003	6,189	5,837	352	5.7	146,510	137,736	8,774	6.0	-5.00%
2004	6,249	5,909	341	5.4	147,401	139,252	8,149	5.5	-1.82%
2005	6,292	5,980	312	5.0	149,320	141,730	7,591	5.1	-1.96%

**Sources:** Employment data was provided by the Pennsylvania Department of Labor and Industry, Center for Workforce Information & Analysis in cooperation with the United States Department of Labor, Bureau of Labor Statistics.

**OPERATING INFORMATION**

**TABLE 17**

**Commonwealth Employees by Function and Agency**

**For the Last Ten Fiscal Years Ended June 30**

**COMMONWEALTH OF PENNSYLVANIA**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Direction and supportive services</b>										
Legislative.....	1,131	2,937	2,751	3,018	3,040	3,095	3,161	3,206	3,268	3,336
Revenue.....	2,377	2,385	2,406	2,454	2,519	2,421	2,382	2,272	2,322	2,377
Executive Offices.....	2,404	2,457	2,508	2,521	2,569	2,611	2,513	1,986	1,962	1,990
General Services.....	1,266	1,273	1,249	1,267	1,338	1,319	1,313	1,242	1,255	1,295
Auditor General.....	800	774	780	793	799	785	770	768	736	740
Treasurer.....	525	525	517	551	543	537	524	511	497	534
Other.....	541	601	600	556	602	643	361	425	379	376
<b>Total direction and supportive services.....</b>	<b>9,044</b>	<b>10,952</b>	<b>10,811</b>	<b>11,160</b>	<b>11,410</b>	<b>11,411</b>	<b>11,024</b>	<b>10,410</b>	<b>10,419</b>	<b>10,648</b>
<b>Protection of persons and property</b>										
Corrections.....	11,944	12,333	12,831	13,707	14,421	14,612	14,323	14,384	14,826	15,301
State Police.....	5,296	5,352	5,507	5,564	5,648	5,673	5,705	5,790	6,039	6,191
Liquor Control Board.....	3,873	3,825	3,860	3,941	4,032	4,146	4,205	4,407	4,580	4,772
Environmental Protection.....	2,953	2,912	2,890	2,965	3,022	3,016	2,938	2,836	2,831	2,890
Judiciary.....	1,668	1,740	1,775	1,940	1,962	2,048	2,031	2,100	2,102	2,140
Transportation.....	-	-	-	-	-	-	-	1,208	1,253	1,251
Agriculture.....	776	805	809	815	903	973	950	997	968	1,032
Probation and Parole Board.....	841	876	892	917	951	975	966	972	1,001	1,008
Attorney General.....	867	904	955	971	1,017	990	952	944	886	919
Public Utility Commission.....	524	515	499	502	509	503	494	467	469	529
Military and Veterans Affairs.....	-	-	-	-	-	-	-	459	489	529
Other.....	1,085	1,085	1,103	1,110	1,139	1,170	1,310	2,012	2,025	2,106
<b>Total protection of persons and property.....</b>	<b>29,827</b>	<b>30,347</b>	<b>31,121</b>	<b>32,432</b>	<b>33,604</b>	<b>34,106</b>	<b>33,874</b>	<b>36,576</b>	<b>37,469</b>	<b>38,668</b>
<b>Public education</b>										
Education.....	1,180	1,219	1,230	861	908	873	852	624	672	674
Other.....	21	20	20	19	22	21	20	20	18	18
<b>Total public education.....</b>	<b>1,201</b>	<b>1,239</b>	<b>1,250</b>	<b>880</b>	<b>930</b>	<b>894</b>	<b>872</b>	<b>644</b>	<b>690</b>	<b>692</b>
<b>Health and human services</b>										
Public Welfare.....	24,122	23,475	22,322	21,575	21,480	21,115	20,189	19,773	19,769	19,655
Labor and Industry.....	5,958	5,815	5,585	5,480	5,557	5,841	5,821	4,431	4,370	4,462
Military and Veterans Affairs.....	1,635	1,827	1,868	1,964	2,053	2,106	2,262	1,939	2,015	2,060
Health.....	1,293	1,242	1,258	1,305	1,347	1,399	1,444	1,404	1,429	1,524
Other.....	100	100	103	101	107	108	104	99	109	112
<b>Total health and human services.....</b>	<b>33,108</b>	<b>32,459</b>	<b>31,136</b>	<b>30,425</b>	<b>30,544</b>	<b>30,569</b>	<b>29,820</b>	<b>27,646</b>	<b>27,692</b>	<b>27,813</b>
<b>Economic development</b>										
Labor and Industry.....	-	-	-	-	-	-	-	923	911	960
Community and Economic Development.....	289	299	313	322	325	327	296	298	324	336
<b>Total economic development.....</b>	<b>289</b>	<b>299</b>	<b>313</b>	<b>322</b>	<b>325</b>	<b>327</b>	<b>296</b>	<b>1,221</b>	<b>1,235</b>	<b>1,296</b>
<b>Transportation</b>										
Transportation.....	12,165	12,195	12,094	12,302	12,360	12,393	12,086	10,645	10,578	10,810
<b>Total transportation.....</b>	<b>12,165</b>	<b>12,195</b>	<b>12,094</b>	<b>12,302</b>	<b>12,360</b>	<b>12,393</b>	<b>12,086</b>	<b>10,645</b>	<b>10,578</b>	<b>10,810</b>
<b>Recreation and cultural enrichment</b>										
Conservation and Natural Resources.....	2,597	2,674	2,690	2,742	2,775	2,768	2,707	2,632	2,608	2,639
Game Commission.....	679	679	692	747	810	769	754	758	734	732
Fish and Boat Commission.....	530	530	521	522	537	514	468	482	492	497
Historical and Museum Commission.....	433	438	462	480	494	504	503	488	444	435
Other.....	19	20	20	20	20	20	20	116	111	114
<b>Total recreation and cultural enrichment.....</b>	<b>4,258</b>	<b>4,341</b>	<b>4,385</b>	<b>4,511</b>	<b>4,636</b>	<b>4,575</b>	<b>4,452</b>	<b>4,476</b>	<b>4,389</b>	<b>4,417</b>
<b>Total Commonwealth Employees.....</b>	<b>89,892</b>	<b>91,832</b>	<b>91,110</b>	<b>92,032</b>	<b>93,809</b>	<b>94,275</b>	<b>92,424</b>	<b>91,618</b>	<b>92,472</b>	<b>94,344</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 fiscal years prior to 2004 employee data was only available by agency. For purposes of this table, the complement for fiscal years 1997 through 2003 is reported by function based on the agency's most prevalent functional activity.

**OPERATING INFORMATION**  
**Operating Indicators by Function and Agency**

**TABLE 18**  
**For the Last Ten Fiscal Years Ended June 30**

COMMONWEALTH OF PENNSYLVANIA	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 (9)
<b>GOVERNMENTAL ACTIVITIES</b>										
<b>Direction and supportive services:</b>										
<b>Executive Offices</b>										
Contact hours of briefings/training for Human Resource professionals/others....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	14,778	18,000
<b>Treasury</b>										
Disbursements - checks.....	N/A	N/A	6,400,000	6,317,110	8,454,206	5,831,568	6,012,497	5,217,339	5,000,249	4,078,226
Disbursements - wires.....	N/A	N/A	3,300,000	3,628,047	3,947,535	4,269,328	4,571,640	5,355,924	6,047,788	5,967,512
Total disbursements.....	9,820,764	10,006,950	9,700,000	9,945,157	12,401,741	10,100,896	10,584,137	10,573,263	11,048,037	10,045,738
<b>Legislature</b>										
General and appropriation acts (1).....	N/A	320	N/A	291	N/A	433	N/A	385	N/A	136
House/Senate bills introduced (1).....	N/A	4,571	N/A	4,481	N/A	4,613	N/A	4,242	N/A	3,358
<b>Protection of persons and property:</b>										
<b>Corrections</b>										
Inmates (2).....	34,739	34,964	36,377	36,384	36,810	37,995	40,090	40,817	40,965	42,446
Inmates enrolled in academic educational programs (2).....	8,613	8,884	9,190	9,162	10,357	10,600	11,286	11,749	11,680	13,457
<b>Environmental Protection</b>										
Inspections completed .....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	100,042	104,237	100,532
<b>Revenue</b>										
Total - electronic.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2,272,861	2,520,663	2,450,000
Total - paper.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	3,494,305	3,288,166	3,450,000
Total personal income tax returns processed.....	5,740,593	5,797,000	5,704,755	5,707,558	5,895,045	5,901,402	5,862,231	5,767,166	5,808,829	5,900,000
<b>State Police</b>										
Traffic citations issued.....	440,007	461,998	486,104	449,430	484,749	503,352	484,602	438,328	451,160	462,552
Criminal arrests for crimes against persons or property (3).....	11,105	11,946	12,440	11,534	12,288	12,600	12,122	12,030	13,024	12,743
<b>Background Checks:</b>										
Firearms checks conducted for the purchase of a firearm.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	10,406	514,287	540,894
Criminal history checks for employment purposes.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	964,507	1,074,325	1,089,527
<b>Judiciary</b>										
Caseload (cases filed/reopened/appeals) (2).....	3,174,591	3,465,108	3,726,054	3,581,305	3,709,824	3,813,843	3,789,239	3,598,042	3,790,068	3,768,706
<b>Public education:</b>										
<b>Education</b>										
<b>PreK-12 EDUCATION (BASIC EDUCATION):</b>										
Public school enrollment (preK-12) (4).....	1,804,256	1,815,151	1,816,566	1,816,716	1,814,311	1,821,627	1,816,747	1,821,146	1,828,089	1,817,380
<b>HIGHER EDUCATION:</b>										
<b>Full-Time Equivalent Enrollments at State-Supported Institutions of Higher Education:</b>										
State System of Higher Education.....	86,044	87,286	88,160	89,010	89,924	93,520	96,235	95,523	98,657	99,667
Community Colleges.....	63,735	63,913	64,808	64,394	67,030	75,088	80,874	86,935	88,494	91,236
State-Related Universities.....	124,757	127,822	128,967	130,805	133,200	136,581	140,375	140,806	140,697	140,825
Non-State Related Universities and Colleges.....	33,232	33,608	35,034	36,626	38,199	39,399	39,741	41,678	43,106	43,823
<b>Health and human services:</b>										
<b>Aging</b>										
<b>Comprehensive PACE/PACENET Program:</b>										
Older Pennsylvanians enrolled (average).....	272,867	266,787	251,314	240,298	232,372	230,949	223,119	242,755	290,482	296,440
Total prescriptions per year.....	8,887,148	8,989,455	9,140,390	9,530,401	9,744,249	10,228,661	10,672,686	10,888,090	12,794,090	13,402,729
<b>Health</b>										
<b>Surveys completed in a timely manner by facility type:</b>										
Hospitals within 24 months .....	N/A	N/A	N/A	N/A	N/A	N/A	115	115	115	115
Nursing homes surveys completed within 15 months.....	N/A	N/A	N/A	N/A	N/A	N/A	744	735	736	740
Intermediate care facilities/MR within 12 months.....	N/A	N/A	N/A	N/A	N/A	N/A	186	186	194	214
Home health agencies within 12 months.....	N/A	N/A	N/A	N/A	N/A	N/A	364	364	364	364
Vital events (births, deaths, fetal deaths) registered and processed (5).....	388,470	393,500	390,367	397,495	390,134	328,033	272,860	274,664	273,432	273,800
Total number of encounters by State Health Care Centers.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	402,114

**OPERATING INFORMATION**  
**Operating Indicators by Function and Agency**

**TABLE 18**  
**For the Last Ten Fiscal Years Ended June 30**

COMMONWEALTH OF PENNSYLVANIA										
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 (9)
<b>Public Welfare</b>										
Persons participating in Medical Assistance (monthly average).....	1,532,072	1,457,151	1,419,562	1,409,095	1,433,228	1,476,708	1,533,024	1,621,901	1,747,615	1,839,540
Persons receiving cash assistance (monthly average).....	527,567	417,976	333,740	272,990	242,214	229,660	225,396	250,581	278,474	284,378
Children participating in subsidized child care (unduplicated).....	N/A	N/A	N/A	N/A	N/A	N/A	182,102	185,971	195,211	204,217
Total persons provided mental health services (6).....	204,929	203,089	204,076	200,732	203,812	207,269	202,460	208,345	398,590	412,725
Persons receiving Mental Retardation services during fiscal year (7).....	68,926	71,575	73,900	74,000	76,988	82,220	85,000	89,985	72,538	73,486
<b>Economic development:</b>										
<b>Community and Economic Development</b>										
Jobs pledged to be created in Business and Technology Development.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	63,870	78,500	69,473
Jobs retained in Business and Technology Development.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	54,209	108,864	64,905
Total Jobs created/retained in Business and Technology Development (8).....	139,481	139,372	150,969	185,520	249,876	N/A	N/A	N/A	N/A	N/A
Businesses Assisted in Business and Technology Development.....	2,479	2,560	2,451	2,662	2,739	8,243	9,113	22,305	19,781	19,773
Local Governments assisted.....	326	573	664	675	420	475	594	766	711	680
Persons participating in Community Services Block Grant.....	546,575	633,991	330,000	244,844	243,497	272,983	270,006	324,436	339,564	275,000
<b>Labor and Industry</b>										
Total public health and safety inspections performed.....	129,787	139,321	131,215	131,365	135,590	135,567	134,352	122,584	117,056	107,000
Total Vocational Rehabilitation Caseload.....	68,996	68,808	74,999	78,138	77,622	81,391	83,696	82,262	86,814	85,681
<b>Transportation:</b>										
<b>Transportation</b>										
Miles of State maintained highways.....	40,327	40,244	40,162	40,101	40,051	39,935	39,906	39,893	39,890	39,880
Passengers carried by State-assisted operators (millions annually).....	292.7	284.4	282.5	293.7	310.1	301.8	301.9	303.5	310.0	313.3
Safety and Emissions inspections.....	11,780,000	12,340,200	12,657,225	12,641,070	13,603,449	13,589,000	13,617,103	15,000,000	17,100,000	17,300,000
Registrations:										
Registrations-Total New and Renewed.....	9,511,311	9,990,000	9,921,000	10,015,000	10,052,000	9,825,000	10,099,000	9,978,000	10,017,000	10,036,000
Licensed drivers-Total New and Renewed.....	2,196,998	2,337,300	2,259,500	2,284,900	2,320,900	2,130,859	2,302,100	2,476,213	2,377,057	2,400,000
<b>Recreation and cultural enrichment:</b>										
<b>Conservation and Natural Resources</b>										
State park attendance (visitor days per calendar year).....	37,000,000	36,400,000	34,700,000	36,712,000	36,438,000	36,627,000	36,031,000	34,692,000	35,095,476	35,270,953
<b>Fish and Boat Commission</b>										
Fishing licenses sold.....	974,179	995,659	978,925	934,723	953,032	935,845	907,313	909,053	834,877	836,000
<b>Game Commission</b>										
Hunting licenses sold.....	1,088,733	1,063,366	961,662	1,033,315	1,038,846	1,047,820	1,017,154	1,018,248	1,007,613	987,000
<b>Historical and Museum Commission</b>										
Records maintained by the State Records Center.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	709,821	726,747	747,747
Annual visits to commission historical sites and museums (in thousands).....	1,591	1,377	1,244	1,273	1,295	1,406	1,517	1,528	1,477	1,516
<b>BUSINESS-TYPE ACTIVITIES</b>										
<b>Labor and Industry</b>										
Number of new unemployment compensation claims.....	1,218,496	1,101,409	1,138,641	1,036,558	983,951	1,309,511	1,314,267	1,341,118	1,177,499	1,148,256

Sources: Governor's Office of the Budget, comptroller offices, various agencies

**Notes:**

- (1) Legislation acts and bills are presented per the Legislature's two-year session. Amounts presented for the 2005-2006 session are not final, since that session has yet to be completed.
- (2) Amounts are presented as of December 31.
- (3) Arrests per 100,000 population in State Police jurisdiction areas.
- (4) PreK enrollment is not included through the 2003 fiscal year.
- (5) The decrease in Vital Events from 2001 to 2002 is due to Act 82 of 2001, which eliminated some requirements for the processing of marriage and divorce records.
- (6) 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.
- (7) Beginning with the 2005 fiscal year, this amount was revised to remove those receiving Early Intervention services.
- (8) Beginning with the 2002 fiscal year, this category was reevaluated and then no longer measured in its current form. Subsequent years are then marked with N/A.
- (9) For the 2006 fiscal year, a majority of the indicators presented are estimates.

**OPERATING INFORMATION**  
**Capital Asset Information by Function and Agency**

**TABLE 19**  
**For the Last Ten Fiscal Years Ended June 30**

COMMONWEALTH OF PENNSYLVANIA

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Direction and Supportive Services</b>										
<b>Department of General Services</b>										
Number of buildings (1).....	32	32	33	33	33	33	36	36	36	85
Total pieces of machinery and equipment (2).....	N/A	56	58	71	80	48	164	137	137	137
Active construction projects.....	12	12	14	13	15	15	15	16	17	18
<b>Protection of persons and property</b>										
<b>Department of Corrections</b>										
State Correctional Institutions (3).....	24	24	25	25	25	26	26	26	27	26
<b>State Police</b>										
Patrol vehicles.....	1,803	1,848	1,914	2,009	2,199	2,215	2,207	2,188	2,282	2,316
Police stations and/or troop headquarters (3).....	19	20	20	20	20	20	20	21	23	23
<b>Department of Military and Veterans Affairs</b>										
Number of armories.....	105	105	96	96	97	97	97	96	117	117
<b>Public education</b>										
<b>State System of Higher Education (SSHE)-Component Unit (4)</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)(3).....	26	26	25	23	22	22	22	22	21	19
<b>Transportation</b>										
<b>Department of Transportation</b>										
Total pieces of equipment.....	N/A	N/A	N/A	N/A	25,211	20,434	21,281	21,256	20,858	20,434
Total lane miles of highways (state or locally maintained).....	113,349	115,308	115,467	115,677	115,939	116,282	116,570	115,402	116,055	116,290
<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).....	1.3	1.3	1.36	1.36	1.36	1.41	1.41	1.4	1.4	1.4
<b>Fish Commission</b>										
Public boat launches.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	178
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.....	28	28	28	28	26	26	26	26	26	25
<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).
- (2)-Beginning with the 2003 fiscal year, the reported machinery and equipment includes assets that were depreciated in full.
- (3)-State Correctional Institutions, police station/troop headquarters and hospital/treatment center complexes include nondepreciable capital assets (i.e. land) and depreciable assets (i.e. machinery and equipment, buildings, improvements, etc.).
- (4)-The State System of Higher Education (SSHE) is a discretely presented component unit. However, each of its universities uses land, buildings, and improvements which were purchased by the Commonwealth and are still reported as governmental activities capital assets in the Commonwealth's Statement of Net Assets. See Note A in the Notes to the Financial Statements for a detailed description of this relationship.