

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2002 Restated



Commonwealth of Pennsylvania
Mark S. Schweiker
Governor

Prepared By:

Office of the Budget
Robert A. Bittenbender, Secretary

Comptroller Operations
Harvey C. Eckert, Deputy Secretary

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, Deputy Secretary for Comptroller Operations, Room 207, Finance Building, Harrisburg, Pennsylvania 17120

The CAFR contents can be accessed through this link: [Table of Contents](#)

**Commonwealth of Pennsylvania
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2002 (Restated)**

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Title Page	1
Table of Contents	2
Letter of Transmittal	4
Certificate of Achievement	11
FINANCIAL SECTION	
INDEPENDENT AUDITORS' REPORT	14
MANAGEMENT'S DISCUSSION AND ANALYSIS	18
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Assets	32
Statement of Activities	34
Fund Financial Statements:	
Balance Sheet-Governmental Funds	36
Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets.....	37
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds	38
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds to the Statement of Activities.....	39
Statement of Net Assets-Proprietary Funds	40
Statement of Revenues, Expenses and Changes in Fund Net Assets-Proprietary Funds	41
Statement of Cash Flows-Proprietary Funds.....	42
Statement of Fiduciary Net Assets-Fiduciary Funds and Similar Component Units	43
Statement of Changes in Fiduciary Net Assets-Fiduciary Funds and Similar Component Units	44
Statement of Net Assets-Discretely Presented Nonfiduciary Component Units.....	46
Statement of Activities-Discretely Presented Nonfiduciary Component Units.....	48
Notes to Financial Statements	50
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule-Budgeted Major Funds-General Fund	108
Budgetary Comparison Schedule-Budgeted Major Funds-Special Revenue Fund-Motor License	109
Budgetary Comparison Schedule-Budgeted Nonmajor Funds-Special Revenue Fund-Banking Department	110
Budgetary Comparison Schedule-Budgeted Nonmajor Funds-Special Revenue Fund-Milk Marketing	111
Budgetary Comparison Schedule-Budgeted Nonmajor Funds-Special Revenue Fund-Workmen's Compensation Administration.....	112
Notes to Required Supplementary Information.....	113
COMBINING FINANCIAL STATEMENTS:	
Nonmajor Governmental Funds-Combining Financial Statements:	
Combining Balance Sheet-Nonmajor Governmental Funds	118
Combining Statement of Revenues, Expenditures and Changes in Fund Balances-Nonmajor Governmental Funds.....	119
Nonmajor Special Revenue Funds-Combining Financial Statements:	
Special Revenue Funds-Description	122
Combining Balance Sheet-Nonmajor Governmental Funds-Special Revenue Funds.....	123
Combining Statement of Revenues, Expenditures and Changes in Fund Balances-Nonmajor Governmental Funds-Special Revenue Funds	124

Nonmajor Debt Service Funds-Combining Financial Statements:	
Debt Service Funds-Description	126
Combining Balance Sheet-Nonmajor Governmental Funds-Debt Service Funds.....	127
Combining Statement of Revenues, Expenditures and Changes in Fund Balances- Nonmajor Governmental Funds-Debt Service Funds	128
Nonmajor Capital Projects Funds-Combining Financial Statements:	
Capital Projects Funds-Description.....	130
Combining Balance Sheet-Nonmajor Governmental Funds-Capital Projects Funds	131
Combining Statement of Revenues, Expenditures and Changes in Fund Balances- Nonmajor Governmental Funds-Capital Projects Funds.....	132
Nonmajor Proprietary Funds-Combining Financial Statements-Enterprise Funds:	
Enterprise Funds-Description.....	134
Combining Statement of Net Assets-Nonmajor Proprietary Funds-Enterprise Funds	135
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets- Nonmajor Proprietary Funds-Enterprise Funds	136
Combining Statement of Cash Flows-Nonmajor Proprietary Funds-Enterprise Funds	137
Nonmajor Proprietary Funds-Combining Financial Statements-Internal Service Funds:	
Internal Service Funds-Description.....	140
Combining Statement of Net Assets-Nonmajor Proprietary Funds-Internal Service Funds	141
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets- Nonmajor Proprietary Funds-Internal Service Funds.....	142
Combining Statement of Cash Flows-Nonmajor Proprietary Funds-Internal Service Funds.....	143
Fiduciary Funds-Combining Financial Statements-Agency Funds:	
Agency Funds-Description	146
Combining Statement of Fiduciary Net Assets-Agency Funds.....	147
Combining Statement of Changes in Fiduciary Net Assets-Agency Funds	148
Combining Statement of Changes in Fiduciary Net Assets-Discretely Presented Component Units	151

STATISTICAL SECTION

	<u>Table</u>	<u>Page</u>
Revenues by Source and Expenditures by Function—All Governmental Fund Types	1	154
Net Bonded Debt Per Capita.....	2	155
Ratio of Annual Debt Service Requirements for General Obligation Bonded Debt to Total General Fund Expenditures	3	155
Computation of Legal Debt Margin.....	4	156
Schedule of Revenue Bond Coverage	5	157
Annual Estimates of the Resident Population—Pennsylvania Compared to the United States	6	158
State Banking Institutions Demand Deposits and Time and Savings Deposits	7	158
Resident Employment, Unemployment and Unemployment Rate—Pennsylvania Compared to the United States.....	8	159
Total Personal Income and Per Capita Personal Income—Pennsylvania Compared to the United States.....	9	160
Thirty Largest Nongovernmental Employers	10	161
List of Major Corporations that Maintain their Corporate Headquarters in the Commonwealth.....	11	162
Miscellaneous Statistics.....	12	163



COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

January 17, 2003

ROBERT A. BITTENBENDER
SECRETARY
OFFICE OF THE BUDGET

To the Governor, Lieutenant Governor, the Honorable Members of the General Assembly and the 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, 2002. The Office of the Budget, Comptroller Operations, prepared this report, which includes the Basic Financial Statements (BFS), pursuant to the power vested in the Governor under Section 701 of the Administrative Code and delegated to the Secretary of the Budget by Executive Order No. 1984-3, dated October 11, 1984.

The BFS were prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). We believe the financial statements are fairly stated in all material respects; that they are presented in a manner designed to fairly report the Commonwealth's financial position, results of operations, and changes in net assets/fund balances; and that all disclosures necessary to enable the Governor, the members of the General Assembly, the public, and the financial community to fully understand the Commonwealth's operations and financial affairs have been included. Responsibility for the completeness and fairness of the presentation, including all disclosures, rests with the Commonwealth of Pennsylvania, Office of the Budget.

The June 30, 2002 BFS follow Management's Discussion and Analysis (MD&A), which provides an overview of the Commonwealth's financial position and activities and helps readers to understand the content of the government-wide statements. This new section immediately follows the auditors' opinion in this CAFR. In addition to the MD&A and BFS, this CAFR includes: combining fund financial statements; supporting schedules; certain narrative information describing individual funds; and statistical tables presenting financial, economic, and demographic data about the Commonwealth.

PROFILE OF THE GOVERNMENT

Recognized as the Keystone State, Pennsylvania's population is estimated at over 12 million citizens, which is 4.36 percent of the United States' population. Pennsylvania is located in the Mid-Atlantic region and consists of 45,333 square miles of wide valleys, narrow mountains, and winding rivers, ranking 32nd in land area among all the states. The Commonwealth's government system consists of three separate branches. The judicial branch is composed of the Supreme Court, Superior Court, Commonwealth Court, and other Courts. The legislative branch consists of the Senate and the House of Representatives. The executive branch is headed by the Governor and other elected officials. The following charts identify specific Commonwealth officials and staff within Comptroller Operations, respectively, at June 30, 2002:

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, 2002. 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 56.5 percent of the General Fund budgetary basis revenues. The functional assignments for General Fund expenditures are: direction and supportive services, protection of persons and property, health and human services, public education, recreation and cultural enrichment, economic development, transportation and transfers to debt service funds 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 of this CAFR, provides original budget, final budget and actual budgetary results for the fiscal year ended June 30, 2002.

During the fiscal year ended June 30, 2002, total General Fund expenditures and other uses exceeded revenues and other sources by \$193.6 and, at June 30, 2002, the Commonwealth reported an unreserved/undesignated fund balance (budgetary basis) of \$142.8 in the General Fund. This compares to a budgetary basis fund balance of \$336.4 (restated) at June 30, 2001. The budgetary basis results for the fiscal year ended June 30, 2002 include revenue collections totaling \$32,952.5 less appropriation authorizations totaling \$34,289.2, plus other net financing sources totaling \$1,143. Included in the \$34,289.2 appropriation authorizations are \$88.8 of state supplemental appropriations and \$198.6 in Federal supplemental appropriations authorized during the fiscal year ended June 30, 2002 (amounts in millions).

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 (expressed in millions) on a budgetary basis at the end of the five most recent fiscal years:

<u>At June 30</u>	<u>Unreserved/ Undesignated Fund Balance</u>	<u>Increase (Decrease)</u>
1998 (restated)	\$ 265.3	\$ (137.0)
1999	447.5	182.2
2000	610.5	163.0
2001 (restated)	336.4	(274.1)
2002	142.8	(193.6)

CASH MANAGEMENT

The Treasury Department is required by the Commonwealth's Fiscal Code to deposit Commonwealth monies, excluding certain component units, in state depositories approved by the Board of Finance and Revenue. Amounts deposited are not required to be segregated by fund.

In addition, the Treasury Department is empowered to invest Commonwealth monies that are in excess of daily needs of the various Commonwealth Funds. At June 30, 2002, the Treasury Investment Program includes the following types of investments:

	<u>Percent</u>
United States Treasury and Government Agency Obligations	36.2
Repurchase Agreements	22.5
Domestic Equities	14.5
Corporate Bonds and Notes	9.9
PHEAA HelpStart	7.1
Money Market Funds	5.1
Commercial Paper (Moody's Prime One Rating or Equivalent)	2.6
Certificates of Deposits	1.2
Other	<u>1.0</u>
	<u>100.0</u>

The Treasury Investment Program totaled \$8.3 billion at June 30, 2002. Because participating funds purchase pool shares of the Treasury Investment Program, they report share balances as temporary investments.

RISK MANAGEMENT

The Commonwealth maintains ongoing training and information programs to reduce risks associated with employee injury and negligence, contract compliance, tort liabilities and property losses. As more fully described at 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. Third-party coverage is obtained for property losses in excess of \$1 million per occurrence, to a limit of \$100 million per occurrence. Coverage for property losses less than \$1 million or more than \$100 million is maintained through the Commonwealth's self-insurance program.

INDEPENDENT AUDIT

The Commonwealth's June 30, 2002 BFS have been jointly audited by the Department of the Auditor General and Ernst & Young LLP, an independent public accounting firm. The independent auditors' opinion is included in the beginning of the Financial Section of this CAFR. The auditors' opinion provides a reasonable basis for users to rely on the information included in the BFS.

ECONOMIC OUTLOOK

The tenth recession of the postwar period began in March 2001. While economic growth resumed in 2002, the pace of economic growth so far has fluctuated widely and has weakened slightly during the fourth quarter of 2002. The recovery had been anticipated to be significantly slower in terms of economic growth than experienced with a normal recession. During most past recovery periods, growth has averaged between five and seven percent annually while the forecast for growth following the current recession is in the three to four percent range.

The modest anticipated rate of economic growth reflects the uncertainty that currently exists about the national recovery. While current economic growth appears to have slowed, the economic outlook for the remainder of the fiscal year is good. Consumer and Federal spending have provided recent support to the economy. As other sectors of the economy improve, the recovery will broaden and economic growth will accelerate.

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, 2001. This represents the sixteenth 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, 2002 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.

Sincerely,



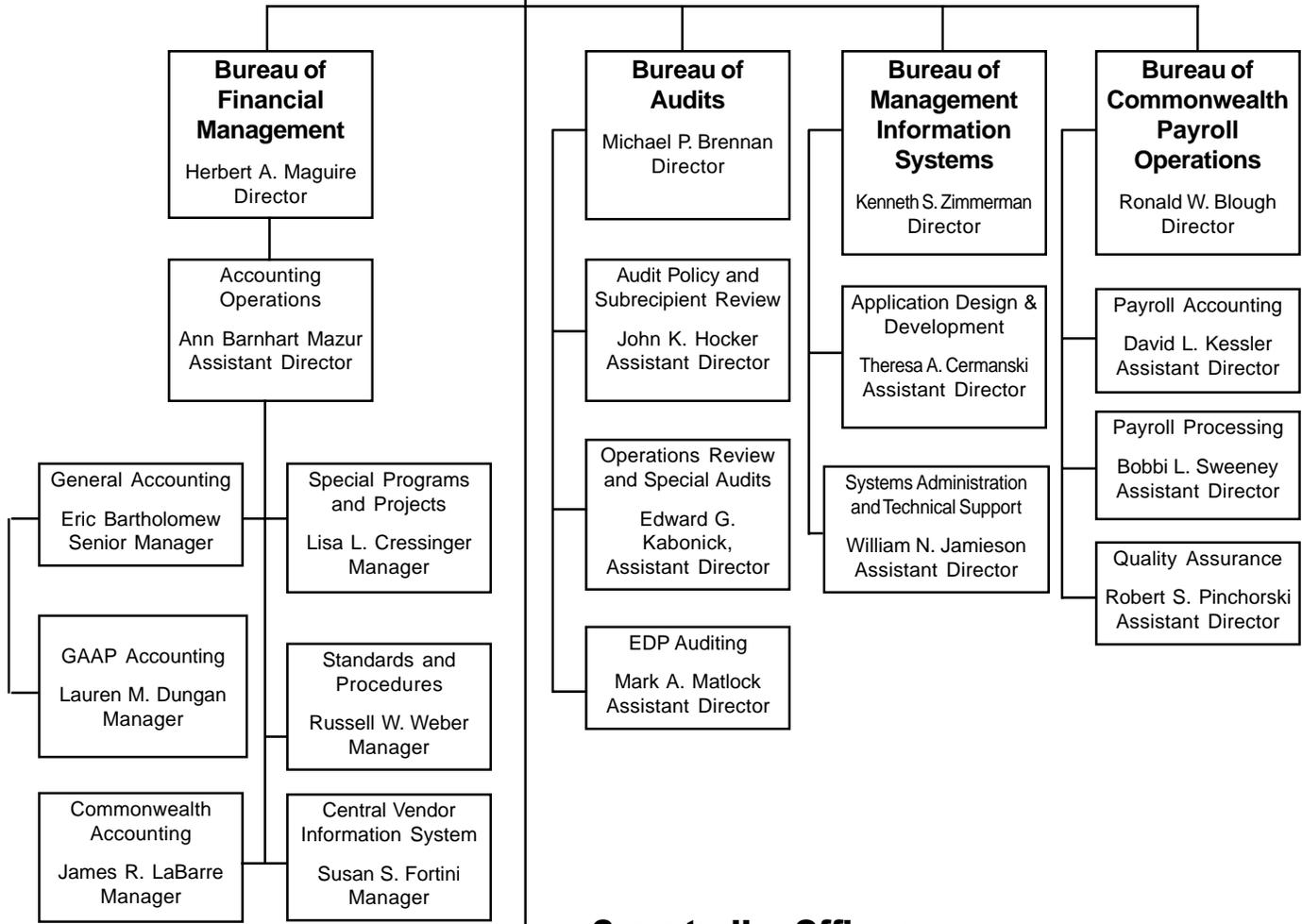
Robert A. Bittenbender
Secretary
Office of the Budget



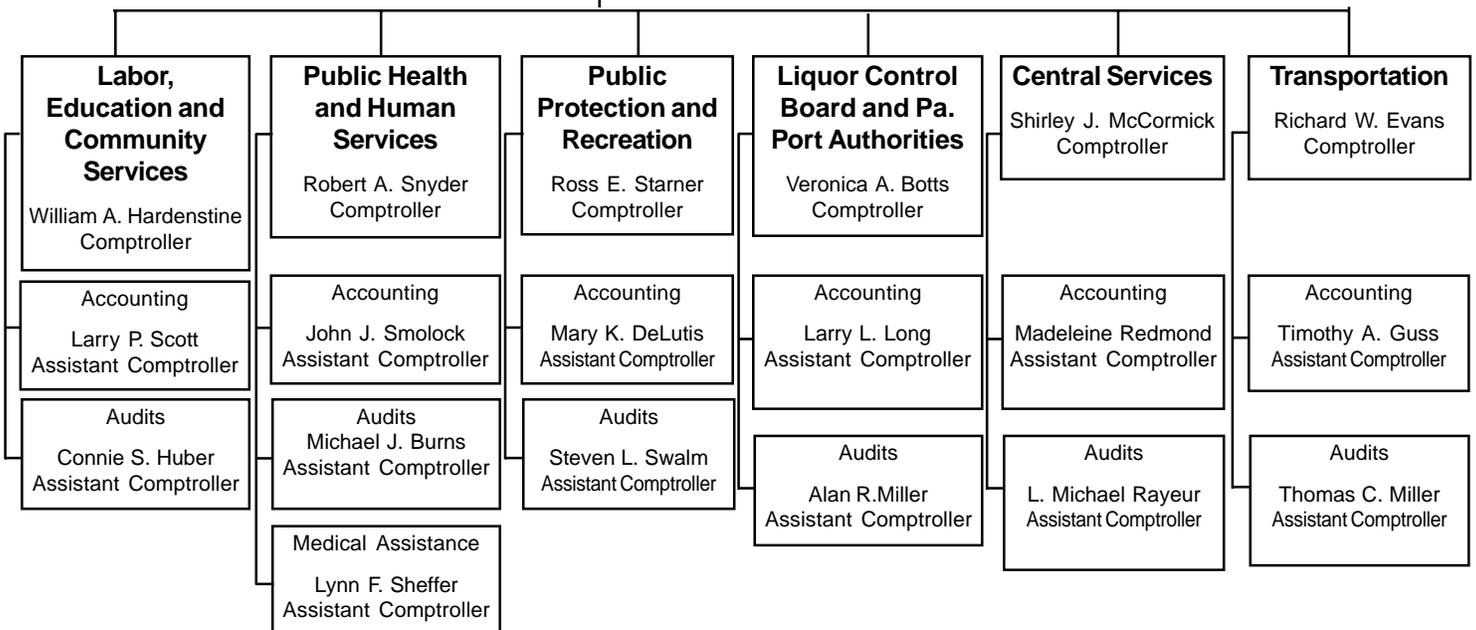
Harvey C. Eckert
Deputy Secretary for Comptroller Operations
Office of the Budget

**Office of the Budget
Comptroller Operations
June 30, 2002**

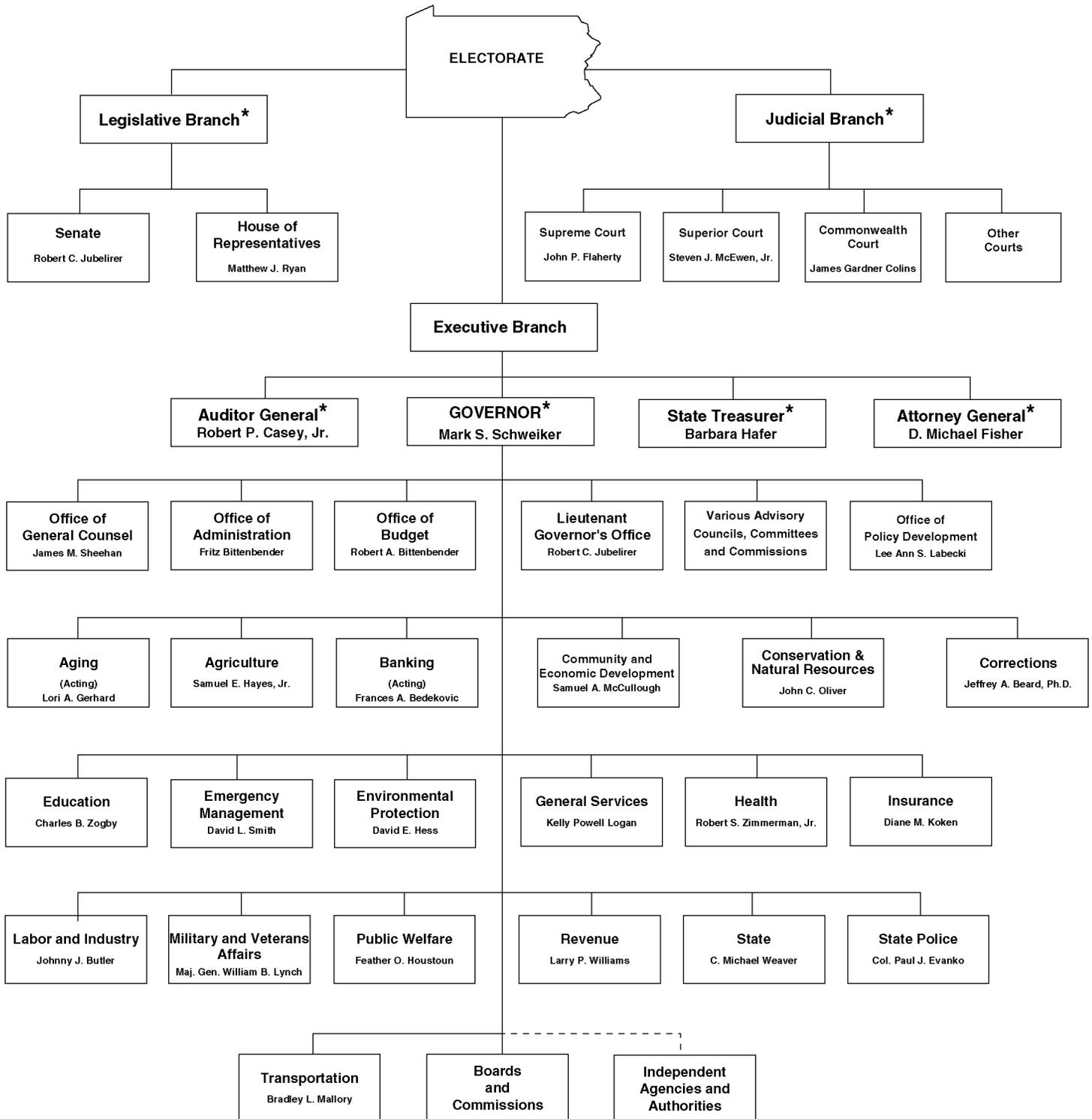
**Deputy Secretary For
Comptroller Operations
Harvey C. Eckert**



Comptroller Offices



COMMONWEALTH OF PENNSYLVANIA
ORGANIZATION AND OFFICIALS CHART
JUNE 30, 2002



* Independently Elected

– THIS PAGE INTENTIONALLY LEFT BLANK –

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, 2001

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.



William Patrick Pate
President

Jeffrey L. Esser
Executive Director

– THIS PAGE INTENTIONALLY LEFT BLANK –

Financial Section



State Capitol

Harrisburg



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



■ Central Pennsylvania Practice
Commerce Court, Suite 200
2601 Market Place
Harrisburg, Pennsylvania 17110-9359

Report of Independent Auditors

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

We have jointly audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania (the “Commonwealth”), as of and for the year ended June 30, 2002, which collectively comprise the Commonwealth’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth’s management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not jointly audit the financial statements of certain component units, which represent 31 percent of total assets and 7 percent of total revenues of the aggregate remaining fund information, 100 percent of the total assets and total revenues of the Pension and Other Employee Benefits Trust Funds, and 99 percent of the assets and 99 percent of the revenues of the aggregate discretely presented component units. We also did not jointly audit the financial statements of two enterprise funds, which represent 1 percent of total assets and 1 percent of total revenues of the aggregate remaining fund information. The financial statements of these component units and enterprise funds were audited by other auditors, including Ernst & Young LLP acting separately, whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units and enterprise funds, is based solely on the reports of the other auditors. Ernst & Young LLP has audited separately 6 percent of total assets and 12 percent of operating revenues of the discretely presented component units.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the

financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our original report dated January 17, 2003 on the Commonwealth's financial statements at and for the year ended June 30, 2002, based on our audit and the reports of other auditors, we issued an unmodified opinion on the aggregate discretely presented component units. On October 22, 2003, the Commonwealth was informed that the independent auditor for the State System of Higher Education (SSHE) would no longer consent to the use of its previously issued report on the June 30, 2002 financial statements of SSHE. As a result, the financial statements of SSHE as of and for the year ended June 30, 2002 have not been audited, and we were not engaged to audit the SSHE financial statements as part of our audit of the Commonwealth's basic financial statements. SSHE's financial activities are included in the Commonwealth's basic financial statements as a discretely presented component unit and represent 10 percent, 9 percent, and 40 percent of the fiscal year 2002 assets, net assets, and revenues, respectively, of the Commonwealth's aggregate discretely presented component units.

In our opinion, based on our audit and the reports of other auditors, and except for the effects of such adjustments, if any, as might have been determined to be necessary had SSHE's financial statements been audited, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units for the Commonwealth of Pennsylvania as of June 30, 2002 and the changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In addition, 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, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A to the financial statements, the Commonwealth has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments," as of July 1, 2001.

As described in Note S to the financial statements, governmental activities' net assets and general fund fund-balance have been restated to report inheritance taxes receivable. In addition, previously reported capital assets have been restated to include all capital assets

used by SSHE but titled in the name of the Commonwealth in the statement of net assets as capital assets of the Commonwealth's governmental activities. Such assets were previously reported as SSHE assets included as part of the aggregate discretely presented component units.

Management's discussion and analysis and budgetary comparison information on pages 17 through 28 and 107 through 116 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors 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 and individual fund financial statements, 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 and individual fund financial statements 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 in the audit of the basic financial statements and, accordingly, we express no opinion on them.

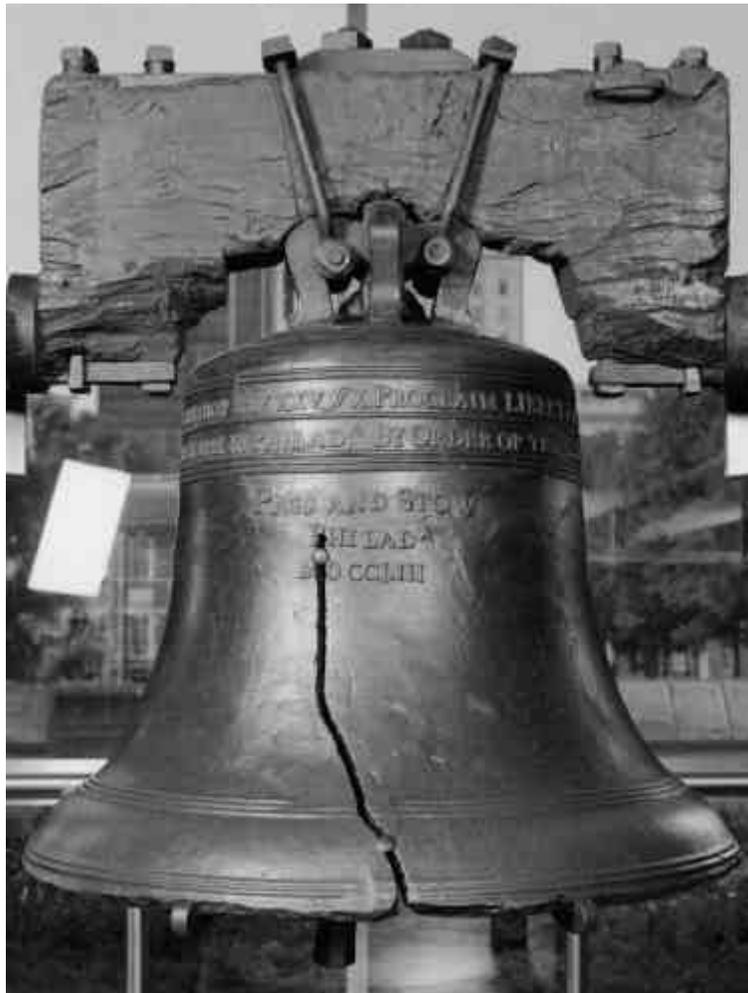
Robert P. Casey, Jr.

Ernst + Young LLP

January 17, 2003, except for Note S,
as to which the date is February 19, 2004

– THIS PAGE INTENTIONALLY LEFT BLANK –

Management's Discussion and Analysis



Liberty Bell

Philadelphia

Overview and discussion of basic financial statements

For the fiscal year ended June 30, 2002, the Commonwealth of Pennsylvania is presenting "Basic Financial Statements" (BFS) as required by the Governmental Accounting Standards Board's Statement No. 34. BFS replace what were formerly General-Purpose Financial Statements and retain part of what was formerly presented in our financial statements. The Commonwealth's BFS consist of its government-wide and fund financial statements which are supplemented by note disclosures and required supplementary information (such as this Management's Discussion and Analysis). Government-wide statements are being presented for the very first time and will be discussed first.

Government-wide financial statements

Government-wide financial statements portray the Commonwealth's overall financial position at June 30, 2002 and its aggregate revenues and expenses for the fiscal year ended June 30, 2002. Government-wide statements do not report information fund-by-fund (as in General Fund, Motor License Fund, State Lottery Fund, etc.); rather, they reveal information for all governmental activities in a separate column and all business-type activities in a separate column. Governmental activities include those traditionally provided by practically all states: public cash, medical and other assistance, public education, correction and rehabilitation, public works projects, issuing and then retiring general obligation debt, etc. Business-type activities, on the other hand, include activities where individuals and organizations provide resources to the government *in exchange for* a product or service. Typical examples would be customers paying for wine or liquor, parents or others purchasing tuition credits for school-age children or lottery players purchasing instant or other game tickets. In government-wide statements, for both governmental and business-type activities, the economic resources measurement focus and accrual basis of accounting are used, meaning revenues and expenses are recognized when they occur, not when cash is received or paid.

Government-wide statements include a Statement of Net Assets and a Statement of Activities. Whereas the Statement of Net Assets includes an estimate of the total amount of receivables due at June 30, 2002 that are expected to be collected in the future, fund financial statements only include certain receivables collected within 60 days after the fiscal year end. Capital assets, such as highways, bridges, heavy equipment and buildings, are reported on the Statement of Net Assets with acquisition or construction costs being reported when the assets are placed in service. To recognize the cost of using up each capital asset, we report annual depreciation expense over future fiscal years instead of reporting the entire asset cost as a current-year expenditure. In other words, in government-wide statements, we assign a specific portion of capital asset cost (annual depreciation expense) to a specific accounting period, or fiscal year.

The Statement of Net Assets also includes all liabilities regardless of when payment is due. Examples include bond principal payments which may not be due for several years and an employee disability claims liability, much of which will not be payable until years after fiscal year end. Likewise, employee compensated absence liabilities (such as vacation leave) are reported based on the predicted or actual cash payment value at fiscal year-end. In actual practice, however, employees often take accrued leave as "time off work" instead of receiving cash payment.

On the Statement of Activities, both revenues and expenses are reported without considering when the related cash is received or disbursed. The Statement of Activities reports the "whole cost" of operating the entire government during the fiscal year. The reported change in net assets reveals whether the overall financial position improved or deteriorated during the fiscal year, the key word being *overall*. Government-wide statements do not report fund-specific information; rather, they include aggregated information that has been adjusted for specific eliminations and reclassifications. The Statement of Activities is the "whole government," segregated between governmental activities and business-type activities.

Condensed financial statement information – government-wide financial statements

The following condensed financial statement information is derived from the Commonwealth's government-wide June 30, 2002 financial statements and includes amounts for the "primary government" only. The government-wide statements include information for "component units," which are organizations that are legally separate from the Commonwealth's primary government. Information related to component units is not included in Management's Discussion and Analysis. Each component unit is identified and described in Note A to the financial statements. Audited financial statements for component units are available through the Deputy Secretary for Comptroller Operations. The following presents condensed financial statement information from the Statement of Net Assets at June 30, 2002 (amounts in billions):

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments.....	\$ 8.1	\$ 5.1	\$ 13.2
Capital assets (net)	18.5	-	18.5
All other assets.....	<u>4.7</u>	<u>.9</u>	<u>5.6</u>
Total assets.....	<u>31.3</u>	<u>6.0</u>	<u>37.3</u>
Liabilities:			
Accounts payable.....	3.0	.4	3.4
All other current liabilities	<u>2.6</u>	<u>.6</u>	<u>3.2</u>
Total current liabilities.....	<u>5.6</u>	<u>1.0</u>	<u>6.6</u>
Bonds payable.....	5.6	-	5.6
All other long-term liabilities.....	<u>2.4</u>	<u>1.5</u>	<u>3.9</u>
Total long-term liabilities.....	<u>8.0</u>	<u>1.5</u>	<u>9.5</u>
Total liabilities	<u>13.6</u>	<u>2.5</u>	<u>16.1</u>
Net assets:			
Invested in capital assets, net of related debt	14.8	-	14.8
Restricted	1.6	3.5	5.1
Unrestricted.....	<u>1.3</u>	<u>-</u>	<u>1.3</u>
Total net assets.....	<u>\$ 17.7</u>	<u>\$ 3.5</u>	<u>\$ 21.2</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Restated)

The following presents condensed financial statement information from the Statement of Activities for the fiscal year ended June 30, 2002 (amounts in billions):

	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program revenues:			
Charges for sales and services	\$ 4.2	\$ 5.1	\$ 9.3
Operating grants and contributions	13.1	.5	13.6
Capital grants and contributions	<u>.1</u>	<u>-</u>	<u>.1</u>
Total program revenues.....	<u>17.4</u>	<u>5.6</u>	<u>23.0</u>
General revenues:			
Taxes.....	<u>20.6</u>	<u>-</u>	<u>20.6</u>
Total general revenues	<u>20.6</u>	<u>-</u>	<u>20.6</u>
Total revenues.....	<u>38.0</u>	<u>5.6</u>	<u>43.6</u>
Expenses:			
Governmental activities:			
Direction and supportive services	1.3	-	1.3
Protection of persons and property	3.8	-	3.8
Public education.....	9.7	-	9.7
Health and human services	18.9	-	18.9
Economic development.....	1.4	-	1.4
Transportation	2.5	-	2.5
Recreation and cultural enrichment .....	.5	-	.5
Interest .....	.3	-	.3
Business-type activities:			
State lottery	-	1.7	1.7
Unemployment.....	-	2.8	2.8
Liquor control	-	.9	.9
Workmen's compensation	-	.2	.2
Tuition payment.....	<u>-</u>	<u>.2</u>	<u>.2</u>
Total expenses.....	<u>38.4</u>	<u>5.8</u>	<u>44.2</u>
Deficiency before special item and transfers.....	(.4)	(.2)	(.6)
Special item - component unit revenues.....	.3	-	.3
Transfers	<u>.5</u>	<u>(.5)</u>	<u>-</u>
Increase (decrease) in net assets .....	.4	(.7)	(.3)
Net assets, July 1, 2001	<u>17.3</u>	<u>4.2</u>	<u>21.5</u>
Net assets, June 30, 2002	<u>\$ 17.7</u>	<u>\$ 3.5</u>	<u>\$ 21.2</u>

Overall analysis and discussion of condensed financial statements

During the fiscal year ended June 30, 2002, the overall financial position (net assets) of the Commonwealth, including both governmental and business-type activities, deteriorated by \$.3 billion from \$21.5 billion at June 30, 2001 to \$21.2 billion at June 30, 2002. This represents around 1.4 percent of total beginning net assets. For all governmental activities, the net increase in net assets was \$.4 billion or 2.3 percent of beginning net assets of \$17.3 billion. Total governmental assets and liabilities were \$31.3 billion and \$13.6 billion, respectively, at June 30, 2002, leaving total governmental net assets of \$17.7 billion. Current accounts payable were \$3.0 billion for governmental activities; tax refunds payable were \$.6 billion; general obligation bonds outstanding were \$6.1 billion. Total investments, not counting the State Employees Retirement Fund or other fiduciary funds, were over \$10.6 billion and total cash balances were over \$2.6 billion. These amounts represent considerable liquidity for the current and future fiscal years. The \$.3 billion decrease in total net assets during the fiscal year demonstrates that the Commonwealth operated on essentially a break-even basis during the fiscal year. Remarkably, the slowing national economy, while causing lower tax revenues than expected, did not lead to a significant deterioration in the overall financial position of the Commonwealth. Total net assets for **governmental activities** actually increased by \$.4 billion and total net assets for **business-type activities** decreased by \$.7 billion during the fiscal year. Total **governmental activities** revenues were \$38.0 billion, almost 99 percent of total governmental activities expenses of \$38.4 billion. Total governmental activities revenues, special item and transfers exceeded total governmental activities expenses by \$.4 billion, the same amount by which governmental activities net assets increased during the fiscal year ended June 30, 2002. On a fund-specific basis, the fund balance for the General Fund decreased by \$1.622 billion, fund balance for the Motor License Fund decreased almost \$40 million, fund balance for the Tobacco Settlement Fund increased by \$935 million and fund balance for aggregated nonmajor funds increased by almost \$65 million; on a net basis, total governmental fund balance decreased by \$661 million during the fiscal year. The Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds and the accompanying reconciliation to the Statement of Activities provide more details about the changes in fund-specific fund balances and details on over \$1 billion (net) in reporting differences between governmental fund statements changes in fund balances and governmental activities change in net assets during the fiscal year ended June 30, 2002. The following section also describes some of the differences between fund financial statements and government-wide financial statements. Business-type activities operating revenues were over \$239 million less than operating expenses; including net non-operating revenues and transfers, business-type activities net assets decreased by almost \$692 million. The primary reason for this decrease was that Unemployment Compensation Fund expenses exceeded revenues by almost \$560 million. A \$600 million increase in revenues was far less than a \$1.1 billion increase in expenses during the fiscal year ended June 30, 2002. We will provide a more in-depth discussion of activities when we begin to issue comparative government-wide statement information for the fiscal year ending June 30, 2003.

Fund financial statements – governmental funds

Governmental fund financial statements provide fund-specific information about the General Fund, the Motor License Fund, and the Tobacco Settlement Fund, which are treated as major funds. Fund statements for governmental funds include an aggregated nonmajor column and continue to report what was formerly reported in governmental funds in the General Purpose Financial Statements, which the Commonwealth had been presenting since the fiscal year ended June 30, 1986. Fund statements differ from government-wide statements in a few fundamental ways. 1) While the government-wide statements focus on the government taken as a whole (including governmental and business type **activities**), the fund statements reveal fund-specific information for **major** governmental and proprietary **funds** and aggregated nonmajor **funds**. 2) Unlike the aggregated columns for governmental and business-type activities (in government-wide statements), individual funds are established by state law and are used to account for specific, mandated activities. Two examples of specific funds are the Motor License Fund, a special revenue fund where gasoline taxes and motor vehicle registration fees are collected and used to repair and build highways, and the Unemployment Compensation Fund, an enterprise fund, used to collect amounts from employers to pay for unemployment compensation to workers. 3) For governmental fund statements, the current financial resources measurement focus is used, along with the modified accrual basis of accounting. This means that balances and transactions are reported as cash is received and paid, plus certain accrued revenues received within 60 days of fiscal year end, minus amounts representing accrued expenditures, which are paid for with currently available revenues. Long-term receivables, for amounts earned or billed but not available at fiscal year end, and capital assets are not reported in the governmental fund financial statements. Nor are long-term liabilities reported. The governmental fund balance sheets report far fewer assets and liabilities than the government-wide Statement of Net Assets. The Statement of Revenues and Expenditures for governmental funds reports only those cash transactions that occurred during the fiscal year or specific cash transactions that occurred within 60 days of fiscal year end. 4) Both governmental and proprietary fund financial statements provide information about cash flows and liquidity. Government-wide financial statements do not provide such information.

Budgetary Comparison Schedules are included as required supplementary information immediately following the Notes to the Financial Statements; they provide a measurement of compliance with legally adopted budgets.

General Fund – economic factors during the fiscal year ended June 30, 2002

The General Fund results reflect the effects of a slowing national economy. The 2001-02 fiscal year General Fund budget was adopted with a revenue estimate that assumed the economic recession that began in March 2001 would end and economic growth would resume for the fiscal year. Real gross domestic product during fiscal year 2001-02 was expected to increase by 2.8 percent on a quarter-to-quarter basis. In line with that expectation for economic growth, the unemployment rate was expected to be around 5 percent and gains in personal income were expected. Although statistics show the national recession ended by the first quarter of the 2001-02 fiscal year, the recovery has been modest compared to past recovery periods. Actual growth of gross domestic product during the 2001-02 fiscal year was 2.1 percent and was concentrated in the first quarter of 2002. That rate of growth was not sufficient to support expected employment and income gains. As a consequence of these trends, receipts for state tax revenues, especially those based on income, fell short of budget estimates. Aggravated further by a declining stock market, personal income tax receipts for the fiscal year actually declined from their previous fiscal year level. Total receipts for personal income tax fell by 4.7 percent from the fiscal year 2000-01 total. Income taxes paid by corporations declined by an even larger percentage, 11.5 percent. The Budgetary Comparison Schedule reveals that actual tax revenue receipts amounted to over \$1 billion less than the June 2001 Official Estimate.

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, 2002 is presented immediately following the Notes to the Financial Statements. Final budgeted revenues for departmental services exceed the original budget by \$697 million. This difference resulted primarily from transfers of \$340 million in augmenting revenues from the Motor License Fund for State Police protection of Commonwealth highways that were not reflected in the original budget for departmental services revenues and net intergovernmental transfers of \$335 million that were not reflected in the original budget for departmental services revenues. The General Fund Schedule also discloses that the final budget included \$1.1 billion more expenditures than the original budget. The \$1.1 billion increase includes \$789 million in state program expenditure increases and \$326 million in increased Federal participation related to the specific state program expenditure increases. Of the \$789 million state program difference, \$337 million (43%) relates to increased spending authority for State Police protection of Commonwealth highways and nearly \$400 million (51%) relates to increased spending authority for medical assistance and other human services benefits.

General Fund – budgetary basis - comparison between final budget and actual budgetary results

Actual budgetary results included tax collection revenues, which were lower than the final budgeted revenue estimate (from June 2001) by \$1.1 billion. Also, during the fiscal year, budgetary lapses, for a variety of specific appropriations and amounting to \$353 million, were posted to reduce state program spending authority. Actual Federal revenues were \$933 million lower than budget because of lower Federal participation than original estimates. Actual Federal revenues were lower than budgeted for the following departments: Public Welfare, \$292 million; Education, \$203 million; Labor and Industry, \$95 million; Health, \$76 million; Transportation and Executive Offices, \$58 million each; Community and Economic Development, \$49 million; Environmental Protection, \$39 million; and all other affected departments, \$63 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

At June 30, 2002, the Commonwealth's General Fund reported a fund balance of \$3,022.8 million, a decrease of \$1,622.1 million from the reported \$4,644.9 million fund balance at June 30, 2001. On a net basis, total assets decreased by \$206.2 million to \$8,136.9 million. Cash and investments decreased due to a decline in tax revenues and receivables increased because of a mandatory change in how taxes receivable are financially reported. Liabilities increased by \$1,415.9 million to \$5,114.1 million largely because of a mandatory offsetting change in deferred revenues related to how taxes receivable are reported. These changes and others are provided in the General Fund summary comparative balance sheet that follows:

**General Fund
Summary Comparative Balance Sheet (Modified Accrual Basis)**
(amounts in millions)

	<u>June 30, 2002</u>	<u>June 30, 2001</u> (as restated)	<u>Increase</u> <u>(Decrease)</u>
Assets:			
Cash and investments	\$ 4,088.0	\$ 5,761.1	\$ (1,673.1)
Receivables, net.....	2,675.7	1,281.5	1,394.2
Due from other funds/component units/governments	<u>1,373.2</u>	<u>1,300.5</u>	<u>72.7</u>
Total assets.....	<u>\$ 8,136.9</u>	<u>\$ 8,343.1</u>	<u>\$ (206.2)</u>
Liabilities:			
Accounts payable and tax refunds payable.....	\$ 2,935.0	\$ 2,810.3	\$ 124.7
Due to other funds/component units/governments	764.3	800.5	(36.2)
Deferred revenue	<u>1,414.8</u>	<u>87.4</u>	<u>1,327.4</u>
Total liabilities	<u>5,114.1</u>	<u>3,698.2</u>	<u>1,415.9</u>
Fund Balance:			
Reserved	795.1	1,881.1	(1,086.0)
Unreserved:			
Designated.....	623.9	1,079.1	(455.2)
Undesignated.....	<u>1,603.8</u>	<u>1,689.7</u>	<u>(80.9)</u>
Total fund balance.....	<u>3,022.8</u>	<u>4,644.9</u>	<u>(1,622.1)</u>
Total liabilities and fund balance	<u>\$ 8,136.9</u>	<u>\$ 8,343.1</u>	<u>\$ (206.2)</u>

As previously mentioned, the slowing national economy led to lower tax revenue collections during the fiscal year ended June 30, 2002. Total tax revenue collections actually declined during the fiscal year, compared to the prior year, and actual tax collections were \$1 billion below the final budgeted revenue estimate. Executive controls over budgetary spending helped overcome the tax revenue shortfall during the fiscal year ended June 30, 2002.

The General Fund, the Commonwealth's main operating fund, reported a \$1.6 billion decrease in total fund balance during the fiscal year. While a very large number in absolute terms, the General Fund total fund balance decrease includes the transfer of \$853.9 million to the new Tobacco Settlement Fund. In addition, on a net basis, the General Fund transferred \$461 million to other Funds and provided almost \$787 million to component units. Before transfers, the General Fund reported revenues over expenditures of almost \$475.5 million. General Fund unreserved, undesignated fund balance decreased during the fiscal year by \$80.9 million. During the fiscal year, total fund balance reservations decreased principally because of legislation closing the former Tax Stabilization Reserve Fund, the fund balance of which was financially reported as a General Fund fund balance reservation at June 30, 2001. On a net basis, fund balance designations declined by \$455.2 million because prior year receipts from the Tobacco Master Settlement Agreement and related investment income totaling \$851.4 million through June 30, 2001 were previously reported as a General Fund fund balance designation at June 30, 2001; those amounts were transferred to the newly-established Tobacco Settlement Fund during the fiscal year ended June 30, 2002. General Fund fund balance designations increased because of a new \$300 million designation for the newly established Budget Stabilization Reserve Fund. Other fund balance designations increased by \$96.2 million on a net basis during the fiscal year, principally a \$78.7 million increase for group medical and life insurance, an \$8.2 million increase for a judicial computer system and a \$9.2 million increase for agency construction projects.

Motor License Fund

At June 30, 2002, the Motor License Fund reported total cash and investments of \$898.7, a decrease from the prior year balances of \$949.2. Total reported assets at June 30, 2002 amounted to \$1,271 compared to \$1,308 in the prior year. Both decreases, respectively \$50.5 and \$37, result from expenditures exceeding revenues by \$40 during the fiscal year ended June 30, 2002. During the fiscal year the Fund reported total tax revenues of \$1,694 and license and fee revenues of \$839. Reported Federal revenues, received principally from the Federal Highway Administration, amounted to \$1,402 during the fiscal year. The Commonwealth uses tax, license and Federal revenues to maintain and construct highways and bridges in the Commonwealth. At fiscal year-end, total fund balance of the Fund amounted to \$712, compared to the prior year's balance of \$752 (amounts in millions).

Tobacco Settlement Fund

At June 30, 2002, the Tobacco Settlement Fund reported total investments of \$1,053 and total assets of \$1,127. The Fund was established during the fiscal year ended June 30, 2002 and reported a transfer from the General Fund of \$854. This transfer consisted of previous year receipts from the Tobacco Master Settlement Agreement (MSA) and related investment income, which had been deposited in a separate account in the General Fund. During the fiscal year, the Fund received MSA payments of \$434 and reported investment income of \$8. During the fiscal year, the Fund reported expenditures of \$331. At June 30, 2002, the Fund reported total fund balance of \$935, reflecting revenues over expenditures of \$185.6, plus the General Fund transfer of \$854, less other transfers out of \$104.1 (amounts in millions).

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.

Unemployment Compensation Fund

The Unemployment Compensation Fund cash and investments, when compared to the June 30, 2001 balance, decreased by \$548 to \$2,351 and total assets decreased by \$454 to \$2,753 as of June 30, 2002. Total revenues for the fiscal year ended June 30, 2002 increased by \$617 to \$2,260 while total expenses increased by \$1,098 to \$2,820. Fund net assets at year-end totaled \$2,591 – a decrease of almost \$560 from June 30, 2001 restated balance of \$3,151. Because the Fund, under the new reporting standards, was reclassified from an expendable trust fund to an enterprise fund, related accruals, reclassifications and eliminations produced a change in June 30, 2001 net asset balance of \$52.2 (amounts in millions).

During the fiscal year, federal legislation increased the number of weeks Unemployment Compensation claimants could collect benefits. This increase in benefits – Temporary Extended Unemployment Compensation (TEUC) – began in March 2002. This Federal program extended UC benefits to claimants for an additional 13 weeks. If a claimant exhausted the additional benefits during a period of high unemployment, the program made available another 13 weeks of benefits. Additional expenses for the fiscal year related to the TEUC program amounted to \$313.2 million.

State Workmen's Insurance Fund

The State Workmen's Insurance Fund cash and investments as of December 31, 2001 amounted to \$1,771, an increase of \$80 during the year then ended. Total assets of \$1,805 represent an increase of \$91 during the year. Total revenue of nearly \$150 decreased by \$50 during the fiscal year ended December 31, 2001. The net revenue decrease was caused by a \$90 decrease in investment income and an increase of \$40 in premiums collected from subscribing employers. Fund expenses increased by \$53 to \$175. At December 31, 2001, Fund net assets totaled \$246 – a decrease of \$25 from the previous year-end (amounts in millions).

State Lottery Fund

At June 30, 2002, the State Lottery Fund reported cash and investments of \$354 and total assets of \$376 compared to \$387 and \$408, respectively, at June 30, 2001. During the fiscal year, the Fund reported total revenues of \$1,998 and total expenses of \$1,683, an increase of \$113 and \$46, respectively, over the prior fiscal year. The transfer for the payment of benefits to the elderly that the Fund subsidizes amounted to \$359, an increase of \$69 over the prior fiscal year. Net assets of the Fund at June 30, 2002 amounted to \$181, a decrease of \$20 from the prior year-end. Because the Fund, under the new reporting standards, was reclassified from a special revenue fund to an enterprise fund, related accruals, reclassifications and eliminations produced a change in June 30, 2001 net asset balance of \$.2 (amounts in millions).

Tuition Payment Fund

At June 30, 2002, the Tuition Payment Fund cash and investments, when compared to June 30, 2001 balances, increased by \$161 to \$411. Total assets increased \$160 to \$412. During the fiscal year ended June 30, 2002, total revenues increased by \$100 to \$151 and expenses increased \$129 to \$191. Fund net assets decreased by \$40 during the fiscal year, resulting in total net assets of \$(26) at June 30, 2002. Tuition cost inflation and a \$6 negative return on investments caused the decline in net assets (amounts in millions).

Capital asset activity during the fiscal year ended June 30, 2002

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 and Transportation projects at June 30, 2002 amounted to \$1.1 and \$1.5 billion, respectively. Authorized but unissued general obligation bonds at June 30, 2002 totaled \$28.3 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, 2002 amounted to \$18.5 billion at actual or estimated historical cost, net of accumulated depreciation of \$8.4 billion. In the government-wide statements, depreciation expense for all capital assets is reported to recognize the cost of "using up" capital assets over their estimated useful lives. This treatment differs from reporting capital outlay as a current year expenditure in governmental funds. Highway and bridge infrastructure assets are typically funded by Motor License Fund taxes, license and registration fees and Federal revenues. The Motor License Fund reports transportation and capital outlay expenditures in fund statements; a portion of such expenditures is reported as additions to capital assets in government-wide statements. Depreciation of highway and bridge infrastructure assets is not related to the quality or relative value of these assets; rather, it is a specific accounting treatment to recognize the cost of "using up" the assets over long periods of time (25 years for highways and 50 years for bridges.) Depreciation is an allocation of an asset's

cost over its estimated useful life and is reported in government-wide statements. Note E to the financial statements provides more information on capital asset activities during the fiscal year ended June 30, 2002.

Long-term debt activity during the fiscal year ended June 30, 2002

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, 2002 was \$41.4 billion. Outstanding capital project debt at August 31, 2002 amounted to \$5.3 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, and water facilities restoration; and for special purposes approved by the General Assembly, such as disaster relief.

The total general obligation bond indebtedness outstanding at June 30, 2002 was \$6,072 million. Total debt service 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, 2002 amounted to \$635 million. The table that follows shows total outstanding long-term indebtedness for general obligation bonds (expressed in millions) at the end of the seven most recent fiscal years.

<u>At June 30</u>	<u>Outstanding Bond Indebtedness</u>
1996	\$ 5,062
1997	4,842
1998	4,841
1999	5,254
2000	5,367
2001	5,545
2002	6,072

Note K to the financial statements provides more specific details on long-term debt balances and activity during the fiscal year ended June 30, 2002.

Debt administration – fiscal year ending June 30, 2003

During the fiscal year ending June 30, 2003 the Office of the Budget currently plans general obligation bond issuances amounting to \$709 million, a decrease of \$646 million as compared to actual bond issuances of \$1,355 million during the fiscal year ended June 30, 2002. This plan reflects the need to make investments in the Commonwealth's capital infrastructure, particularly prisons, highways, bridges, mass transportation and water supply systems. Debt principal retirements of \$486 million are currently planned for the fiscal year ending June 30, 2003.

In addition to general obligation bonds, the Commonwealth may issue tax anticipation notes to meet operating cash needs during certain months of the fiscal year. Tax anticipation notes may be issued only for the General Fund and the Motor License Fund. They may not exceed 20 percent of the funds' estimated revenues for the year, and must mature during the fiscal year in which they are 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 four fiscal years and has no plans to issue any during the 2003 fiscal year. There were no changes in credit ratings and there were no debt limitations during the fiscal year ended June 30, 2002 that may affect the Commonwealth's plans during the fiscal year ending June 30, 2003.

Legislative changes during fiscal year 2002-2003

During the fiscal year that began July 1, 2002, the legislature passed several laws that are expected to have an effect on financial position or changes in financial position: Act 130 of 2002 (October 28, 2002) increases the outstanding debt authorization for redevelopment assistance capital projects by \$250 million. If all potential new bonds were issued before July 1, 2003, fiscal year 2003-2004 debt service costs could be increased over current estimates by \$28 million; Act 217 of 2002 (December 9, 2002) permits additional Keystone Opportunity Zones to receive tax-exemption that could result in \$20 million (estimated) of tax relief to businesses in these zones in fiscal year 2003-2004; and Act 212 of 2002 (December 9, 2002) permits a trial opening of certain State Stores on Sundays. Incremental administration costs for those open stores may exceed sales revenue increases. If no sales revenue increase occurs, increased costs could approximate \$17 million and reduce amounts available to transfer from the State Stores Fund to the General Fund.

Fiscal year 2002-2003 tax collections

Through December 2002, economic growth in the nation and the Commonwealth has not achieved the projections used to estimate fiscal year 2003 revenues. Consequently, actual General Fund revenues (budgetary basis) for the fiscal year through December 2002 are \$184 million below estimate for that period, a shortfall of 2 percent. Most major revenue sources show receipts below estimate for the fiscal year-to-date period. Recent assessments of the national economy now expect slower economic growth rates for the balance of fiscal year 2003 than was used for the fiscal year 2003 revenue estimates. The Commonwealth now anticipates, based on these revised assessments, that General Fund revenues may be \$433 million below budget estimates, a 1.2 percent reduction from the official budget estimate for the fiscal year ending June 30, 2003.

Responding to slower than anticipated growth in the national economy and Commonwealth revenues, the Governor has directed that \$270 million of fiscal year 2003 General Fund appropriations from Commonwealth revenues be placed in budgetary reserve and be unavailable for encumbrance or expenditure. In addition to placing a portion of appropriated funds into budgetary reserve, the Commonwealth currently estimates that \$95 million in various appropriation lapses will also be available to offset revenue shortfalls. Finally, the Governor has proposed that the General Assembly approve the transfer of \$50 million from the Budget Stabilization Reserve Fund to the General Fund as a partial offset of revenue shortfalls. The actions proposed by the Governor are intended to permit the Commonwealth to avoid an unappropriated General Fund fund balance deficit for the fiscal year ending June 30, 2003 based on current revised revenue and expenditure projections.

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.

– THIS PAGE INTENTIONALLY LEFT BLANK –

Basic Financial Statements



Crayola Factory

Easton

– THIS PAGE INTENTIONALLY LEFT BLANK –

Government-Wide Financial Statements



Governor's Residence
Harrisburg

STATEMENT OF NET ASSETS

June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash—Note D.....	\$ 224,609	\$ 18,879	\$ 243,488	\$ 263,295
Cash with fiscal agents—Note D.....	-	2,351,285	2,351,285	-
Temporary investments—Note D.....	6,418,047	1,234,789	7,652,836	2,152,100
Receivables (net):				
Taxes—Note G.....	2,748,654	-	2,748,654	-
Unemployment assessments.....	-	319,254	319,254	-
Accounts.....	156,464	51,534	207,998	31,827
Accrued interest.....	22,527	17,286	39,813	102,101
Loans—Note G.....	50,060	238,253	288,313	7,915,943
Lease rentals—Note G.....	1,487	-	1,487	17,966
Other.....	11,385	25	11,410	51,381
Internal balances—Note H.....	21,057	5,155	26,212	-
Due from fiduciary funds—Note H.....	845	28	873	-
Due from primary government—Note H.....	-	-	-	6,738
Due from component units—Note H.....	33,405	459	33,864	146
Due from Federal government.....	1,564,319	42,219	1,606,538	8,823
Due from political subdivisions.....	543	7,000	7,543	5,284
Due from other governments.....	3,806	16,687	20,493	7,315
Long-term investments—Note D.....	1,454,519	1,515,948	2,970,467	1,952,426
Advances to other funds—Note H.....	5,300	-	5,300	-
Inventory.....	82,151	139,639	221,790	25,019
Prepaid and deferred expenses.....	-	-	-	49,085
Non-depreciable capital assets—Note E:				
Land.....	1,227,310	-	1,227,310	135,494
Construction in progress.....	2,623,565	-	2,623,565	430,736
Depreciable capital assets—Note E:				
Internal service/proprietary capital assets.....	98,821	88,048	186,869	-
Land improvements.....	386,556	-	386,556	198,906
Buildings and building improvements.....	3,693,636	-	3,693,636	1,376,138
Machinery and equipment.....	538,067	-	538,067	470,002
Library books and other.....	-	-	-	138,131
Turnpike infrastructure.....	-	-	-	3,649,109
Highway infrastructure.....	13,025,900	-	13,025,900	-
Bridge infrastructure.....	5,369,900	-	5,369,900	-
Waterway infrastructure.....	9,412	-	9,412	-
Less: accumulated depreciation.....	(8,424,318)	(57,622)	(8,481,940)	(2,803,893)
Net depreciable capital assets.....	14,697,974	30,426	14,728,400	3,028,393
Other assets.....	19,482	4,846	24,328	173,557
TOTAL ASSETS.....	\$ 31,367,509	\$ 5,993,712	\$ 37,361,221	\$ 16,357,629

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

STATEMENT OF NET ASSETS

June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<u>LIABILITIES</u>				
Current liabilities:				
Accounts payable and accrued liabilities.....	\$ 2,981,531	\$ 446,691	\$ 3,428,222	\$ 243,528
Tax refunds payable.....	638,458	-	638,458	-
Securities lending obligations.....	395,466	505,317	900,783	-
Internal balances—Note H.....	5,213	23,490	28,703	-
Due to fiduciary funds—Note H.....	10,015	85	10,100	-
Due to primary government—Note H.....	-	-	-	31,341
Due to component units—Note H.....	8,250	-	8,250	146
Due to political subdivisions.....	674,485	4,954	679,439	-
Due to other governments.....	77,271	6,543	83,814	6
Interest payable.....	71,569	-	71,569	119,717
Deferred revenue.....	70,283	38,569	108,852	43,649
Notes payable—Note J.....	-	-	-	234,053
Bonds payable—Note K.....	483,871	-	483,871	18,315
Revenue bonds payable—Note K.....	-	-	-	164,157
Compensated absence liability—Note K.....	109,332	11,737	121,069	14,490
Other liabilities.....	22,225	10,853	33,078	89,283
Total current liabilities.....	<u>5,547,969</u>	<u>1,048,239</u>	<u>6,596,208</u>	<u>958,685</u>
Noncurrent liabilities:				
Tuition benefits payable—Note F.....	-	399,091	399,091	-
Deferred revenue.....	-	-	-	242
Advances from other funds—Note H.....	-	4,853	4,853	-
Demand revenue bonds payable—Note J.....	-	-	-	2,061,000
Insurance loss liability—Note F.....	-	1,032,506	1,032,506	-
Notes payable—Note J.....	-	-	-	735,978
General obligation bonds payable—Note K.....	5,650,890	-	5,650,890	-
Bonds payable—Note K.....	-	-	-	421,345
Revenue bonds payable—Note K.....	-	-	-	6,242,300
Capital lease/installment purchase obligations—Note K....	629,437	-	629,437	106,211
Compensated absence liability—Note K.....	626,165	23,835	650,000	64,568
Self insurance liabilities—Note M.....	696,700	10,577	707,277	-
Other liabilities—Note K.....	480,715	-	480,715	980,699
Total non-current liabilities.....	<u>8,083,907</u>	<u>1,470,862</u>	<u>9,554,769</u>	<u>10,612,343</u>
TOTAL LIABILITIES.....	<u>13,631,876</u>	<u>2,519,101</u>	<u>16,150,977</u>	<u>11,571,028</u>
<u>NET ASSETS—Note C</u>				
Invested in capital assets, net of related debt.....	14,806,435	30,426	14,836,861	930,114
Restricted for:				
Transportation.....	605,606	30,336	635,942	-
Capital projects.....	3,937	-	3,937	761,457
Debt service.....	-	-	-	288,141
Unemployment/worker's compensation.....	141,678	2,836,069	2,977,747	-
Elderly programs.....	1,434	180,814	182,248	-
Environmental and conservation programs.....	480,182	-	480,182	-
Other purposes.....	384,027	422,971	806,998	2,523,271
Unrestricted (deficit).....	1,312,334	(26,005)	1,286,329	283,618
TOTAL NET ASSETS.....	<u>\$ 17,735,633</u>	<u>\$ 3,474,611</u>	<u>\$ 21,210,244</u>	<u>\$ 4,786,601</u>

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

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Sales and Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary government:								
Governmental activities:								
Direction and supportive services.....	\$ 1,262,359	\$ 393,856	\$ 64,622	\$ -	\$ (803,881)	\$ -	\$ (803,881)	\$ -
Protection of persons and property.....	3,758,867	373,329	294,509	25,349	(3,065,680)	-	(3,065,680)	-
Public education.....	9,642,272	6,043	1,103,848	-	(8,532,381)	-	(8,532,381)	-
Health and human services.....	18,893,434	2,095,669	9,865,193	-	(6,932,572)	-	(6,932,572)	-
Economic development.....	1,416,557	145,119	354,817	95,749	(820,872)	-	(820,872)	-
Transportation.....	2,581,898	956,406	1,417,109	4,404	(203,979)	-	(203,979)	-
Recreation and cultural enrichment.....	481,948	188,829	22,510	-	(270,609)	-	(270,609)	-
Interest.....	344,482	-	-	-	(344,482)	-	(344,482)	-
Total governmental activities.....	38,381,817	4,159,251	13,122,608	125,502	(20,974,456)	-	(20,974,456)	-
Business-type activities:								
State lottery.....	1,682,675	1,955,820	65,388	-	-	338,533	338,533	-
State workmen's insurance.....	174,929	149,688	-	-	-	(25,241)	(25,241)	-
Tuition payment.....	191,188	151,149	-	-	-	(40,039)	(40,039)	-
Unemployment compensation.....	2,819,878	1,862,530	397,524	-	-	(559,824)	(559,824)	-
Liquor control.....	907,261	975,300	-	-	-	68,039	68,039	-
Economic development and other.....	16,820	24,031	642	-	-	7,853	7,853	-
Total business-type activities.....	5,792,751	5,118,518	463,554	-	-	(210,679)	(210,679)	-
Total primary government.....	\$ 44,174,568	\$ 9,277,769	\$ 13,586,162	\$ 125,502	(20,974,456)	(210,679)	(21,185,135)	-
Component units:								
Total component units.....	\$ 3,270,707	\$ 1,818,548	\$ 567,295	\$ 140,745	-	-	-	(744,119)
General revenues:								
Taxes:								
Personal income.....					6,713,861	-	6,713,861	-
Sales and use.....					7,419,373	-	7,419,373	-
Corporation.....					3,160,714	-	3,160,714	-
Liquid fuels.....					1,696,418	-	1,696,418	45,512
Other.....					1,642,731	-	1,642,731	-
Total taxes.....					20,633,097	-	20,633,097	45,512
Investment income.....					15,394	-	15,394	-
Other.....					-	-	-	9,371
Component unit subsidies—Note H.....					-	-	-	983,448
Total general revenues.....					20,648,491	-	20,648,491	1,038,331
Special item-revenues from component unit—Note H.....					256,206	-	256,206	(256,206)
Transfers—Note H.....					481,022	(481,022)	-	-
Net general revenues, special items and transfers.....					21,385,719	(481,022)	20,904,697	782,125
Change in net assets.....					411,263	(691,701)	(280,438)	38,006
Net assets, July 1, 2001 (restated)—Note B.....					17,324,370	4,166,312	21,490,682	4,748,595
Net assets, June 30, 2002—Note C.....	\$ 17,735,633	\$ 3,474,611	\$ 21,210,244	\$ 4,786,601				

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

Fund Financial Statements



Independence Hall

Philadelphia

BALANCE SHEET
Governmental Funds

June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	General Fund	Motor License Fund	Tobacco Settlement Fund	Nonmajor Funds	Total
ASSETS					
Assets:					
Cash—Note D.....	\$ 185,455	\$ 37,876	\$ -	\$ 950	\$ 224,281
Temporary investments—Note D.....	3,308,927	559,559	941,192	1,576,075	6,385,753
Long-term investments—Note D.....	593,602	301,308	111,891	447,718	1,454,519
Receivables, net:					
Taxes—Note G.....	2,571,151	149,425	-	28,078	2,748,654
Accounts.....	79,820	-	32	20,559	100,411
Accrued interest.....	14,653	1,892	-	5,982	22,527
Loans—Note G.....	10,097	-	-	39,963	50,060
Lease rentals—Note G.....	-	-	-	1,487	1,487
Other.....	-	9,960	-	4	9,964
Due from other funds—Note H.....	49,109	4,985	-	48,238	102,332
Due from component units—Note H.....	7,043	2,054	-	21,849	30,946
Due from Federal government.....	1,281,134	203,222	73,948	3,051	1,561,355
Due from political subdivisions.....	18	335	-	-	353
Due from other governments.....	3,806	-	-	-	3,806
Advances to other funds—Note H.....	29,108	-	-	3,000	32,108
Other assets.....	3,000	-	-	-	3,000
TOTAL ASSETS.....	\$ 8,136,923	\$ 1,270,616	\$ 1,127,063	\$ 2,196,954	\$ 12,731,556
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities.....	\$ 2,038,073	\$ 422,763	\$ 191,640	\$ 304,382	\$ 2,956,858
Tax refunds payable.....	637,524	934	-	-	638,458
Securities lending obligations.....	255,228	57,916	-	82,322	395,466
Due to other funds—Note H.....	72,999	40,215	4	20,362	133,580
Due to component units—Note H.....	134	8,116	-	-	8,250
Due to political subdivisions.....	655,429	11,435	-	7,621	674,485
Due to other governments.....	35,726	12,328	-	29,175	77,229
Deferred revenue.....	1,414,827	2,307	-	31,345	1,448,479
Advances from other funds—Note H.....	-	2,175	-	10,333	12,508
Other liabilities.....	4,141	-	-	3,784	7,925
TOTAL LIABILITIES.....	5,114,081	558,189	191,644	489,324	6,353,238
Fund balances:					
Reserved for:					
Encumbrances.....	479,314	389,942	25,011	921,274	1,815,541
Advances—Note C.....	29,111	-	-	3,000	32,111
Loans receivable.....	-	-	-	39,963	39,963
Other—Note C.....	286,711	-	355,505	51,524	693,740
Unreserved:					
Designated for:					
Budget Stabilization Reserve Fund.....	300,000	-	-	-	300,000
Capital projects.....	-	-	-	79,286	79,286
Debt service:					
Retirement of general obligation bonds.....	-	-	-	21,887	21,887
Highways.....	-	175,249	-	-	175,249
Other—Note C.....	323,884	-	-	12	323,896
Undesignated (deficit)-reported in:					
General Fund.....	1,603,822	-	-	-	1,603,822
Special Revenue Funds.....	-	147,236	554,903	1,089,261	1,791,400
Debt Service Funds.....	-	-	-	(3,782)	(3,782)
Capital Projects Funds.....	-	-	-	(494,795)	(494,795)
TOTAL FUND BALANCES.....	3,022,842	712,427	935,419	1,707,630	6,378,318
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 8,136,923	\$ 1,270,616	\$ 1,127,063	\$ 2,196,954	\$ 12,731,556

- 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, 2002 (Restated)*

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

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

Total Fund Balances--Governmental Funds..... \$ 6,378,318

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.....	\$	1,227,310	
Land improvements.....		386,556	
Buildings and building improvements.....		3,693,636	
Machinery and equipment.....		538,067	
Infrastructure.....		18,405,212	
Construction in progress.....		2,623,565	
Accumulated depreciation.....		<u>(8,374,164)</u>	
Net general capital assets.....			18,500,182

Certain revenues are earned but not available at fiscal year-end and therefore are reported as deferred revenues in the governmental funds balance sheet..... 1,054,684

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..... 425,117

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..... 55,706

The Statement of Net Assets includes inventories that are not reported in the governmental funds balance sheet because they are not current financial resources..... 70,504

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.....	\$	(6,134,761)	
Accrued bond interest payable.....		(71,569)	
Capital lease and installment purchase obligations.....		(629,437)	
Compensated absence liability.....		(735,497)	
Self-insurance liabilities.....		(696,700)	
Other liabilities.....		(480,715)	
Accounts payable.....		<u>(199)</u>	
			<u>(8,748,878)</u>

Total Net Assets---Governmental Activities..... \$ 17,735,633

- 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, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	General Fund	Motor License Fund	Tobacco Settlement Fund	Nonmajor Funds	Total
REVENUES:					
Taxes, net of refunds.....	\$ 18,649,928	\$ 1,694,421	\$ -	\$ 292,413	\$ 20,636,762
Licenses and fees.....	201,388	838,525	-	206,319	1,246,232
Intergovernmental.....	11,652,199	1,402,468	75,829	128,967	13,259,463
Charges for sales and services.....	2,272,105	62,237	-	201,433	2,535,775
Investment income.....	14,157	(2,081)	7,565	9,974	29,615
Lease rental principal and interest.....	-	-	-	334	334
Other.....	253,009	34,117	433,529	34,237	754,892
TOTAL REVENUES	33,042,786	4,029,687	516,923	873,677	38,463,073
EXPENDITURES:					
Current:					
Direction and supportive services.....	910,399	48,579	-	9,585	968,563
Protection of persons and property.....	3,104,079	492,504	90	279,776	3,876,449
Health and human services.....	18,221,987	-	331,243	437,572	18,990,802
Public education.....	8,813,198	1,075	-	-	8,814,273
Recreation and cultural enrichment.....	326,361	1,927	-	151,957	480,245
Economic development.....	824,830	-	-	420,462	1,245,292
Transportation.....	315,591	3,369,240	-	318,460	4,003,291
Capital outlay.....	50,818	46,416	-	596,985	694,219
Debt service:					
Principal retirement.....	-	-	-	479,395	479,395
Interest and fiscal charges.....	-	-	-	278,428	278,428
TOTAL EXPENDITURES	32,567,263	3,959,741	331,333	2,972,620	39,830,957
REVENUES OVER (UNDER)					
EXPENDITURES	475,523	69,946	185,590	(2,098,943)	(1,367,884)
OTHER FINANCING SOURCES (USES):					
Bonds issued.....	-	-	-	1,042,813	1,042,813
Refunding bonds issued.....	-	-	-	376,854	376,854
Transfers in—Note H.....	213,419	3,937	853,938	1,201,120	2,272,414
Transfers out—Note H.....	(1,528,451)	(86,756)	(96,109)	(80,076)	(1,791,392)
Transfers from component unit—Note H.....	256,206	-	-	-	256,206
Transfers to component units—Note H.....	(1,043,197)	(28,000)	(8,000)	-	(1,079,197)
Payment to refunded bond escrow agent.....	-	-	-	(376,854)	(376,854)
Capital lease and installment purchase obligations.....	4,428	1,339	-	-	5,767
NET OTHER FINANCING SOURCES (USES)	(2,097,595)	(109,480)	749,829	2,163,857	706,611
NET CHANGE IN FUND BALANCES.....	(1,622,072)	(39,534)	935,419	64,914	(661,273)
FUND BALANCES, JULY 1, 2001 (restated)—Note B.....	4,644,914	751,961	-	1,642,716	7,039,591
FUND BALANCES, JUNE 30, 2002.....	\$ 3,022,842	\$ 712,427	\$ 935,419	\$ 1,707,630	\$ 6,378,318

- 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, 2002 (Restated)

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, 2002. 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..... \$ (661,273)

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).....	\$ 2,474,784	
Depreciation expense.....	(749,627)	
Capital lease, installment purchase and related payments.....	<u>42,208</u>	
Net excess of capital asset additions/installment purchase payments over depreciation expense.....		1,767,365

Bond proceeds provide current financial resources to governmental funds; however, issuing bonds increases general long-term liabilities in the statement of net assets. During the current fiscal year, proceeds were received from:

General obligation bonds, including a premium of \$41,813.....	\$ (1,042,813)	
Refunding bonds, including a premium of \$22,542.....	<u>(376,854)</u>	
Total bond proceeds.....		(1,419,667)

Repayment of general long-term liabilities is reported as an expenditure in governmental funds, but the repayment reduces general long-term liabilities in the statement of net assets. During the current fiscal year, these amounts consisted of:

Bond principal retirement.....	\$ 479,395	
Payments to the refunded bond escrow agent.....	<u>376,854</u>	
Total long-term debt repayment.....		856,249

Internal service funds charge the costs of certain goods and services to individual funds. The net loss of the internal service funds is reported as part of governmental activities expenses..... (26,007)

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. 37,343

Certain governmental fund revenues, expenditures and balances receivable/owed between funds, but within the same expenditure function, are eliminated from the statement of activities

Revenue due from/transfer from eliminations.....	2,247,980
Expenditure due to/transfer to eliminations.....	<u>(2,247,980)</u>

Certain additional expenses are reported in the statement of activities because they are due and payable and are funded with future economic resources rather than current available financial resources..... (142,747)

Net change in governmental net assets in the statement of activities..... \$ 411,263

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

STATEMENT OF NET ASSETS
Proprietary Funds

June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)	Enterprise Funds						Internal Service Funds
	Unemployment Compensation Fund	State Workmen's Insurance Fund (Dec. 31, 2001)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	
ASSETS							
Current assets:							
Cash.....	\$ -	\$ 3,946	\$ 32	\$ 1,021	\$ 13,880	\$ 18,879	\$ 328
Cash with fiscal agents—Note D.....	2,351,285	-	-	-	-	2,351,285	-
Temporary investments—Note D.....	206	531,850	340,157	142,340	220,236	1,234,789	32,294
Receivables (Net):							
Unemployment assessments.....	319,254	-	-	-	-	319,254	-
Accounts	17,081	14,333	17,630	12	2,478	51,534	-
Accrued interest.....	-	14,560	-	1,895	831	17,286	-
Loans—Note G.....	-	-	-	-	41,450	41,450	-
Other	-	-	13	-	12	25	221
Due from other funds—Note H.....	2,662	130	-	-	2,363	5,155	821
Due from fiduciary funds.....	6	-	-	-	22	28	20
Due from component units—Note H.....	399	-	-	-	60	459	338
Due from Federal government.....	38,281	-	3,938	-	-	42,219	-
Due from political subdivisions.....	7,000	-	-	-	-	7,000	190
Due from other governments	16,687	-	-	-	-	16,687	-
Inventory.....	-	-	-	-	139,639	139,639	11,647
Total current assets	2,752,861	564,819	361,770	145,268	420,971	4,245,689	45,859
Noncurrent assets:							
Long-term investments	-	1,234,730	14,021	267,197	-	1,515,948	-
Receivables (net):							
Loans—Note G.....	-	-	-	-	196,803	196,803	-
Depreciable capital assets—Note E.....	-	2,226	423	-	85,399	88,048	98,821
Less: accumulated depreciation.....	-	(897)	(316)	-	(56,409)	(57,622)	(50,154)
Net depreciable capital assets.....	-	1,329	107	-	28,990	30,426	48,667
Other assets	-	3,899	-	-	947	4,846	7
Total noncurrent assets	-	1,239,958	14,128	267,197	226,740	1,748,023	48,674
TOTAL ASSETS.....	2,752,861	1,804,777	375,898	412,465	647,711	5,993,712	94,533
LIABILITIES							
Current liabilities:							
Accounts payable and accrued liabilities.....	155,604	5,092	186,706	4,971	94,318	446,691	24,474
Securities lending obligations.....	-	469,054	1,924	34,339	-	505,317	-
Due to other funds—Note H.....	-	2,637	40	15	20,798	23,490	-
Due to fiduciary funds.....	-	-	2	1	82	85	3
Due to political subdivisions.....	-	-	4,954	-	-	4,954	-
Due to other governments.....	6,029	-	-	3	511	6,543	42
Deferred revenue.....	-	35,014	1,351	-	2,204	38,569	8
Compensated absences.....	-	571	-	-	11,166	11,737	-
Other liabilities.....	-	10,768	-	-	85	10,853	14,300
Total current liabilities.....	161,633	523,136	194,977	39,329	129,164	1,048,239	38,827
Noncurrent liabilities:							
Advances from other funds—Note H.....	-	1,803	-	50	3,000	4,853	-
Self insurance.....	-	-	-	-	10,577	10,577	-
Tuition benefits payable—Note F.....	-	-	-	399,091	-	399,091	-
Insurance loss liability—Note F.....	-	1,032,506	-	-	-	1,032,506	-
Compensated absences.....	-	1,162	-	-	22,673	23,835	-
Total noncurrent liabilities.....	-	1,035,471	-	399,141	36,250	1,470,862	-
TOTAL LIABILITIES.....	161,633	1,558,607	194,977	438,470	165,414	2,519,101	38,827
NET ASSETS							
Invested in capital assets, net of related debt.....	-	1,329	107	-	28,990	30,426	48,510
Restricted for:							
Transportation.....	-	-	-	-	30,336	30,336	-
Unemployment/worker's compensation.....	2,591,228	244,841	-	-	-	2,836,069	-
Elderly programs.....	-	-	180,814	-	-	180,814	-
Other purposes—Note C.....	-	-	-	-	422,971	422,971	30,437
Unrestricted.....	-	-	-	(26,005)	-	(26,005)	(23,241)
TOTAL NET ASSETS.....	\$2,591,228	\$ 246,170	\$ 180,921	\$ (26,005)	\$ 482,297	\$ 3,474,611	\$ 55,706

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

AGENCY FUNDS DESCRIPTION

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

AGENCY FUNDS

Statutory Liquidator Fund — to convert the assets of insolvent insurance companies into cash for distribution to creditors, policyholders and stockholders and payment of administrative expenses.

Medical Professional Liability Catastrophe Loss Fund — to pay judgments, awards, or settlements in medical malpractice claims which exceed basic limits of coverage provided in professional liability insurance policies. Revenue is derived from annual participant surcharges.

Underground Storage Tank Indemnification Fund — to collect and administer funds for a program to provide 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 account for foreign (out-of-state) casualty insurance company tax revenue, which is distributed 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 and to distribute monies 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, 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.

There are a total of twelve individual agency funds.

BUDGETARY COMPARISON SCHEDULE

Budgeted Major Funds

General Fund

For the Fiscal Year Ended June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Taxes, net of refunds.....	\$ 19,754,750	\$ (35,200)	\$ 19,719,550	\$ (1,112,822)	\$ 18,606,728
Liquor store profits transfer.....	120,000	-	120,000	-	120,000
Licenses and fees.....	85,800	-	85,800	4,599	90,399
Fines, penalties and interest.....	27,600	-	27,600	4,986	32,586
Investment income.....	205,120	-	205,120	(110,283)	94,837
Unclaimed property	33,050	-	33,050	12,239	45,289
Departmental services.....	1,629,268	696,755	2,326,023	-	2,326,023
Miscellaneous.....	169,930	(900)	169,030	(66,126)	102,904
TOTAL STATE PROGRAMS.....	22,025,518	660,655	22,686,173	(1,267,407)	21,418,766
Federal Programs.....	12,140,700	325,701	12,466,401	(932,664)	11,533,737
TOTAL REVENUES.....	34,166,218	986,356	35,152,574	(2,200,071)	32,952,503
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	1,154,874	19,711	1,174,585	(41,206)	1,133,379
Protection of persons and property.....	2,743,294	337,142	3,080,436	(116,294)	2,964,142
Health and human services.....	8,080,229	399,840	8,480,069	(54,546)	8,425,523
Public education.....	8,778,379	18,069	8,796,448	(87,368)	8,709,080
Recreation and cultural enrichment.....	153,979	1,951	155,930	(10,528)	145,402
Debt service.....	550,708	676	551,384	(195)	551,189
Economic development.....	465,311	9,962	475,273	(37,029)	438,244
Transportation.....	392,345	1,821	394,166	(5,703)	388,463
TOTAL STATE PROGRAMS.....	22,319,119	789,172	23,108,291	(352,869)	22,755,422
Federal Programs.....	12,140,700	325,701	12,466,401	(932,664)	11,533,737
TOTAL EXPENDITURES.....	34,459,819	1,114,873	35,574,692	(1,285,533)	34,289,159
REVENUES UNDER					
EXPENDITURES.....	(293,601)	(128,517)	(422,118)	(914,538)	(1,336,656)
OTHER FINANCING SOURCES (USES):					
Prior year lapses.....	-	104,593	104,593	-	104,593
Transfer from Tax Stabilization Reserve Fund.....	-	-	-	1,038,431	1,038,431
Transfer to Tax Stabilization Reserve Fund.....	(767)	767	-	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	(767)	105,360	104,593	1,038,431	1,143,024
REVENUES AND OTHER SOURCES OVER					
(UNDER) EXPENDITURES AND OTHER USES.....	(294,368)	(23,157)	(317,525)	123,893	(193,632)
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2001, RESTATED.....	336,467	-	336,467	-	336,467
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2002.....	\$ 42,099	\$ (23,157)	\$ 18,942	\$ 123,893	\$ 142,835

- 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, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Taxes, net of refunds.....	\$ 1,064,450	\$ -	\$ 1,064,450	\$ 26,037	\$ 1,090,487
Licenses and fees.....	790,300	-	790,300	24,050	814,350
Fines, penalties and interest.....	31,800	-	31,800	(4,044)	27,756
Investment income.....	48,350	-	48,350	(30,335)	18,015
Departmental services.....	45,564	273,632	319,196	3	319,199
Miscellaneous.....	20,890	-	20,890	(16,473)	4,417
TOTAL STATE PROGRAMS.....	2,001,354	273,632	2,274,986	(762)	2,274,224
Federal Programs.....	1,227,130	(172,870)	1,054,260	43,205	1,097,465
TOTAL REVENUES.....	3,228,484	100,762	3,329,246	42,443	3,371,689
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	61,709	55	61,764	(5,432)	56,332
Protection of persons and property.....	355,881	-	355,881	(12,114)	343,767
Public education.....	1,620	-	1,620	(550)	1,070
Recreation and cultural enrichment.....	1,000	-	1,000	-	1,000
Debt service.....	60,721	(135)	60,586	(760)	59,826
Transportation.....	1,625,659	273,712	1,899,371	(864)	1,898,507
TOTAL STATE PROGRAMS.....	2,106,590	273,632	2,380,222	(19,720)	2,360,502
Federal Programs.....	1,227,130	(172,870)	1,054,260	43,205	1,097,465
TOTAL EXPENDITURES.....	3,333,720	100,762	3,434,482	23,485	3,457,967
REVENUES OVER (UNDER)					
EXPENDITURES.....	(105,236)	-	(105,236)	18,958	(86,278)
OTHER FINANCING SOURCES (USES):					
Prior year lapses.....	-	27,775	27,775	-	27,775
TOTAL OTHER FINANCING SOURCES.....	-	27,775	27,775	-	27,775
REVENUES AND OTHER SOURCES OVER					
(UNDER) EXPENDITURES AND OTHER USES.....	(105,236)	27,775	(77,461)	18,958	(58,503)
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2001.....	114,861	-	114,861	-	114,861
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2002.....	\$ 9,625	\$ 27,775	\$ 37,400	\$ 18,958	\$ 56,358

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

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

For the Fiscal Year Ended June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Licenses and fees.....	\$ 12,089	\$ 567	\$ 12,656	\$ (742)	\$ 11,914
Fines, penalties and interest.....	50	-	50	67	117
Investment income.....	950	52	1,002	(176)	826
Miscellaneous.....	-	-	-	1	1
TOTAL REVENUES.....	13,089	619	13,708	(850)	12,858
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	12,146	-	12,146	(5)	12,141
TOTAL EXPENDITURES.....	12,146	-	12,146	(5)	12,141
REVENUES OVER (UNDER)					
EXPENDITURES.....	943	619	1,562	(845)	717
OTHER FINANCING SOURCES (USES):					
Prior year lapses.....	-	56	56	-	56
TOTAL OTHER FINANCING SOURCES.....	-	56	56	-	56
REVENUES AND OTHER SOURCES OVER					
(UNDER) EXPENDITURES AND OTHER USES.....	943	675	1,618	(845)	773
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2001.....	18,967	-	18,967	-	18,967
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2002.....	\$ 19,910	\$ 675	\$ 20,585	\$ (845)	\$ 19,740

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

BUDGETARY COMPARISON SCHEDULE

Budgeted Nonmajor Funds

Special Revenue Fund-Milk Marketing

For the Fiscal Year Ended June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Licenses and fees.....	\$ 2,134	\$ 33	\$ 2,167	\$ (88)	\$ 2,079
Fines, penalties and interest.....	-	10	10	16	26
Investment income.....	138	(25)	113	(24)	89
Miscellaneous.....	1	-	1	-	1
TOTAL REVENUES.....	2,273	18	2,291	(96)	2,195
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	2,505	-	2,505	(111)	2,394
TOTAL EXPENDITURES.....	2,505	-	2,505	(111)	2,394
REVENUES OVER (UNDER)					
EXPENDITURES.....	(232)	18	(214)	15	(199)
OTHER FINANCING SOURCES (USES):					
Prior year lapses.....	-	79	79	-	79
TOTAL OTHER FINANCING SOURCES.....	-	79	79	-	79
REVENUES AND OTHER SOURCES OVER					
(UNDER) EXPENDITURES AND OTHER USES.....	(232)	97	(135)	15	(120)
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2001.....	1,639	-	1,639	-	1,639
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2002.....	\$ 1,407	\$ 97	\$ 1,504	\$ 15	\$ 1,519

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

BUDGETARY COMPARISON SCHEDULE

Budgeted Nonmajor Funds

Special Revenue Fund-Workmen's Compensation Administration

For the Fiscal Year Ended June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Taxes, net of refunds.....	\$ 51,635	\$ -	\$ 51,635	\$ 3,549	\$ 55,184
Fines, penalties and interest.....	46	-	46	(26)	20
Investment income.....	2,028	-	2,028	(1,149)	879
Departmental services.....	179	-	179	-	179
Miscellaneous.....	326	-	326	(184)	142
TOTAL REVENUES.....	54,214	-	54,214	2,190	56,404
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	51,635	3,800	55,435	(351)	55,084
Economic development.....	179	-	179	-	179
TOTAL EXPENDITURES.....	51,814	3,800	55,614	(351)	55,263
REVENUES OVER (UNDER)					
EXPENDITURES.....	2,400	(3,800)	(1,400)	2,541	1,141
OTHER FINANCING SOURCES (USES):					
Prior year lapses.....	-	1,417	1,417	-	1,417
TOTAL OTHER FINANCING SOURCES.....	-	1,417	1,417	-	1,417
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES.....	2,400	(2,383)	17	2,541	2,558
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2001.....	37,227	-	37,227	-	37,227
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2002.....	\$ 39,627	\$ (2,383)	\$ 37,244	\$ 2,541	\$ 39,785

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

**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.

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

COMBINING STATEMENT OF CASH FLOWS-NONMAJOR PROPRIETARY FUNDS
Enterprise Funds

For the Fiscal Year Ended June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	State Stores (June 25, 2002)	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Insurance	PA Infrastructure Bank	Minority Business Development	Other Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES:									
Receipts from customers.....	\$ 970,643	\$ -	\$ -	\$ -	\$ 4,694	\$ -	\$ -	\$ 22,860	\$ 998,197
Receipts from borrowers.....	-	18,675	15,171	3,824	-	1,828	678	12	40,188
Payments to claimants.....	-	-	-	-	(2,433)	-	-	-	(2,433)
Payments to borrowers.....	-	(23,360)	(19,610)	-	-	(2,370)	-	-	(45,340)
Payments to suppliers.....	(875,628)	-	-	(146)	-	-	(142)	(20,819)	(896,735)
Other receipts (payments).....	-	-	132	90	(13)	-	(320)	21	(90)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	95,015	(4,685)	(4,307)	3,768	2,248	(542)	216	2,074	93,787
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:									
Transfers out.....	(121,716)	(306)	-	-	-	-	-	-	(122,022)
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	(121,716)	(306)	-	-	-	-	-	-	(122,022)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:									
Acquisition and construction of capital assets.....	(5,847)	-	-	-	(29)	-	-	(616)	(6,492)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....	(5,847)	-	-	-	(29)	-	-	(616)	(6,492)
CASH FLOWS FROM INVESTING ACTIVITIES:									
Purchase of investments.....	(700,444)	(14,422)	(10,453)	(13,674)	(5,344)	(2,426)	(2,018)	(21,952)	(770,733)
Sales and maturities of investments.....	728,753	17,640	14,417	9,070	1,975	2,346	1,155	20,016	795,372
Investment income.....	4,486	1,617	303	729	1,149	622	116	478	9,500
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	32,795	4,835	4,267	(3,875)	(2,220)	542	(747)	(1,458)	34,139
NET INCREASE (DECREASE) IN CASH.....	247	(156)	(40)	(107)	(1)	-	(531)	-	(588)
CASH AT JULY 1, 2001.....	13,082	317	188	241	1	-	533	106	14,468
CASH AT JUNE 30, 2002.....	\$ 13,329	\$ 161	\$ 148	\$ 134	\$ -	\$ -	\$ 2	\$ 106	\$ 13,880

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET

CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES

Operating income (loss).....	\$ 63,635	\$ 242	\$ 2,764	\$ (407)	\$ 3,306	\$ 929	\$ 44	\$ (149)	\$ 70,364
Depreciation and amortization.....	3,112	-	-	-	18	-	-	2,066	5,196
Provision for uncollectible accounts.....	328	3,785	(132)	2,740	-	-	(295)	-	6,426
Non-operating revenues.....	59	-	-	-	-	-	-	612	671
Reclassification of investment income.....	-	(1,772)	(538)	(820)	(1,306)	(676)	(125)	(43)	(5,280)
Change in assets and liabilities:									
Accounts receivable.....	(171)	(7,094)	(6,402)	2,197	120	(795)	533	59	(11,553)
Inventory.....	8,966	-	-	-	-	-	-	8	8,974
Due from other funds.....	40	-	-	-	14	-	-	(366)	(312)
Due from component units.....	-	-	-	-	-	-	-	(7)	(7)
Due from other governments.....	-	-	-	-	-	-	-	12	12
Other current assets.....	(116)	-	-	-	-	-	-	50	(66)
Accounts payable and accrued liabilities.....	18,083	83	-	-	90	-	49	(153)	18,152
Due to component units.....	1,055	-	-	4	1	-	-	(16)	1,044
Due to other governments.....	24	-	-	-	2	-	-	(5)	21
Deferred revenue.....	-	71	1	-	3	-	10	-	85
Other liabilities.....	-	-	-	54	-	-	-	6	60
Total Adjustments.....	31,380	(4,927)	(7,071)	4,175	(1,058)	(1,471)	172	2,223	23,423
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	\$ 95,015	\$ (4,685)	\$ (4,307)	\$ 3,768	\$ 2,248	\$ (542)	\$ 216	\$ 2,074	\$ 93,787

COMBINING STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS

Internal Service Funds

the Fiscal Year Ended June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers.....	\$ 340,330	\$ 38,831	\$ 379,161
Payments to suppliers.....	(315,249)	(29,862)	(345,111)
Other receipts.....	120	383	503
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	25,201	9,352	34,553
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Net borrowings (repayments) under advances from other funds.....	(23,700)	-	(23,700)
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES.....	(23,700)	-	(23,700)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets.....	(12,609)	(2,774)	(15,383)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....	(12,609)	(2,774)	(15,383)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments.....	(223,698)	(26,577)	(250,275)
Sales and maturities of investments.....	234,421	19,344	253,765
Investment income.....	381	708	1,089
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	11,104	(6,525)	4,579
NET INCREASE (DECREASE) IN CASH.....	(4)	53	49
CASH AT JULY 1, 2001.....	95	184	279
CASH AT JUNE 30, 2002.....	\$ 91	\$ 237	\$ 328
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating loss.....	\$ (26,558)	\$ (244)	\$ (26,802)
Depreciation and amortization.....	9,696	1,657	11,353
Non-operating revenues (expenses).....	2,320	(9)	2,311
Change in assets and liabilities:			
Accounts receivable.....	55	79	134
Inventory.....	615	1,287	1,902
Due from other funds.....	37,823	6,385	44,208
Due from component units.....	214	(35)	179
Due from other governments.....	241	(97)	144
Other current assets.....	-	8	8
Accounts payable and accrued liabilities.....	972	515	1,487
Due to other funds.....	(176)	(199)	(375)
Due to other governments.....	(1)	1	-
Deferred revenue.....	-	4	4
Total Adjustments.....	51,759	9,596	61,355
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	\$ 25,201	\$ 9,352	\$ 34,553

STATEMENT OF CASH FLOWS
Proprietary Funds

For the Fiscal Year Ended June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)	Enterprise Funds						
	Unemployment Compensation Fund	State Workmen's Insurance (Dec. 31, 2001) Fund	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from employers.....	\$ 2,069,841	\$ 105,298	\$ -	\$ -	\$ -	\$ 2,175,139	\$ -
Receipts from customers.....	-	-	1,946,950	156,659	998,197	3,101,806	379,161
Receipts from borrowers.....	-	-	-	-	40,188	40,188	-
Payments to programs for the elderly.....	-	-	(445,884)	-	-	(445,884)	-
Payments to prize winners.....	-	-	(1,002,461)	-	-	(1,002,461)	-
Payments to participants.....	-	-	-	9,858	-	9,858	-
Payments to claimants.....	(2,774,522)	(73,937)	-	-	(2,433)	(2,850,892)	-
Payments to borrowers.....	-	-	-	-	(45,340)	(45,340)	-
Payments to suppliers.....	-	-	(195,312)	-	(896,735)	(1,092,047)	(345,111)
Other receipts (payments).....	-	(128)	86	10	(90)	(122)	503
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	(704,681)	31,233	303,379	166,527	93,787	(109,755)	34,553
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES							
Net borrowings (repayments) under advances from other funds.....	-	(184)	-	(100)	-	(284)	(23,700)
Transfers out.....	-	-	(359,000)	-	(122,022)	(481,022)	-
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES.....	-	(184)	(359,000)	(100)	(122,022)	(481,306)	(23,700)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Acquisition and construction of capital assets.....	-	(1,007)	-	-	(6,492)	(7,499)	(15,383)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....	-	(1,007)	-	-	(6,492)	(7,499)	(15,383)
CASH FLOWS FROM INVESTING ACTIVITIES:							
Purchase of Investments.....	(5,715)	(904,848)	(939,872)	(10,361,343)	(770,733)	(12,982,511)	(250,275)
Sales and maturities of investments.....	5,710	849,571	972,618	10,185,962	795,372	12,809,233	253,765
Investment income.....	156,231	27,016	22,768	9,394	9,500	224,909	1,089
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	156,226	(28,261)	55,514	(165,987)	34,139	51,631	4,579
NET INCREASE (DECREASE) IN CASH.....	(548,455)	1,781	(107)	440	(588)	(546,929)	49
CASH AT JULY 1, 2001.....	2,899,740	2,165	139	581	14,468	2,917,093	279
CASH AT JUNE 30, 2002.....	\$ 2,351,285	\$ 3,946	\$ 32	\$ 1,021	\$ 13,880	\$ 2,370,164	\$ 328
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES							
Operating income (loss).....	\$ (559,824)	\$ (25,241)	\$ 315,491	\$ (40,039)	\$ 70,364	\$ (239,249)	\$ (26,802)
Depreciation and amortization.....	-	173	27	-	5,196	5,396	11,353
Provision for uncollectible accounts.....	-	2,359	-	-	6,426	8,785	-
Non-operating revenues.....	-	-	38	-	671	709	2,311
Reclassification of investment income.....	(156,231)	(49,959)	-	6,211	(5,280)	(205,259)	-
Change in assets and liabilities:							
Accounts receivable.....	6,363	(8,383)	(2,454)	(701)	(11,553)	(16,728)	134
Inventory.....	-	-	-	-	8,974	8,974	1,902
Due from other funds.....	(501)	94	1,500	8	(312)	789	44,208
Due from component units.....	(109)	-	-	-	(7)	(116)	179
Due from other governments.....	(39,735)	-	426	-	12	(39,297)	144
Other current assets.....	-	(3,876)	-	-	(66)	(3,942)	8
Accounts payable and accrued liabilities.....	43,530	(321)	(10,009)	4,826	18,152	56,178	1,487
Tuition benefits payable.....	-	-	-	177,965	-	177,965	(375)
Securities lending obligations.....	-	113,458	(105)	18,257	-	131,610	-
Due to other funds.....	-	1,131	(38)	-	1,044	2,137	-
Due to other governments.....	1,826	-	39	-	21	1,886	-
Deferred revenue.....	-	15,417	(1,536)	-	85	13,966	4
Insurance loss liability.....	-	(21,746)	-	-	-	(21,746)	-
Other liabilities.....	-	8,127	-	-	60	8,187	-
Total Adjustments.....	(144,857)	56,474	(12,112)	206,566	23,423	129,494	61,355
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	\$ (704,681)	\$ 31,233	\$ 303,379	\$ 166,527	\$ 93,787	\$ (109,755)	\$ 34,553

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

COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS *June 30, 2002 (Restated)*

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
ASSETS				
Cash.....	\$ 949	\$ 1	\$ -	\$ 950
Temporary investments.....	1,059,792	26	516,257	1,576,075
Long-term investments.....	447,718	-	-	447,718
Receivables, net:				
Taxes.....	28,078	-	-	28,078
Accounts.....	15,108	5,451	-	20,559
Accrued interest.....	5,982	-	-	5,982
Notes and loans.....	39,963	-	-	39,963
Lease rentals.....	-	1,487	-	1,487
Other.....	4	-	-	4
Due from other funds.....	35,355	13	12,870	48,238
Due from component units.....	-	21,849	-	21,849
Due from Federal government.....	3,051	-	-	3,051
Advances to other funds.....	3,000	-	-	3,000
TOTAL ASSETS.....	\$ 1,639,000	\$ 28,827	\$ 529,127	\$ 2,196,954
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities.....	\$ 189,102	\$ -	\$ 115,280	\$ 304,382
Securities lending obligations.....	82,322	-	-	82,322
Due to other funds.....	14,661	-	5,701	20,362
Due to political subdivisions.....	6,695	-	926	7,621
Due to other governments.....	3,610	-	25,565	29,175
Deferred revenue.....	24,407	6,938	-	31,345
Advances from other funds.....	10,333	-	-	10,333
Other liabilities.....	-	3,784	-	3,784
TOTAL LIABILITIES.....	331,130	10,722	147,472	489,324
Fund balances:				
Reserved for:				
Encumbrances.....	125,882	-	795,392	921,274
Advances.....	3,000	-	-	3,000
Loans receivable.....	39,963	-	-	39,963
Other.....	49,752	-	1,772	51,524
Unreserved:				
Designated for:				
Capital projects.....	-	-	79,286	79,286
Debt service:				
Retirement of general obligation bonds.....	-	21,887	-	21,887
Other.....	12	-	-	12
Undesignated (deficit).....	1,089,261	(3,782)	(494,795)	590,684
TOTAL FUND BALANCES.....	1,307,870	18,105	381,655	1,707,630
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 1,639,000	\$ 28,827	\$ 529,127	\$ 2,196,954

COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS
Capital Projects Funds

June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Capital Facilities	Keystone Recreation, Park and Conservation	Local Criminal Justice	Total
ASSETS				
Temporary investments.....	\$ 378,685	\$ 136,029	\$ 1,543	\$ 516,257
Due from other funds.....	12,870	-	-	12,870
TOTAL ASSETS.....	\$ 391,555	\$ 136,029	\$ 1,543	\$ 529,127
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities.....	\$ 107,521	\$ 7,759	\$ -	\$ 115,280
Due to other funds.....	1	5,700	-	5,701
Due to political subdivisions.....	926	-	-	926
Due to other governments.....	25,385	180	-	25,565
TOTAL LIABILITIES.....	133,833	13,639	-	147,472
Fund balances:				
Reserved for:				
Encumbrances.....	750,745	44,647	-	795,392
Other.....	1,772	-	-	1,772
Unreserved:				
Designated for:				
Capital projects.....	-	77,743	1,543	79,286
Undesignated deficit.....	(494,795)	-	-	(494,795)
TOTAL FUND BALANCES.....	257,722	122,390	1,543	381,655
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 391,555	\$ 136,029	\$ 1,543	\$ 529,127

COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS

Debt Service Funds

June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)	Pennsylvania		Pennsylvania	Water	Land and	Other	Total
	Disaster Relief Redemption	Infrastructure Investment Authority Redemption						Capital Debt	Economic Revitalization Sinking	Facilities Loan Redemption	Water Development Sinking
ASSETS							
Cash.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1
Temporary investments.....	-	-	2	24	-	-	-
Receivables, net:							
Accounts.....	-	-	5,451	-	-	-	-
Lease rentals.....	-	-	1,487	-	-	-	-
Due from other funds.....	-	-	-	2	-	11	-
Due from component units.....	-	21,849	-	-	-	-	-
TOTAL ASSETS.....	\$ -	\$ 21,849	\$ 6,940	\$ 26	\$ -	\$ 11	\$ 1
LIABILITIES AND FUND BALANCES							
Liabilities:							
Deferred revenue.....	\$ -	\$ -	\$ 6,938	\$ -	\$ -	\$ -	\$ 6,938
Other liabilities.....	-	-	3,784	-	-	-	-
TOTAL LIABILITIES.....	-	-	10,722	-	-	-	-
Fund balances:							
Fund balance:							
Unreserved:							
Designated for:							
Debt service:							
Retirement of general obligation bonds.....	-	21,849	-	26	-	11	1
Undesignated (deficit).....	-	-	(3,782)	-	-	-	-
TOTAL FUND BALANCES (DEFICIT).....	-	21,849	(3,782)	26	-	11	1
TOTAL LIABILITIES AND FUND BALANCES.....	\$ -	\$ 21,849	\$ 6,940	\$ 26	\$ -	\$ 11	\$ 1

COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Budgeted Funds										Total	
	Banking Department	Milk Marketing	Workmen's Compensation Admin.	Workmen's Compensation Security	Catastrophic Loss	Pharmaceutical Assistance	Recycling	Fish and Boat	Game	Hazardous Sites Cleanup		Other
ASSETS												
Cash.....	\$ 3	\$ -	\$ 14	\$ 24	\$ -	\$ 1	\$ -	\$ 6	\$ 18	\$ -	\$ 883	\$ 949
Temporary investments.....	21,636	2,856	49,725	143,890	68,741	97,731	97,155	33,886	30,383	135,947	377,842	1,059,792
Long-term investments.....	-	-	-	447,718	-	-	-	-	-	-	-	447,718
Receivables, net												
Taxes.....	-	-	-	-	-	-	-	-	-	-	28,078	28,078
Accounts.....	4,057	-	-	-	7,611	3,394	-	-	-	-	46	15,108
Accrued interest.....	59	-	5	3,431	-	-	-	-	-	-	2,487	5,982
Loans.....	-	-	-	-	-	-	802	-	-	-	39,161	39,963
Other.....	-	-	-	-	-	-	-	-	-	-	4	4
Due from other funds.....	-	-	8	-	-	3,500	-	1,425	242	16,487	13,693	35,355
Due from Federal government.....	-	-	-	-	-	-	-	1,921	694	-	436	3,051
Advances to other funds.....	-	-	-	-	-	-	-	-	-	3,000	-	3,000
TOTAL ASSETS.....	\$ 25,755	\$ 2,856	\$ 49,752	\$ 595,063	\$ 76,352	\$ 104,626	\$ 97,957	\$ 37,238	\$ 31,337	\$ 155,434	\$ 462,630	\$ 1,639,000
LIABILITIES AND FUND BALANCES												
Liabilities:												
Accounts payable and accrued liabilities.....	\$ 1,728	\$ 186	\$ 4,034	\$ 49,081	\$ 13,359	\$ 29,799	\$ 3,044	\$ 2,909	\$ 5,914	\$ 9,332	\$ 69,716	\$ 189,102
Securities lending obligations.....	-	-	-	82,322	-	-	-	-	-	-	-	82,322
Due to other funds.....	111	1	160	15	19	-	184	157	597	9	13,408	14,661
Due to political subdivisions.....	-	-	-	-	-	-	6,695	-	-	-	-	6,695
Due to other governments.....	19	6	69	-	-	-	-	166	180	10	3,160	3,610
Deferred revenue.....	3,800	1,009	-	-	-	-	-	2,294	-	-	17,304	24,407
Advances from other funds.....	-	-	-	-	-	10,333	-	-	-	-	-	10,333
TOTAL LIABILITIES.....	5,658	1,202	4,263	131,418	13,378	40,132	9,923	5,526	6,691	9,351	103,588	331,130
Fund balances:												
Reserved for:												
Encumbrances.....	-	48	2,101	10,693	-	484	14,236	867	2,816	17,483	77,154	125,882
Advances.....	-	-	-	-	-	-	-	-	-	3,000	-	3,000
Loans receivable.....	-	-	-	-	-	-	802	-	-	-	39,161	39,963
Other.....	-	-	640	-	-	8,227	-	1,509	87	-	39,289	49,752
Unreserved:												
Designated for:												
Other.....	-	-	-	-	-	-	-	-	-	-	12	12
Undesignated.....	20,097	1,606	42,748	452,952	62,974	55,783	72,996	29,336	21,743	125,600	203,426	1,089,261
TOTAL FUND BALANCES.....	20,097	1,654	45,489	463,645	62,974	64,494	88,034	31,712	24,646	146,083	359,042	1,307,870
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 25,755	\$ 2,856	\$ 49,752	\$ 595,063	\$ 76,352	\$ 104,626	\$ 97,957	\$ 37,238	\$ 31,337	\$ 155,434	\$ 462,630	\$ 1,639,000

123

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Agency Funds

For the Fiscal Year Ended June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	Balance July 1, 2001 (restated)	Additions	Deductions	Balance June 30, 2002
STATUTORY LIQUIDATOR FUND				
ASSETS				
Cash with fiscal agents.....	\$ 5,781	\$ 557,275	\$ 388	\$ 562,668
Temporary investments.....	105,914	571,335	399,809	277,440
Long-term investments.....	44,084	701,975	22,003	724,056
Receivables, net:				
Accounts.....	131,981	12	5	131,988
Accrued interest.....	4,418	563	4,418	563
Due from other funds.....	21	-	21	-
Other assets.....	463,119	8,091	-	471,210
TOTAL ASSETS	<u>\$ 755,318</u>	<u>\$ 1,839,251</u>	<u>\$ 426,644</u>	<u>\$ 2,167,925</u>
LIABILITIES				
Other liabilities.....	\$ 755,318	\$ 1,412,607	\$ -	\$ 2,167,925
TOTAL LIABILITIES	<u>\$ 755,318</u>	<u>\$ 1,412,607</u>	<u>\$ -</u>	<u>\$ 2,167,925</u>
UNDERGROUND STORAGE TANK				
INDEMNIFICATION FUND				
ASSETS				
Cash.....	\$ 8,280	\$ 1,753,492	\$ 1,748,142	\$ 13,630
Temporary investments.....	44,354	1,563,789	1,541,897	66,246
Long-term investments.....	300,234	115,813	198,839	217,208
Receivables, net:				
Loans.....	6,728	306	1,019	6,015
Accrued interest.....	486	21,778	20,567	1,697
TOTAL ASSETS	<u>\$ 360,082</u>	<u>\$ 3,455,178</u>	<u>\$ 3,510,464</u>	<u>\$ 304,796</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 14,188	\$ 79,875	\$ 80,311	\$ 13,752
Securities lending obligations.....	35,548	40,272	35,548	40,272
Due to other funds.....	57	-	57	-
Due to political subdivisions.....	-	204	-	204
Due to other governments.....	14	3	14	3
Other liabilities.....	310,275	25,278	84,988	250,565
TOTAL LIABILITIES	<u>\$ 360,082</u>	<u>\$ 145,632</u>	<u>\$ 200,918</u>	<u>\$ 304,796</u>
MEDICAL PROFESSIONAL LIABILITY				
CATASTROPHE LOSS FUND				
ASSETS				
Cash.....	\$ 103	\$ 660,968	\$ 658,469	\$ 2,602
Temporary investments.....	136,136	319,066	327,519	127,683
Receivables, net:				
Accounts.....	5,916	29,062	5,916	29,062
Accrued interest.....	468	-	468	-
TOTAL ASSETS	<u>\$ 142,623</u>	<u>\$ 1,009,096</u>	<u>\$ 992,372</u>	<u>\$ 159,347</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 5,732	\$ 1,606	\$ 5,732	\$ 1,606
Due to other funds.....	156	-	156	-
Due to other governments.....	9	-	-	9
Other liabilities.....	136,726	333,449	312,443	157,732
TOTAL LIABILITIES	<u>\$ 142,623</u>	<u>\$ 335,055</u>	<u>\$ 318,331</u>	<u>\$ 159,347</u>

(continued)

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

For the Fiscal Year Ended June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Balance July 1, 2001 (restated)	Additions	Deductions	Balance June 30, 2002
MUNICIPAL PENSION AID FUND				
ASSETS				
Cash.....	\$ -	\$ 157,959	\$ 157,959	\$ -
Temporary investments.....	131,913	14,738	478	146,173
Receivables, net:				
Accounts.....	-	195	-	195
Accrued interest.....	477	-	477	-
Due from other funds.....	299	-	299	-
TOTAL ASSETS	\$ 132,689	\$ 172,892	\$ 159,213	\$ 146,368
LIABILITIES				
Due to political subdivisions.....	\$ 132,491	\$ 154,239	\$ 140,362	\$ 146,368
Other liabilities.....	198	-	198	-
TOTAL LIABILITIES	\$ 132,689	\$ 154,239	\$ 140,560	\$ 146,368
FIRE INSURANCE TAX FUND				
ASSETS				
Cash.....	\$ -	\$ 117,149	\$ 117,149	\$ -
Temporary investments.....	56,769	67,689	60,597	63,861
Receivables, net:				
Accrued interest.....	216	109	216	109
TOTAL ASSETS	\$ 56,985	\$ 184,947	\$ 177,962	\$ 63,970
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ -	\$ 109	\$ -	\$ 109
Due to other funds.....	216	-	216	-
Due to political subdivisions.....	56,684	63,731	56,554	63,861
Other liabilities.....	85	-	85	-
TOTAL LIABILITIES	\$ 56,985	\$ 63,840	\$ 56,855	\$ 63,970
AGENCY CUSTODIAL ACCOUNTS				
ASSETS				
Cash.....	\$ 4,988	\$ 32,122	\$ 31,703	\$ 5,407
Temporary investments.....	15,511	6,965	7,865	14,611
Long-term investments.....	4	-	2	2
Receivables, net:				
Accounts.....	9,784	10,976	9,784	10,976
Accrued interest.....	-	1	-	1
Other assets.....	4,534	25	147	4,412
TOTAL ASSETS	\$ 34,821	\$ 50,089	\$ 49,501	\$ 35,409
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 5,430	\$ 5,764	\$ 5,407	\$ 5,787
Other liabilities.....	29,391	21,315	21,084	29,622
TOTAL LIABILITIES	\$ 34,821	\$ 27,079	\$ 26,491	\$ 35,409

(continued)

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

For the Fiscal Year Ended June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Balance July 1, 2001 (restated)	Additions	Deductions	Balance June 30, 2002
OTHER FUNDS				
ASSETS				
Cash.....	\$ 567	\$ 1,082,550	\$ 1,081,230	\$ 1,887
Temporary investments.....	39,059	517,888	517,479	39,468
Receivables, net:				
Taxes.....	13,396	22,679	13,396	22,679
Accounts.....	6	4,988	6	4,988
Accrued interest.....	116	-	116	-
Due from other funds.....	5,045	-	5,045	-
TOTAL ASSETS	<u>\$ 58,189</u>	<u>\$ 1,628,105</u>	<u>\$ 1,617,272</u>	<u>\$ 69,022</u>
LIABILITIES				
Accounts payable.....	\$ -	\$ 429	\$ -	\$ 429
Due to other funds.....	371	-	371	-
Due to political subdivisions.....	55,557	562,723	553,719	64,561
Other liabilities.....	2,261	1,818	47	4,032
TOTAL LIABILITIES	<u>\$ 58,189</u>	<u>\$ 564,970</u>	<u>\$ 554,137</u>	<u>\$ 69,022</u>
TOTAL — ALL FUNDS				
ASSETS				
Cash.....	\$ 13,938	\$ 3,804,240	\$ 3,794,652	\$ 23,526
Cash with fiscal agents.....	5,781	557,275	388	562,668
Temporary investments.....	529,656	3,061,470	2,855,644	735,482
Long-term investments.....	344,322	817,788	220,844	941,266
Receivables, net:				
Taxes.....	13,396	22,679	13,396	22,679
Accounts.....	147,687	45,233	15,711	177,209
Accrued interest.....	6,181	22,451	26,262	2,370
Loans.....	6,728	306	1,019	6,015
Due from other funds.....	5,365	-	5,365	-
Other assets.....	467,653	8,116	147	475,622
TOTAL ASSETS	<u>\$ 1,540,707</u>	<u>\$ 8,339,558</u>	<u>\$ 6,933,428</u>	<u>\$ 2,946,837</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 25,350	\$ 87,783	\$ 91,450	\$ 21,683
Securities lending obligations.....	35,548	40,272	35,548	40,272
Due to other funds.....	800	-	800	-
Due to political subdivisions.....	244,732	780,897	750,635	274,994
Due to other governments.....	23	3	14	12
Other liabilities.....	1,234,254	1,794,467	418,845	2,609,876
TOTAL LIABILITIES	<u>\$ 1,540,707</u>	<u>\$ 2,703,422</u>	<u>\$ 1,297,292</u>	<u>\$ 2,946,837</u>

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Discretely Presented Component Units For Their Fiscal Years Ended December 31, 2001 (Restated)

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)				
	Balance December 31, 2000	Additions	Deductions	Balance December 31, 2001
PENNSYLVANIA LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION				
ASSETS				
Cash.....	\$ 1,534	\$ 26,822	\$ 23,520	\$ 4,836
Temporary investments.....	226,346	14,806	-	241,152
TOTAL ASSETS	\$ 227,880	\$ 41,628	\$ 23,520	\$ 245,988
LIABILITIES				
Other liabilities.....	227,880	18,108	-	245,988
TOTAL LIABILITIES	\$ 227,880	\$ 18,108	\$ -	\$ 245,988
PENNSYLVANIA PROPERTY AND CASUALTY INSURANCE GUARANTY ASSOCIATION				
ASSETS				
Cash.....	\$ 5,061	\$ 59,832	\$ 60,974	\$ 3,919
Temporary investments.....	84,102	-	6,503	77,599
Long-term investments.....	8,359	11,062	-	19,421
Receivables, net:				
Accounts.....	34,018	11,500	44,748	770
Other.....	40,245	121,950	11,500	150,695
Other assets.....	346	18	98	266
TOTAL ASSETS	\$ 172,131	\$ 204,362	\$ 123,823	\$ 252,670
LIABILITIES				
Deferred revenues.....	1,048	-	107	941
Other liabilities.....	171,083	176,947	96,301	251,729
TOTAL LIABILITIES	\$ 172,131	\$ 176,947	\$ 96,408	\$ 252,670
TOTAL				
ASSETS				
Cash.....	\$ 6,595	\$ 86,654	\$ 84,494	\$ 8,755
Temporary investments.....	310,448	14,806	6,503	318,751
Long-term investments.....	8,359	11,062	-	19,421
Receivables, net:				
Accounts.....	34,018	11,500	44,748	770
Other.....	40,245	121,950	11,500	150,695
Other assets.....	346	18	98	266
TOTAL ASSETS	\$ 400,011	\$ 245,990	\$ 147,343	\$ 498,658
LIABILITIES				
Deferred revenues.....	1,048	-	107	941
Other liabilities.....	398,963	195,055	96,301	497,717
TOTAL LIABILITIES	\$ 400,011	\$ 195,055	\$ 96,408	\$ 498,658

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
Agency Funds

June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA		Medical	Underground					
(Expressed in Thousands)		Prof. Liability	Storage	Municipal	Fire	Agency	Other	Total
	Statutory	Catastrophe	Tank	Pension Aid	Insurance	Custodian	Funds	
	Liquidator	Loss	Indemnification	Fund	Fund	Accounts		
	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund
ASSETS								
Cash.....	\$ -	\$ 2,602	\$ 13,630	\$ -	\$ -	\$ 5,407	\$ 1,887	\$ 23,526
Cash with fiscal agents.....	562,668	-	-	-	-	-	-	562,668
Temporary investments.....	277,440	127,683	66,246	146,173	63,861	14,611	39,468	735,482
Long-term investments.....	724,056	-	217,208	-	-	2	-	941,266
Receivables, net:								
Taxes.....	-	-	-	-	-	-	22,679	22,679
Accounts.....	131,988	29,062	-	195	-	10,976	4,988	177,209
Accrued interest.....	563	-	1,697	-	109	1	-	2,370
Loans.....	-	-	6,015	-	-	-	-	6,015
Other assets.....	471,210	-	-	-	-	4,412	-	475,622
TOTAL ASSETS.....	\$ 2,167,925	\$ 159,347	\$ 304,796	\$ 146,368	\$ 63,970	\$ 35,409	\$ 69,022	\$ 2,946,837
LIABILITIES								
Accounts payable and accrued liabilities.....	-	1,606	13,752	-	109	5,787	429	21,683
Securities lending obligations.....	-	-	40,272	-	-	-	-	40,272
Due to political subdivisions.....	-	-	204	146,368	63,861	-	64,561	274,994
Due to other governments.....	-	9	3	-	-	-	-	12
Other liabilities.....	2,167,925	157,732	250,565	-	-	29,622	4,032	2,609,876
TOTAL LIABILITIES.....	\$ 2,167,925	\$ 159,347	\$ 304,796	\$ 146,368	\$ 63,970	\$ 35,409	\$ 69,022	\$ 2,946,837

COMBINING STATEMENT OF NET ASSETS-PROPRIETARY FUNDS

Internal Service Funds

June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	<u>Purchasing Fund</u>	<u>Manufacturing Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Current assets:			
Cash	\$ 91	\$ 237	\$ 328
Temporary investments.....	7,293	25,001	32,294
Receivables:			
Other	-	221	221
Due from other funds	816	5	821
Due from fiduciary funds.....	20	-	20
Due from component units.....	287	51	338
Due from political subdivisions.....	6	184	190
Inventory.....	753	10,894	11,647
Total current assets	<u>9,266</u>	<u>36,593</u>	<u>45,859</u>
Noncurrent assets:			
Capital Assets.....	73,724	25,097	98,821
less: accumulated depreciation.....	(36,031)	(14,123)	(50,154)
Net depreciable capital assets.....	<u>37,693</u>	<u>10,974</u>	<u>48,667</u>
Other assets	-	7	7
Total noncurrent assets	<u>37,693</u>	<u>10,981</u>	<u>48,674</u>
TOTAL ASSETS	<u>46,959</u>	<u>47,574</u>	<u>94,533</u>
<u>LIABILITIES</u>			
Current Liabilities:			
Accounts payable and accrued liabilities.....	18,201	6,273	24,474
Due to fiduciary funds.....	-	3	3
Due to other governments.....	6	36	42
Deferred revenue.....	-	8	8
Other liabilities.....	14,300	-	14,300
TOTAL LIABILITIES	<u>32,507</u>	<u>6,320</u>	<u>38,827</u>
NET ASSETS:			
Invested in capital assets, net of related debt.....	37,693	10,817	48,510
Restricted for:			
Other purposes.....	-	30,437	30,437
Unrestricted (deficit).....	(23,241)	-	(23,241)
TOTAL NET ASSETS	<u>\$ 14,452</u>	<u>\$ 41,254</u>	<u>\$ 55,706</u>

COMBINING STATEMENT OF NET ASSETS-NONMAJOR PROPRIETARY FUNDS
Enterprise Funds

June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	State Stores (June 25, 2002)	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Sub Insurance	PA Infrastructure Bank	Minority Business Development	Other Funds	Total
ASSETS									
Current assets:									
Cash	\$ 13,329	\$ 161	\$ 148	\$ 134	\$ -	\$ -	\$ 2	\$ 106	\$ 13,880
Temporary investments.....	68,415	49,010	6,549	24,037	36,814	18,723	3,946	12,742	220,236
Receivables:									
Accounts	2,340	-	-	-	-	-	-	138	2,478
Accrued interest.....	-	335	73	137	-	250	28	8	831
Loans.....	-	15,586	13,016	10,186	-	1,519	587	556	41,450
Other	-	4	-	8	-	-	-	-	12
Due from other funds	313	-	-	-	18	-	-	2,032	2,363
Due from fiduciary funds.....	-	-	-	-	-	-	-	22	22
Due from component units.....	-	-	-	-	-	-	-	60	60
Inventory.....	139,492	-	-	-	-	-	-	147	139,639
Total current assets	<u>223,889</u>	<u>65,096</u>	<u>19,786</u>	<u>34,502</u>	<u>36,832</u>	<u>20,492</u>	<u>4,563</u>	<u>15,811</u>	<u>420,971</u>
Noncurrent assets:									
Receivables:									
Loans.....	-	59,008	96,745	28,478	-	9,844	975	1,753	196,803
Capital assets.....	60,940	-	-	-	89	-	-	24,370	85,399
Less: accumulated depreciation.....	(37,649)	-	-	-	(39)	-	-	(18,721)	(56,409)
Net depreciable capital assets.....	23,291	-	-	-	50	-	-	5,649	28,990
Other assets	947	-	-	-	-	-	-	-	947
Total noncurrent assets	<u>24,238</u>	<u>59,008</u>	<u>96,745</u>	<u>28,478</u>	<u>50</u>	<u>9,844</u>	<u>975</u>	<u>7,402</u>	<u>226,740</u>
TOTAL ASSETS.....	<u>248,127</u>	<u>124,104</u>	<u>116,531</u>	<u>62,980</u>	<u>36,882</u>	<u>30,336</u>	<u>5,538</u>	<u>23,213</u>	<u>647,711</u>
LIABILITIES AND NET ASSETS									
Current Liabilities:									
Accounts payable and accrued liabilities.....	92,909	128	-	-	761	-	49	471	94,318
Due to other funds.....	20,748	-	-	4	1	-	-	45	20,798
Due to Fiduciary Funds.....	79	-	-	-	-	-	-	3	82
Due to other governments.....	385	-	-	-	3	-	-	123	511
Deferred revenue.....	-	145	73	-	1,963	-	23	-	2,204
Compensated absences.....	10,417	-	-	-	119	-	-	630	11,166
Other liabilities.....	-	-	-	74	-	-	-	11	85
Total Current Liabilities.....	<u>124,538</u>	<u>273</u>	<u>73</u>	<u>78</u>	<u>2,847</u>	<u>-</u>	<u>72</u>	<u>1,283</u>	<u>129,164</u>
Non-Current Liabilities:									
Advances from other funds.....	-	3,000	-	-	-	-	-	-	3,000
Self insurance.....	10,577	-	-	-	-	-	-	-	10,577
Compensated absences.....	21,150	-	-	-	242	-	-	1,281	22,673
Total Non-Current Liabilities.....	<u>31,727</u>	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>242</u>	<u>-</u>	<u>-</u>	<u>1,281</u>	<u>36,250</u>
TOTAL LIABILITIES.....	<u>156,265</u>	<u>3,273</u>	<u>73</u>	<u>78</u>	<u>3,089</u>	<u>-</u>	<u>72</u>	<u>2,564</u>	<u>165,414</u>
Net Assets:									
Invested in capital assets, net of related debt.....	23,291	-	-	-	50	-	-	5,649	28,990
Restricted for:									
Transportation.....	-	-	-	-	-	30,336	-	-	30,336
Other purposes.....	68,571	120,831	116,458	62,902	33,743	-	5,466	15,000	422,971
TOTAL NET ASSETS.....	<u>\$ 91,862</u>	<u>\$ 120,831</u>	<u>\$ 116,458</u>	<u>\$ 62,902</u>	<u>\$ 33,793</u>	<u>\$ 30,336</u>	<u>\$ 5,466</u>	<u>\$ 20,649</u>	<u>\$ 482,297</u>

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

For the Fiscal Year Ended June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
REVENUES:				
Taxes.....	\$ 251,573	\$ -	\$ 40,840	\$ 292,413
Licenses and fees.....	206,319	-	-	206,319
Intergovernmental.....	128,967	-	-	128,967
Charges for sales and services.....	127,094	-	74,339	201,433
Investment income.....	13,841	(11,633)	7,766	9,974
Lease rental principal and interest.....	-	334	-	334
Other.....	33,796	159	282	34,237
TOTAL REVENUES	761,590	(11,140)	123,227	873,677
EXPENDITURES:				
Current:				
Direction and supportive services.....	8,959	-	626	9,585
Protection of persons and property.....	277,023	-	2,753	279,776
Health and human services.....	437,572	-	-	437,572
Recreation and cultural enrichment.....	110,716	-	41,241	151,957
Economic development.....	216,335	-	204,127	420,462
Transportation.....	179,069	-	139,391	318,460
Capital outlay.....	10,661	-	586,324	596,985
Debt service:				
Principal retirement.....	-	479,395	-	479,395
Interest and fiscal charges.....	-	278,428	-	278,428
TOTAL EXPENDITURES	1,240,335	757,823	974,462	2,972,620
REVENUES UNDER EXPENDITURES	(478,745)	(768,963)	(851,235)	(2,098,943)
OTHER FINANCING SOURCES (USES):				
Bond proceeds.....	-	-	1,042,813	1,042,813
Refunding bond proceeds.....	-	376,854	-	376,854
Transfers in.....	566,129	634,991	-	1,201,120
Transfers out.....	(76,139)	-	(3,937)	(80,076)
Payment to refunded bond escrow agent.....	-	(376,854)	-	(376,854)
NET OTHER FINANCING SOURCES.....	489,990	634,991	1,038,876	2,163,857
NET CHANGE IN FUND BALANCES.....	11,245	(133,972)	187,641	64,914
FUND BALANCES JULY 1, 2001(restated).....	1,296,625	152,077	194,014	1,642,716
FUND BALANCES JUNE 30, 2002.....	\$ 1,307,870	\$ 18,105	\$ 381,655	\$ 1,707,630

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

Capital Projects Funds

For the Fiscal Year Ended June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	<u>Capital Facilities</u>	<u>Keystone Recreation, Park and Conservation</u>	<u>Local Criminal Justice</u>	<u>Total</u>
REVENUES:				
Taxes.....	\$ -	\$ 40,840	\$ -	\$ 40,840
Charges for sales and services.....	74,339	-	-	74,339
Investment income.....	4,425	3,305	36	7,766
Other.....	282	-	-	282
TOTAL REVENUES	79,046	44,145	36	123,227
EXPENDITURES:				
Current:				
Direction and supportive services.....	625	-	1	626
Protection of persons and property.....	2,630	-	123	2,753
Recreation and cultural enrichment.....	-	41,241	-	41,241
Economic development.....	204,127	-	-	204,127
Transportation.....	139,391	-	-	139,391
Capital outlay.....	584,030	2,294	-	586,324
TOTAL EXPENDITURES	930,803	43,535	124	974,462
REVENUES OVER (UNDER) EXPENDITURES	(851,757)	610	(88)	(851,235)
OTHER FINANCING SOURCES (USES):				
Bond proceeds.....	1,041,763	-	1,050	1,042,813
Transfers out.....	(3,937)	-	-	(3,937)
NET OTHER FINANCING SOURCES.....	1,037,826	-	1,050	1,038,876
NET CHANGE IN FUND BALANCES..	186,069	610	962	187,641
FUND BALANCES, JULY 1, 2001.....	71,653	121,780	581	194,014
FUND BALANCES, JUNE 30, 2002.....	\$ 257,722	\$ 122,390	\$ 1,543	\$ 381,655

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

Debt Service Funds

For the Fiscal Year Ended June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)	Pennsylvania		Pennsylvania	Water	Land and	Other	Total	
	Disaster Relief Redemption	Infrastructure Investment Authority Redemption						Capital Debt	Economic Revitalization Sinking	Facilities Loan Redemption	Water Development Sinking
REVENUES:								
Investment income.....	\$ -	\$ 3	\$ (11,759)	\$ -	\$ -	\$ 121	\$ 2	\$ (11,633)
Lease rental principal and interest.....	-	-	334	-	-	-	-	334
Other.....	1	-	158	-	-	-	-	159
TOTAL REVENUES	<u>1</u>	<u>3</u>	<u>(11,267)</u>	<u>-</u>	<u>-</u>	<u>121</u>	<u>2</u>	<u>(11,140)</u>
EXPENDITURES:								
Debt service:								
Principal retirement.....	7,795	14,550	421,765	4,130	6,955	6,995	17,205	479,395
Interest and fiscal charges.....	1,959	11,015	245,674	980	4,868	900	13,032	278,428
TOTAL EXPENDITURES	<u>9,754</u>	<u>25,565</u>	<u>667,439</u>	<u>5,110</u>	<u>11,823</u>	<u>7,895</u>	<u>30,237</u>	<u>757,823</u>
REVENUES UNDER EXPENDITURES	<u>(9,753)</u>	<u>(25,562)</u>	<u>(678,706)</u>	<u>(5,110)</u>	<u>(11,823)</u>	<u>(7,774)</u>	<u>(30,235)</u>	<u>(768,963)</u>
OTHER FINANCING SOURCES (USES):								
Refunding bond proceeds.....	-	-	376,854	-	-	-	-	376,854
Transfers in.....	9,759	23,587	546,781	5,055	11,823	7,751	30,235	634,991
Payment to refunded bond escrow agent.....	-	-	(376,854)	-	-	-	-	(376,854)
NET OTHER FINANCING SOURCES	<u>9,759</u>	<u>23,587</u>	<u>546,781</u>	<u>5,055</u>	<u>11,823</u>	<u>7,751</u>	<u>30,235</u>	<u>634,991</u>
NET CHANGE IN FUND BALANCES	<u>6</u>	<u>(1,975)</u>	<u>(131,925)</u>	<u>(55)</u>	<u>-</u>	<u>(23)</u>	<u>-</u>	<u>(133,972)</u>
FUND BALANCES (DEFICIT), JULY 1, 2001	<u>(6)</u>	<u>23,824</u>	<u>128,143</u>	<u>81</u>	<u>-</u>	<u>34</u>	<u>1</u>	<u>152,077</u>
FUND BALANCES (DEFICIT), JUNE 30, 2002	<u>\$ -</u>	<u>\$ 21,849</u>	<u>\$ (3,782)</u>	<u>\$ 26</u>	<u>\$ -</u>	<u>\$ 11</u>	<u>\$ 1</u>	<u>\$ 18,105</u>

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

For the Fiscal Year Ended June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Banking Department	Milk Marketing	Workmen's Compensation Admin.	Workmen's Compensation Security	Catastrophic Loss	Pharmaceutical Assistance	Recycling	Fish and Boat	Game	Hazardous Sites Cleanup	Other	Total
REVENUES:												
Taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,349	\$ 219,224	\$ 251,573
Licenses and fees.....	3,822	2,080	-	3,298	43,757	-	49,426	24,742	37,114	1,933	40,147	206,319
Intergovernmental.....	-	-	-	-	-	-	-	6,443	8,267	250	114,007	128,967
Charges for sales and services.....	8,200	-	54,856	-	-	-	-	2,119	15,522	-	46,397	127,094
Investment income.....	822	77	925	(15,945)	2,546	1,608	4,182	1,045	1,156	4,551	12,874	13,841
Other.....	121	27	160	8,492	13	-	54	780	1,296	2,723	20,130	33,796
TOTAL REVENUES	<u>12,965</u>	<u>2,184</u>	<u>55,941</u>	<u>(4,155)</u>	<u>46,316</u>	<u>1,608</u>	<u>53,662</u>	<u>35,129</u>	<u>63,355</u>	<u>41,806</u>	<u>452,779</u>	<u>761,590</u>
EXPENDITURES:												
Current:												
Direction and supportive services.....	340	-	-	-	-	-	-	-	-	-	8,619	8,959
Protection of persons and property.....	11,890	2,265	-	56,055	18,890	-	51,790	-	-	37,152	98,981	277,023
Health and human services.....	-	-	45,182	-	-	378,698	-	-	-	-	13,692	437,572
Recreation and cultural enrichment.....	-	-	-	-	-	-	-	38,567	67,203	-	4,946	110,716
Economic development.....	-	-	156	-	-	-	-	-	-	-	216,179	216,335
Transportation.....	-	-	-	-	-	-	-	-	-	-	179,069	179,069
Capital outlay.....	-	-	-	-	-	-	-	-	-	-	10,661	10,661
TOTAL EXPENDITURES	<u>12,230</u>	<u>2,265</u>	<u>45,338</u>	<u>56,055</u>	<u>18,890</u>	<u>378,698</u>	<u>51,790</u>	<u>38,567</u>	<u>67,203</u>	<u>37,152</u>	<u>532,147</u>	<u>1,240,335</u>
REVENUES OVER (UNDER)												
EXPENDITURES	<u>735</u>	<u>(81)</u>	<u>10,603</u>	<u>(60,210)</u>	<u>27,426</u>	<u>(377,090)</u>	<u>1,872</u>	<u>(3,438)</u>	<u>(3,848)</u>	<u>4,654</u>	<u>(79,368)</u>	<u>(478,745)</u>
OTHER FINANCING SOURCES (USES):												
Transfers in—Note H.....	-	-	-	-	-	418,560	306	2,684	-	-	144,579	566,129
Transfers out—Note H.....	-	-	(3,800)	-	-	-	(27,236)	-	-	(7,000)	(38,103)	(76,139)
NET OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>(3,800)</u>	<u>-</u>	<u>-</u>	<u>418,560</u>	<u>(26,930)</u>	<u>2,684</u>	<u>-</u>	<u>(7,000)</u>	<u>106,476</u>	<u>489,990</u>
NET CHANGE IN FUND BALANCES	735	(81)	6,803	(60,210)	27,426	41,470	(25,058)	(754)	(3,848)	(2,346)	27,108	11,245
FUND BALANCES, JULY 1, 2001 (restated)	19,362	1,735	38,686	523,855	35,548	23,024	113,092	32,466	28,494	148,429	331,934	1,296,625
FUND BALANCES, JUNE 30, 2002	<u>\$ 20,097</u>	<u>\$ 1,654</u>	<u>\$ 45,489</u>	<u>\$ 463,645</u>	<u>\$ 62,974</u>	<u>\$ 64,494</u>	<u>\$ 88,034</u>	<u>\$ 31,712</u>	<u>\$ 24,646</u>	<u>\$ 146,083</u>	<u>\$ 359,042</u>	<u>\$ 1,307,870</u>

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

Internal Service Funds

For the Fiscal Year Ended June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	<u>Purchasing Fund</u>	<u>Manufacturing Fund</u>	<u>Total</u>
OPERATING REVENUES:			
Sales and services.....	\$ 301,382	\$ 32,496	\$ 333,878
TOTAL OPERATING REVENUES.....	<u>301,382</u>	<u>32,496</u>	<u>333,878</u>
OPERATING EXPENSES:			
Cost of sales and services.....	318,244	31,083	349,327
Depreciation.....	9,696	1,657	11,353
TOTAL OPERATING EXPENSES	<u>327,940</u>	<u>32,740</u>	<u>360,680</u>
OPERATING LOSS.....	<u>(26,558)</u>	<u>(244)</u>	<u>(26,802)</u>
NONOPERATING REVENUES (EXPENSES):			
Investment income.....	381	856	1,237
Other expenses.....	(90)	(352)	(442)
NONOPERATING REVENUES, NET.....	<u>291</u>	<u>504</u>	<u>795</u>
CHANGE IN NET ASSETS.....	(26,267)	260	(26,007)
TOTAL NET ASSETS, JULY 1, 2001 (restated).....	<u>40,719</u>	<u>40,994</u>	<u>81,713</u>
TOTAL NET ASSETS, JUNE 30, 2002.....	<u>\$ 14,452</u>	<u>\$ 41,254</u>	<u>\$ 55,706</u>

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

Enterprise Funds

For the Fiscal Year Ended June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	<u>State Stores (June 25, 2002)</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 Funds</u>	<u>Total</u>
OPERATING REVENUES:									
Sales and services.....	\$ 970,814	\$ -	\$ -	\$ -	\$ 4,560	\$ -	\$ -	\$ 22,461	\$ 997,835
Investment income.....	-	1,772	538	820	1,306	676	125	43	5,280
Interest on loans.....	-	3,641	2,095	1,627	-	270	140	48	7,821
Other.....	-	-	-	90	-	-	5	12	107
TOTAL OPERATING REVENUES.....	970,814	5,413	2,633	2,537	5,866	946	270	22,564	1,011,043
OPERATING EXPENSES:									
Cost of sales and services.....	903,739	1,386	1	204	2,542	17	201	20,647	928,737
Depreciation.....	3,112	-	-	-	18	-	-	2,066	5,196
Provision for uncollectible accounts.....	328	3,785	(132)	2,740	-	-	(295)	-	6,426
Other.....	-	-	-	-	-	-	320	-	320
TOTAL OPERATING EXPENSES	907,179	5,171	(131)	2,944	2,560	17	226	22,713	940,679
OPERATING INCOME (LOSS).....	63,635	242	2,764	(407)	3,306	929	44	(149)	70,364
NONOPERATING REVENUES (EXPENSES):									
Investment income.....	4,486	-	-	-	-	-	-	482	4,968
Other revenues.....	-	-	-	-	-	-	-	642	642
Other expenses.....	(82)	-	-	-	-	-	-	-	(82)
NONOPERATING REVENUES, NET.....	4,404	-	-	-	-	-	-	1,124	5,528
INCOME (LOSS) BEFORE TRANSFERS.....	68,039	242	2,764	(407)	3,306	929	44	975	75,892
TRANSFERS:									
Transfers out.....	(121,716)	(306)	-	-	-	-	-	-	(122,022)
TOTAL TRANSFERS.....	(121,716)	(306)	-	-	-	-	-	-	(122,022)
CHANGE IN NET ASSETS.....	(53,677)	(64)	2,764	(407)	3,306	929	44	975	(46,130)
TOTAL NET ASSETS-JULY 1, 2001.....	145,539	120,895	113,694	63,309	30,487	29,407	5,422	19,674	528,427
TOTAL NET ASSETS-JUNE 30, 2002.....	\$ 91,862	\$ 120,831	\$ 116,458	\$ 62,902	\$ 33,793	\$ 30,336	\$ 5,466	\$ 20,649	\$ 482,297

**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 eight individual debt service funds.

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

**ENTERPRISE FUNDS
DESCRIPTION
NONMAJOR FUNDS**

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

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

Small Business First Fund — to account for and provide loans to eligible small businesses for capital development projects which will create or preserve employment opportunities and which will enhance business development in Pennsylvania. Sources of revenue 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 — 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 four individual enterprise funds.

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

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. Revenue is derived from reimbursements from Commonwealth agencies who use Fund services or products.

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

There are a total of two individual internal service funds.

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. For the fiscal year ended June 30, 2002, the Commonwealth has newly adopted several new accounting and reporting standards (collectively, the New Standards): GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, GASB Statement No.34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, GASB Statement No. 36, Recipient Reporting for Certain Shared Nonexchange Revenues, GASB Statement No.37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus and GASB Statement No. 38, Certain Financial Statement Note Disclosures. For the fiscal year ended June 30, 2002 the State System of Higher Education, a discretely presented component unit, has adopted GASB Statement No. 35, Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities.

Among other things, the New Standards require presentation of government-wide and fund financial statements and numerous changes to how fund financial statements are presented. Effective July 1, 2001, as part of implementing GASB Statement No. 34, the Commonwealth has reclassified and/or restated numerous fund balance amounts previously reported at June 30, 2001. Note B to the Financial Statements provides a more detailed explanation of the restatement.

Government-Wide Financial Statements: Government-wide financial statements report financial position and results of activities for the Commonwealth of Pennsylvania as a whole. Amounts are separated between governmental and business-type activities within the primary government (defined below) and nonfiduciary 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, 2002. 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 nonfiduciary component units. Fiduciary component unit balances are reported in the Statement of Fiduciary Net Assets and combining statements for all nonfiduciary 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 blended and discretely presented component units. Component units include all legally separate organizations for which the PG is financially accountable, and other organizations for which the nature and significance of their relationship with the PG are such that exclusion would cause the financial statements to be misleading or incomplete. The criteria used to define financial accountability include appointment of a voting majority of an organization’s governing body and (1) the ability of the PG to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the PG. Fiscal dependency is also considered. The following organizations are included in the financial reporting entity as component units:

Blended Component Unit

State Employees’ Retirement System (SERS) (Fiduciary Funds) — 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 is a blended component unit because it provides services and benefits almost exclusively to the PG.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Discretely Presented Component Units**

State Public School Building Authority (SPSBA) and Pennsylvania Higher Educational Facilities Authority (HEFA) - The SPSBA and the HEFA issue limited obligation revenue bonds, the proceeds of which are used to finance the construction of facilities for school districts and public and private colleges and universities. These bonds are repaid solely from lease rental payments from the schools. Upon completion of the lease payment requirements (and satisfaction of bondholders), the title to the constructed or acquired assets vests with the schools. The PG appoints all nine voting members of the SPSBA and the HEFA 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 and the HEFA projects (which indicates imposition of will and fiscal dependency). Although neither the PG nor the Authorities are obligated for debt service payments (beyond lease rental payments from schools), the PG may take certain actions to satisfy the SPSBA and the HEFA bondholders.

Ben Franklin/IRC Partnership (Partnership) — The Partnership assists business through interaction of technology development, modernization and training programs. Industrial resource centers and technology centers, established through the Partnership, also increase the competitiveness of businesses. Operations of the Partnership are funded by state appropriations and private contributions; the Partnership may not issue debt. The Partnership works closely with the Department of Community and Economic Development (DCED). The PG appoints all 15 voting members of the governing board. All Partnership expenditures must be appropriated annually by the General Assembly.

Ben Franklin Technology Development Authority (PTDA) - The PTDA is very similar to the Ben Franklin/IRC Partnership and will supersede and replace it as of June 30, 2003. The PTDA will also include a PTDA Revolving Loan Program. The PG appoints all 21 voting members of the governing board. The PG may appropriate funding for the PTDA from the General Fund.

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

Insurance Fraud Prevention Authority (IFPA) - The IFPA assists in the prevention, discovery, investigation and prosecution of insurance fraud. The IFPA is funded through assessments paid by the insurance industry and through certain criminal and civil fines, penalties and awards. The PG appoints six of seven voting members of the IFPA governing board; the Attorney General serves ex-officio as one of these six members. A significant portion of IFPA expenditures 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, 2001 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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

voting board members but does not significantly impose its will on the PHEAA. A significant PG financial burden exists through subsidizing the grant program; also, although the PG is not obligated for the PHEAA revenue bonds, the PG could take certain actions to satisfy bondholders. The PHEAA is fiscally dependent, as the Governor must approve the issuance of its debt.

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

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.

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

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

Pennsylvania Property and Casualty Insurance Guaranty Association (PPCIGA) (Fiduciary Funds) - 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Public School Employees' Retirement System (PSERS) (Fiduciary Funds) - 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 three specific projects. Loan repayments are derived solely from project revenues. The debt is considered non-recourse, as the PEDA is not obligated to bondholders beyond amounts received from the funded projects. The PEDA has not issued any debt since 1990. Financial statement information for the PEDA is not reported because its only activity involves conduit debt. The PG appoints all nineteen board members; six members are ex-officio. The Governor must approve the issuance of Authority debt. The PG is not obligated for the PEDA debt, but the PG could take certain actions to satisfy bondholders.

Financial Reports

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 the INVEST Program and for component units are available by writing to the Deputy Secretary for Comptroller Operations, Room 207 Finance Building, Harrisburg, PA 17120.

Related Organizations

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 unilaterally pays 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.

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

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

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

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

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.

Special Revenue Funds—Account for the proceeds of specific revenue sources (other than debt service or capital projects funds) that are legally restricted to expenditure 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 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 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 Workmen's 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, free mass transit and reduced fare shared-ride programs, and property tax and rent rebates.

The **State Workmen's 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 Workmen's Insurance Fund** is included for its fiscal year ended December 31, 2001.

The **Unemployment Compensation Fund** is comprised of four basic components: the 63 Employer Contribution Fund, 64 UC Benefit Payment Fund, 21 Special Administration Fund, and the UC Trust Fund in Washington, D.C. The purpose of these funds is to collect employer assessments for UC (63 Fund) and transfer the assessments to the Federal government for deposit in the UC Trust Fund. As needed, these funds are drawn back to pay unemployment compensation payments to claimants (64 Fund). The 21 Special Administration Fund is used to isolate penalty and interest charges from employers and claimants. It is used to supplement grant-funding shortfalls and pay audit disallowances with any remaining amounts over \$200 thousand being transferred to the UC Trust Fund in Washington, D.C. each June 30. The 64 UC Benefit Payment Fund 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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 25, 2002.

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. Expenditures 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 Trust Funds, an Investment Trust Fund and Agency Funds.

The State Employees' Retirement System, a pension trust fund, is a component unit and accounts for the payment of retirement, disability and death benefits to members of the State Employees' Retirement System and their beneficiaries. The *Deferred Compensation Fund* is a pension trust fund that collects and administers amounts contributed by Commonwealth employees who 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 investments amounts owned by local governments and school districts.

The State Employees' Retirement System and the Deferred Compensation Fund, Pension Trust Funds, and the INVEST Program for Local Governments, an Investment Trust Fund, are included for their fiscal years ended December 31, 2001.

The Pennsylvania Life and Health Insurance Guaranty Association and the Pennsylvania Property and Casualty Insurance Guaranty Association, discretely presented component units, are included for their fiscal years ended December 31, 2001.

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, 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,

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

The enterprise, internal service (proprietary funds), pension trust funds and the investment trust fund 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. Assets and liabilities of agency funds are reported using the accrual basis of accounting.

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

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

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

Long-Term Investments: Investments expected to be realized in cash after more than twelve months from fiscal year end are reported as long-term investments. Long-term investments are reported at fair value, except for certain nonparticipating interest-bearing contracts, which are reported at amortized 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. These inventories are valued at the lower of cost or market (first-in, first-out) by governmental activities and Proprietary Funds, and lower of cost or market by the State System of Higher Education, with cost determined principally using weighted average. In the governmental fund financial statements, inventories are accounted for using the purchases method.

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

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

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 BFS. Certain waterway and other non-highway institutional infrastructure acquired prior to July 1, 2001 is 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Compensated Absences: Employees earn annual leave based on 2 percent to 10 percent of regular hours paid. 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. 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.

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

Restricted Net Assets: These amounts were determined based on enabling legislation that provides for restrictions on how the resources of special (non-**General Fund**) funds may be used. Practically all reported restricted net assets could become unrestricted based on possible future legislative changes.

Tax Stabilization Reserve Fund: This fund, commonly referred to as the “Rainy Day Fund,” was created in July of 1985 by Act 32 to provide financial assistance to minimize future revenue shortfalls and deficits, and promote greater continuity and predictability in the funding of vital government services. The tax stabilization reserve balance was not to exceed 6 percent of the estimated revenues of the **General Fund**. Revenue was provided through an executive authorization appropriated by the General Assembly for transfer to this Fund. Act 74 of 2001 provided that, for the fiscal year beginning July 1, 2001 and any fiscal year thereafter during which there is a surplus of operating funds in the **General Fund**, as certified by the Budget Secretary, ten percent of such surplus was to be deposited into this Fund. In addition, the proceeds received from the disposition of certain assets of the Commonwealth were also to be deposited into this Fund. During the fiscal year ended June 30, 2001 there was no surplus transfer to this Fund. For GAAP reporting purposes, at June 30, 2001 the fund balance in this Fund was reported as a fund balance reservation in the **General Fund**. During the fiscal year ended June 30, 2002, Act 91 of 2002 abolished this Fund and net investment assets (valued at \$1.038 billion at June 30, 2002) were transferred, resulting in a decrease in fund balance reservations and an increase to unreserved/undesignated fund balance in the **General Fund**.

Budget Stabilization Reserve Fund: Act 91 of 2002 provides for this new Fund effective July 1, 2002 to eventually establish a budgetary reserve amounting to 6 percent of the revenues of the **General Fund**. For the fiscal year beginning July 1, 2002 and in any fiscal year thereafter in which the Secretary of the Budget certifies that there is a surplus in the **General Fund**, 25 percent of the surplus shall be deposited by the end of the next succeeding quarter into this Fund.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tobacco Master Settlement Agreement Proceeds: In 1997, the Pennsylvania Attorney General began litigation in Commonwealth Court against several defendant tobacco product manufacturers to recover certain amounts the Commonwealth allegedly expended to provide health care to numerous tobacco product users. In 1998, along with many other states, the Commonwealth joined in a settlement that provided, among other things, that the Commonwealth cease its litigation against manufacturers. As part of the settlement, certain manufacturers agreed to remit periodic payments to the Commonwealth and other states (amounting to over \$200 billion, according to some estimates) until 2025. Amounts remitted are calculated based on a variety of specific settlement provisions; actual tobacco product sales are one key factor used in determining periodic payment amounts. During the fiscal year ended June 30, 2002 the Commonwealth received \$433.5 million from the settlement; this amount is reported as revenue in the **Tobacco Settlement Fund**. Also, during the fiscal year ended June 30, 2002, \$853.9 million was transferred from the **General Fund** to the **Tobacco Settlement Fund**. This amount represents prior year settlement proceeds and related investment income through June 30, 2001 that were deposited in the **General Fund**.

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

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 non-fiduciary component units:

Statutory Transfers —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 Payments (Quasi-external Transactions)—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. 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. Intra-function revenues/expenditures reported by governmental funds are eliminated in the Statement of Activities.

The composition of the Commonwealth’s interfund receivables/payables at June 30, 2002 and transfers in/out during the fiscal year ended June 30, 2002 is 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 Pronouncement: In May 2002 the Governmental Accounting Standards Board (GASB) issued Statement No. 39, “Determining Whether Certain Organizations Are Component Units.” The Commonwealth must adopt the new standard effective July 1, 2003, for financial statements for the fiscal year ending June 30, 2004. GASB No. 39 amends GASB No. 14 and potentially affects the composition of the financial reporting entity; both the primary government and discretely presented component units may be affected.

NOTE B – RESTATEMENT OF PREVIOUSLY REPORTED FUND BALANCE/FUND EQUITY/NET ASSETS AT JUNE 30, 2001

Implementation of the New Standards has resulted in the reclassification of several of the Commonwealth’s individual Funds and a restatement of Fund-specific fund balance/fund equity for specific funds. Fund balances have also been restated for several discretely presented component units.

Primary Government

Fund Reclassifications: Several Funds have been reclassified to different fund categories to meet the requirements of GASB Statement No. 34. The **State Lottery Fund** and the Historical Preservation Fund have been reclassified from Special Revenue funds to Enterprise funds; the **Unemployment Compensation Fund** has been reclassified from an Expendable Trust fund to an Enterprise fund; the Workmen’s Compensation Security Trust Fund and the Catastrophic Loss Trust Fund have been reclassified from Expendable Trust funds to Special Revenue funds; and, the Deferred Compensation Fund has been reclassified from an Expendable Trust fund to a Pension Trust fund.

Fund-Specific Restatements: *The previously reported fund balance for the **General Fund** was restated by the amount of \$159,919 to include accrual of inheritance taxes.* Two Fiduciary funds reported restatements of June 30, 2001 net assets. The Deferred Compensation Fund restated December 31, 2000 net assets by \$4,245 to include member contributions earned but not received as of December 30, 1999. The INVEST Program for Local Governments restated net assets at June 30, 2001 by \$405 to correct a prior year error. The Self-Insurance Guaranty Fund, a Special Revenue Fund, was previously not reported and June 30, 2001 fund balance was \$3,929 (amounts in thousands).

Major Funds: Funds that meet certain criteria established by GASB Statement No. 34 are considered **Major** funds. These Funds’ beginning balances are presented on the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds and the Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds. Two of these Funds, **State Lottery** and **Unemployment Compensation**, were changed, in accordance with the New Standards, from the governmental fund category to the proprietary fund category. The change in fund category also produced a change in basis of accounting for these two funds. The change in basis of accounting required a restatement of beginning net assets that is included in the amounts presented below. The major funds and their associated beginning fund balances/net assets at June 30, 2001 are as follows (amounts in thousands):

General Fund	\$ 4,644,914
Motor License	751,961
Unemployment Compensation (restated).....	3,151,052
State Workmen’s Insurance	271,411
State Lottery (restated).....	201,388
Tuition Payment	14,034

Nonmajor Funds: Fund Balance at June 30, 2001 for nonmajor governmental funds is \$1,642,716. This amount appears on the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds in the Nonmajor column, and is comprised of the following (amounts in thousands):

Special Revenue Funds.....	\$ 1,296,625
Debt Service Funds.....	152,077
Capital Projects Funds	<u>194,014</u>
Total.....	\$ <u>1,642,716</u>

Net assets, as reported at June 30, 2001 for nonmajor Enterprise funds, total \$525,343. After including certain fund-specific accruals, reclassifications, and eliminations and amounts related to funds newly reclassified to the Enterprise fund category (amounting to a net increase of \$3,084), the restated net assets at June 30, 2001 is \$528,427. This beginning balance amount appears on the Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds in the Nonmajor column (amounts in thousands).

**NOTE B – RESTATEMENT OF PREVIOUSLY REPORTED FUND
BALANCE/FUND EQUITY/NET ASSETS AT JUNE 30, 2001 (continued)**

Net Assets at June 30, 2001 - Net Assets at June 30, 2001, (restated), as presented on the Statement of Activities for both governmental and business-type activities, includes numerous accruals, reclassifications and eliminations to major and aggregated nonmajor fund balance/net assets at June 30, 2001. These changes are necessary for full accrual presentation of governmental activities and conforming presentation for business-type activities at June 30, 2001. Some of the more significant changes involve discontinuing reporting general capital assets and bonds and other general long-term liabilities in the former General Fixed Assets Account Group (GFAAG) and the General Long-Term Obligations Account Group (GLTDAG); these items are now reported as governmental activities assets and liabilities, respectively, at June 30, 2001. The addition of infrastructure capital assets, accumulated depreciation and the accrual of all taxes receivable also affects the government-wide statements. Internal Service funds are considered a part of governmental activities as of June 30, 2001; these funds are included in the calculation of beginning governmental net assets. That calculation is as follows (amounts in thousands):

Total fund balances/equity after reclassifications and Restatements (includes General Fund, Special Revenue Funds, Debt Service funds, Capital Projects funds and Internal Service funds.....	\$ 7,121,304
Net accruals, reclassifications and eliminations	<u>10,203,066</u>
Net assets – governmental activities at June 30, 2001, as restated.....	\$ <u>17,324,370</u>
Net assets (restated) at June 30, 2001 for business-type activities in the Statement of Activities is calculated as follows (amounts in thousands):	
Total fund equity after fund reclassifications	\$ 4,113,488
Net accruals, reclassifications and eliminations	<u>52,824</u>
Net assets – business type activities at June 30, 2001, as restated.....	\$ <u>4,166,312</u>

NOTES TO FINANCIAL STATEMENTS

(Restated)

NOTE B – RESTATEMENT OF PREVIOUSLY REPORTED FUND BALANCE/FUND EQUITY/NET ASSETS AT JUNE 30, 2001 (continued)

Government-wide statements do not include amounts segregated by fund classification. The shaded area in the exhibit below includes accruals, reclassifications and eliminations needed to convert June 30, 2001 governmental fund balances to governmental net assets at June 30, 2001. Boxed areas include amounts for **major** and aggregated nonmajor funds in the fund statements at June 30, 2001.

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Internal Service</u>	<u>Total Governmental Activities</u>	<u>Enterprise</u>	<u>Expendable Trust</u>	<u>Pension Trust</u>	<u>Investment Trust</u>
Fund balance/fund equity/net assets, as previously reported at June 30, 2001.....	\$ 4,484,995	\$ 1,689,147	\$ 152,077	\$ 194,014	\$ 81,713	\$ 6,601,946	\$ 810,788	\$ 4,617,306	\$ 27,880,468	\$ 1,087,420
Fund classification changes:	-	-	-	-	-	-	-	-	-	-
State Lottery.....	-	(201,215)	-	-	-	(201,215)	201,215	-	-	-
Historical Preservation.....	-	(2,678)	-	-	-	(2,678)	2,678	-	-	-
Unemployment Compensation.....	-	-	-	-	-	-	3,098,807	(3,098,807)	-	-
Workmen's Compensation Security Trust.....	-	523,855	-	-	-	523,855	-	(523,855)	-	-
Catastrophic Loss Trust.....	-	35,548	-	-	-	35,548	-	(35,548)	-	-
Deferred Compensation.....	-	-	-	-	-	-	-	(959,096)	959,096	-
Totals after Fund reclassifications.....	4,484,995	2,044,657	152,077	194,014	81,713	6,957,456	4,113,488	-	28,839,564	1,087,420
Fund specific restatements:										
General Fund.....	159,919	-	-	-	-	159,919	-	-	-	-
Self-Insurance Guaranty.....	-	3,929	-	-	-	3,929	-	-	-	-
INVEST Program for Local Government.....	-	-	-	-	-	-	-	-	-	405
Deferred Compensation.....	-	-	-	-	-	-	-	-	4,245	-
Totals after Fund reclassifications and restatements.....	4,644,914	2,048,586	152,077	194,014	81,713	7,121,304	4,113,488	-	28,843,809	1,087,825
Major Governmental Funds - Fund Balance										
General Fund.....	4,644,914	-	-	-	-	4,644,914	-	-	-	-
Motor License.....	-	751,961	-	-	-	751,961	-	-	-	-
Total Nonmajor Funds - Governmental Fund Balance.....		1,296,625	152,077	194,014		1,642,716				
Government-wide reporting accruals, reclassifications and eliminations:										
Accrued taxes receivable.....	1,394,902	-	-	-	-	1,394,902	47,985	-	-	-
Accrued accounts receivable.....	36,008	-	-	4,298	-	40,306	12,820	-	-	-
Other receivables.....	-	1,637	-	-	-	1,637	-	-	-	-
Eliminated due from other funds.....	(20,454)	(59,288)	(27)	(16,413)	(44,522)	(140,704)	(89)	-	-	-
Eliminated inter fund advances.....	(50,508)	-	-	-	38,000	(12,508)	-	-	-	-
Reclassification of due from fiduciary funds.....	396	432	17	-	34	879	25	-	-	-
Inventory.....	10,717	40,226	-	-	-	50,943	-	-	-	-
Accounts payable.....	-	-	-	-	-	-	(8,500)	-	-	-
Eliminated due to other funds.....	111,043	55,998	(1)	131	344	167,515	77	-	-	-
Reclassification of due to fiduciary funds.....	(23,286)	(4,402)	-	-	-	(27,688)	(13)	-	-	-
Deferred revenue.....	(29,263)	21,495	7,768	-	-	-	-	-	-	-
Eliminated inter fund advances.....	-	12,508	-	-	-	12,508	-	-	-	-
Accrued interest payable.....	(69,138)	-	-	-	-	(69,138)	-	-	-	-
Infrastructure capital assets.....	19,109,600	-	-	-	-	19,109,600	-	-	-	-
General capital assets.....	5,341,167	-	-	-	-	5,341,167	-	-	-	-
Proprietary capital assets.....	-	-	-	-	-	-	1,766	-	-	-
Accumulated depreciation on infrastructure.....	(5,694,600)	-	-	-	-	(5,694,600)	-	-	-	-
Accumulated depreciation on general capital assets.....	(1,965,484)	-	-	-	-	(1,965,484)	(1,247)	-	-	-
Bonds payable and other general long-term liabilities.....	(8,006,269)	0	0	0	0	(8,006,269)	-	-	-	-
Net adjustments.....	10,144,831	68,606	7,757	(11,984)	(6,144)	10,203,066	52,824	-	-	-
Major Enterprise Funds - Net Assets:										
Unemployment Compensation.....							3,151,052			
State Workmen's Insurance.....							271,411			
State Lottery.....							201,388			
Tuition Payment.....							14,034			
Total Nonmajor Funds - Enterprise - Net Assets.....							528,427			
Restated June 30, 2001 Net Assets.....	\$ 14,789,745	\$ 2,117,192	\$ 159,834	\$ 182,030	\$ 75,569	\$ 17,324,370	\$ 4,166,312			

NOTES TO FINANCIAL STATEMENTS

(Restated)

**NOTE B – RESTATEMENT OF PREVIOUSLY REPORTED FUND
BALANCE/FUND EQUITY/NET ASSETS AT JUNE 30, 2001 (continued)**

Compliance with the New Standards caused the Commonwealth to initiate changes in accounting for General Fixed Assets. At June 30, 2001, the minimum reporting threshold amount for machinery and equipment assets was increased from \$20 thousand to \$25 thousand. As a result, \$56.360 million was removed from depreciable General Capital Assets. At June 30, 2001, classification of two former Special Revenue funds changed to the Enterprise fund category. Consequently, \$1.766 million of machinery and equipment is accounted for in Enterprise funds. Previously unreported accumulated depreciation of \$7.3 billion and infrastructure assets of \$19 billion is being reported as of June 30, 2001. Restatement changes did not affect infrastructure asset balances and those amounts are included for informational purposes.

Asset Class	General Fixed Assets Reported Ending Balance June 30, 2001	Less: Increase in Minimum Reporting Threshold for Equipment Assets	Less: Change in Classification of State Lottery and Historical Preservation Funds to Proprietary Funds	General Fixed Assets Restated Ending Balance June 30, 2001	Add: Infrastructure Assets at June 30, 2001	Less: Accumulated Depreciation at June 30, 2001	Net General Capital Assets at June 30, 2001
Non-depreciable capital assets:							
Land.....	\$ 264,568	\$ -	\$ -	\$ 264,568	\$ -	\$ -	\$ 264,568
Highway right-of-way.....	-	-	-	-	840,100	-	840,100
Construction in progress.....	651,361	-	-	651,361	-	-	651,361
Transportation construction in progress.....	-	-	-	-	-	-	-
					1,183,100	-	1,183,100
Subtotal.....	<u>\$ 915,929</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 915,929</u>	<u>\$ 2,023,200</u>	<u>\$ -</u>	<u>\$ 2,939,129</u>
Depreciable capital assets:							
Buildings.....	3,541,868	-	-	3,541,868	-	1,535,221	2,006,647
Improvements other than buildings.....	360,425	-	-	360,425	-	144,957	215,468
Machinery and equipment.....	581,071	56,360	1,766	522,945	-	285,306	237,639
Highway infrastructure.....	-	-	-	-	12,145,400	4,744,100	7,401,300
Bridge infrastructure.....	-	-	-	-	4,941,000	950,500	3,990,500
Subtotal.....	<u>\$ 4,483,364</u>	<u>\$ 56,360</u>	<u>\$ 1,766</u>	<u>\$ 4,425,238</u>	<u>\$ 17,086,400</u>	<u>\$ 7,660,084</u>	<u>\$ 13,851,554</u>
Totals.....	<u><u>\$ 5,399,293</u></u>	<u><u>\$ 56,360</u></u>	<u><u>\$ 1,766</u></u>	<u><u>\$ 5,341,167</u></u>	<u><u>\$ 19,109,600</u></u>	<u><u>\$ 7,660,084</u></u>	<u><u>\$ 16,790,683</u></u>

NOTE B – RESTATEMENT OF PREVIOUSLY REPORTED FUND BALANCE/FUND EQUITY/NET ASSETS AT JUNE 30, 2001 (continued)

Discretely Presented Non-Fiduciary Component Units

Restatements of June 30, 2001 Fund Balance/Fund Equity to June 30, 2001 Net Assets – Two former governmental component units, the State Public School Building Authority and the Pennsylvania Higher Educational Facilities Authority reported restatements, respectively, of \$86,532 and \$449,315 of June 30, 2001 fund balance to June 30, 2001 net assets. These restatements are the result of the discontinuation of the reporting of conduit debt obligations on the financial statements. The Insurance Fraud Prevention Authority, at June 30, 2001 and the Philadelphia Shipyard Development Corporation, at December 31, 2000, reported fund balance restatements of \$22 and \$22,422, respectively, due to implementation of the New Standards. At June 30, 2001, beginning net assets for the Pennsylvania Industrial Development Authority differ by \$10 from total equity reported at June 30, 2001 because of a correction of a prior year error (amounts in thousands).

State System of Higher Education (SSHE) Fund Balance restatement - The SSHE, formerly reported under the AICPA’s College and University financial reporting model, has adopted, effective June 30, 2001, the GASB’s Statement No. 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities*. Adjustments, additions and reclassifications related to this adoption produced a net decrease of \$177,375 from June 30, 2001 fund balance to June 30, 2001 net assets (amounts in thousands).

The following table depicts restatements of June 30, 2001 fund balance/fund equity for discretely presented component units (amounts in thousands):

<u>Component Unit</u>	<u>Previously Reported June 30, 2001 Balance</u>	<u>Net Change</u>	<u>Restated Balance At June 30, 2001</u>
State Public School Building Authority.....	\$ 118,630	\$ (86,532)	\$ 32,098
Pennsylvania Higher Educational Facilities Authority.....	449,315	(449,315)	-
Insurance Fraud Prevention Authority.....	4,284	22	4,306
Philadelphia Shipyard Development Corporation.....	304	22,422	22,726
Pennsylvania Industrial Development Authority.....	534,146	10	534,156
State System of Higher Education.....	573,837	<u>(177,375)</u>	396,462
		<u>\$ (690,768)</u>	
The Philadelphia Regional Port Authority, with beginning net assets of \$28,171 and the Port of Pittsburgh Commission, with beginning net assets of \$1,686, were not reported prior to June 30, 2001 (amounts in thousands).....		\$ 29,857	
Previously reported fund balance/fund equity for discretely presented non-fiduciary component units at June 30, 2001		5,409,506	
Net New Standard and other reporting changes		<u>(690,768)</u>	
Net assets, discretely presented non-fiduciary component units, June 30, 2001, as restated.....		\$ <u>4,748,595</u>	

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, 2002 governmental and business-type activities, respectively, reported \$14,806,435 and \$30,426 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, 2002 governmental and business-type activities, respectively reported \$1,616,864 and \$3,470,190 in restricted net assets. 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, 2002 governmental activities reported unrestricted net assets of \$1,312,334. Business-type activities reported an unrestricted net assets deficit of \$26,005 at June 30, 2002 (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**, \$29.1 million, is applicable to advances as follows: \$14.3 million to the Purchasing Fund, an Internal Service Fund; \$2.3 million to the **State Workmen’s Insurance Fund**, an Enterprise Fund; \$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 \$693,740 at June 30, 2002. The \$286,711 reported as “Reserved for other” in the **General Fund** at June 30, 2002 pertains to the following (amounts in thousands):

Continuing programs	\$ 102,435
Restricted revenue	156,396
Judicial carryover appropriations.....	17,786
Receivables	<u>10,094</u>
 Total General Fund	 <u>\$ 286,711</u>

“Reserved for other” at June 30, 2002 includes \$355,505 reserved in the **Tobacco Settlement Fund** for various health-related programs. The remaining amount of \$51,524 for nonmajor funds pertains to the following (amounts in thousands):

Land reclamation	\$ 31,389
Pharmaceutical assistance programs.....	8,227
Recreation programs	1,596
Conservation, recycling and economic development programs	1,586
Worker’s compensation	<u>6,954</u>
Total nonmajor Special Revenue programs	<u>49,752</u>
 General State Authority maintenance in the Capital Facilities Fund.....	 <u>1,772</u>
Total nonmajor funds other reservations	<u>\$ 51,524</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, 2002 the Commonwealth has included the following amounts as “Designated—Other” for the **General Fund** and Special Revenue Funds (amounts in thousands):

General Fund:

Group medical and life insurance	\$ 151,464
Job creation tax credits	53,952
Judicial computer system.....	51,929
Agency construction projects.....	50,467
Other	<u>16,072</u>
Total General Fund	<u>\$ 323,884</u>

Special Revenue Fund:

Surface Mining Fund - Transfer	<u>\$ 12</u>
--------------------------------------	--------------

Governmental Fund Balance Deficits: Individual funds have reported fund balance deficits in governmental funds balance sheets. The Workmen’s Compensation Supersedeas Fund, a Special Revenue Fund, reported a fund balance deficit of \$6,190 at June 30, 2002. The Capital Debt Fund, a Debt Service fund, reported a fund balance deficit of \$3,782 at June 30, 2002 (amounts in thousands).

The Capital Facilities Fund, a Capital Projects Fund, reported a deficit unreserved/undesignated fund balance of \$494,795 at June 30, 2002. In total, the Capital Facilities Fund reported a fund balance of \$257,722 at June 30, 2002. Total Capital Projects Funds reported reservations for encumbrances of \$795,392; other reservations of \$1,772; designations for Capital Projects of \$79,286; and an unreserved/undesignated fund balance deficit of \$494,795; for total combined fund balances of \$381,655 at June 30, 2002 (amounts in thousands).

Proprietary Fund Net Assets: Nonmajor funds reported total restricted net assets for “other purposes” of \$422,971 at June 30, 2002 for the following programs: economic development loans, \$192,912; emergency services loans, \$116,458; liquor control, \$68,571; mine subsidence insurance, \$33,743; vocational rehabilitation, \$3,843; and \$7,444 for other programs (amounts in thousands).

The **Tuition Payment Fund**, an Enterprise Fund, reported deficit unrestricted net assets of \$26,005 at June 30, 2002. The Purchasing Fund, an Internal Service Fund, reported deficit unrestricted net assets of \$23,241 at June 30, 2002 (amounts in thousands).

Component Unit Net Assets: Except for the Pennsylvania Industrial Development Authority, net assets of all 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.

NOTE D - DEPOSITS AND INVESTMENTS**Authority for Deposits and Investments:**

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 therefrom as well as the probable safety of their capital. Such deposits and investments may include equity securities and mutual funds.

The Treasury Department manages the Treasury Investment Program (TIP), which is comprised of the Common Investment Pool, Treasury Liquid Asset Pool, **General Fund** Program and **Motor License Fund** Program. As of June 30, 2002, approximately 88 percent of the amounts from practically all Commonwealth Funds are invested on a temporary basis in the TIP. The objectives of the TIP are preservation of principal, liquidity, diversification, and income and all investments are made in accordance with the preceding statutory authority. Throughout the fiscal year, the TIP participates in reverse repurchase agreements; Treasury Department policies require that the maturity date of the reverse repurchase agreements and the maturity date of the regular repurchase agreement purchased with the proceeds occur on the same date. The **General Fund** Program and **Motor License Fund** Program represent funds accumulated beyond the ordinary cash needs of these Funds. These two Programs invest in equity and intermediate-term securities.

Several Commonwealth departments have statutory authority to make their own temporary and long-term investments for the following Funds: **State Workmen's Insurance**, an Enterprise fund, Deferred Compensation, a Pension Trust fund, Workmen's Compensation Security Trust, a Special Revenue fund, and Underground Storage Tank Indemnification and Statutory Liquidator, both Agency funds.

The deposit and investment policies of certain component units are established by authority other than the Fiscal Code. Enabling statutes generally provide deposit and investment authority for component units. Further, specific bond and trust indentures, as well as formal governing board resolutions, provide deposit and investment requirements. Allowable investments of component units do not significantly differ from those investments of the Treasury Department, except that, in accordance with applicable statutory authority, the State Employees' Retirement System and the Public School Employees' Retirement System, Pension Trust funds, utilize financial instruments with off-balance sheet risk. Specific disclosures about Pension Trust fund investments are included in this Note.

NOTE D - DEPOSITS AND INVESTMENTS (continued)

Deposits:

The Treasury Department controls the receipt and disbursement of amounts owned by agencies included in the primary government. Certain discretely presented component units, meanwhile, control receipt and disbursement of their own funds, often through a trustee. The following summaries present the amount of primary government and discretely presented component unit (Commonwealth) deposits which are fully insured or collateralized with securities held by the Commonwealth or its agent in the Commonwealth's name (Category 1), those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Commonwealth's name (Category 2) and those deposits which are not collateralized or are collateralized by the pledging financial institution or the pledging institution's trust department or agent, but not in the Commonwealth's name (Category 3) at June 30, 2002 (amounts in thousands).

Primary Government

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total Bank Balance</u>	<u>Carrying Amount</u>
Cash.....	\$ 608,209	-	\$ 6,906	\$ 615,115	\$ 273,525
Cash with fiscal agents.....	2,913,953	-	-	2,913,953	2,913,953
Certificates of deposit and related items.....	162,080	-	14,613	176,693	176,693

Fiduciary funds reported \$30,037 and \$562,668, respectively, of cash and cash with fiscal agents at June 30, 2002. These amounts are not included in the Statement of Net Assets. The above-listed \$176,693 in certificates of deposit and related items are reported as part of primary government temporary investments at June 30, 2002 (amounts in thousands).

Discretely Presented Component Units

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total Bank Balance</u>	<u>Carrying Amount</u>
Cash.....	\$ 92,993	-	\$201,323	\$ 294,316	\$ 272,050

Fiduciary component units reported \$8,755 (in thousands) of cash at their fiscal years ended December 31, 2001. These amounts are not included in the Statement of Net Assets.

NOTE D - DEPOSITS AND INVESTMENTS (continued)

Investments:

The Treasury Department, other agencies in the primary government and discretely presented component units (Commonwealth) categorize investments according to the level of credit risk assumed by the Commonwealth. Category 1 includes investments that are insured, registered or held by the Commonwealth or the Commonwealth's agent in the Commonwealth's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the Commonwealth's name. Category 3 includes uninsured and unregistered investments held by the counterparty, or by its trust department or its agent, but not in the Commonwealth's name. Certain investments have not been categorized because securities are not used as evidence of the investment. These uncategorized investments include ownership interests in mutual funds, mortgage loans, real estate and venture capital. The following summaries identify the level of credit risk assumed by the Commonwealth and the related carrying amount of Commonwealth investments at June 30, 2002 (amounts in thousands).

Primary Government

All primary government investments susceptible to credit risk are in Category 1.

Commercial paper	\$ 214,128
Common and preferred stocks	8,921,736
Corporate bonds and notes	3,798,821
Certificates of deposit-negotiable	87
International fixed income	54,000
International equities	32,481
Mortgage loans	32,832
Real estate	349,223
Repurchase agreements	2,945,216
State and municipal obligations	863,292
U.S. Treasury obligations	3,735,874
U.S. Government agency obligations	<u>2,609,940</u>
Total categorized investments	23,557,630
Add investments not susceptible to credit risk categorization:	
Investments held by the Tuition Payment Fund at June 30, 2002:	
Securities lending collateral	34,339
Treasury Department global pool	29,067
Investments owned by the Deferred Compensation Fund at December 31, 2001:	
Money market funds	33,528
Mutual funds	949,146
Securities lending collateral	52,684
Investments owned by the State Employees' Retirement System (SERS) at December 31, 2001:	
Investments with Treasury Department	554,138
Money market funds	256,799
Mortgage loans	97,876
Mutual funds	7,396,900
Real estate	2,183,528
Securities lending collateral	1,212,508
Venture capital	2,496,474
Securities lent by SERS at December 31, 2001:	
U.S. Treasury obligations	425,683
Corporate bonds and notes	434,837
Common and preferred stocks	355,546
Investments owned by the Statutory Liquidator Fund at June 30, 2002:	
Treasury Department global pool	73,774
Annuities	1,976
Subsidiaries	79
Mortgage loans	219
Partnership interests	<u>18</u>
Subtotal forwarded to next page	\$ 40,146,749

NOTE D - DEPOSITS AND INVESTMENTS (continued)

Subtotal forwarded from previous page	\$ 40,146,749
Investments owned by the Underground Storage Tank Indemnification Fund at June 30, 2002:	
Private placements.....	2,673
Securities lending collateral	40,272
Treasury Department global pool	7,263
Securities lending collateral held by the State Lottery Fund at June 30, 2002.....	1,924
Investments held by the Workmen’s Compensation Security Trust Fund at June 30, 2002:	
Mortgage loans.....	3,270
Securities lending collateral	82,322
Treasury Department global pool.....	61,569
Private placements, fixed income and equities.....	5,159
Securities lending collateral held by the State Workmen’s Insurance Fund at December 31, 2001.....	469,054
Investments owned by the General Fund at June 30, 2002:	
Mortgage loans.....	815
Securities lending collateral	255,228
Investments owned by the Tobacco Settlement Fund at June 30, 2002	690
Investments owned by the Common Investment Pool at June 30, 2002:	
Money market funds.....	326,413
Mutual funds	25,347
Investments owned by the Motor License Fund at June 30, 2002:	
Securities lending collateral.....	57,916
Mortgage loans.....	533
Private placements.....	<u>3,427</u>
Subtotal.....	\$41,490,624
Certificates of deposit and related items.....	176,693
Amount financially reported by discretely presented component units in Pennsylvania Treasury Common Investment Pool at June 30, 2002	<u>(632,688)</u>
Total primary government temporary and long-term investments.....	<u>\$ 41,034,629</u>

The above-listed \$176,693 in certificates of deposit and related items are financially reported as part of temporary investments at June 30, 2002, but are treated as deposits for a determination of the level of credit risk associated with them. Fiduciary funds reported \$30,411,326 and non-fiduciary funds reported \$10,623,303 of the above \$41,034,629 total primary government investments at June 30, 2002. Non-fiduciary funds reported temporary and long-term investments, respectively, of \$7,652,836 and \$2,970,467 at June 30, 2002 (amounts in thousands). Primary government fiduciary funds investments are not reported in government-wide financial statements.

The State Employees’ Retirement System, a Pension Trust Fund, owns 100 percent of the venture capital, 100 percent of the real estate, 100 percent of the investments with treasury department, approximately 54 percent of the securities lending collateral, 88 percent of mutual funds, 77 percent of the common and preferred stocks, 73 percent of the mortgage loans, 62 percent of the corporate bonds and notes and 48 percent of the U.S. Treasury obligations, reported in the above summary. The Treasury Common Investment Pool owns 100 percent commercial paper, approximately 97 percent of the state and municipal obligations, 66 percent of the international fixed income, 64 percent of the repurchase agreements, 63 percent of the U.S. Government agency obligations and 53 percent of the money market funds in the above summary.

Subsequent to June 30, 2001 an independent auditor issued an audit report for the Treasury Department’s INVEST Program for Local Governments (INVEST) for the year ended December 31, 2000. The INVEST financial statements disclosed an auditor conclusion that investments in repurchase agreements involving \$145.5 million in U.S. Government Agency securities that were not backed by the full faith and credit of the United States Government were not authorized investments for some INVEST program participants under state laws governing those INVEST participants at December 31, 2000. The terms of the repurchase agreements were four days and matured on January 2, 2001 with both principal and interest earned returned to the INVEST Program.

Applicable laws allow investments which are backed by the full faith and credit of the U.S. Government or investments in U.S. Government Agency securities if they are considered short term. The auditor concluded that the U.S. Government Agency securities used to collateralize the INVEST repurchase agreement were not backed by the full faith and credit of the U.S.

NOTE D - DEPOSITS AND INVESTMENTS (continued)

Government and were not considered short term. Treasury Department management contends that since the repurchase agreements had a four-day maturity, the repurchase agreement were permissible *short-term* investments.

During the year ended December 31, 2001 INVEST owned additional similar repurchase agreements; at December 31, 2001 the independent auditor noted INVEST owned a similar repurchase agreement with \$12.4 million in long-term U.S. Government Agency securities that were not backed by the full faith and credit of the United States Government. The Treasury Department is seeking statutory amendments to applicable laws to clarify this matter. Further, the Treasurer decided January 2002 that, pending a resolution of this dispute and for any concern the pool’s participants have concerning this dispute, it would be prudent to take a more conservative approach of limiting the underlying securities for such repurchase agreements to short-term U.S. Government or U.S. Government Agency securities unless they are backed by the full faith and credit of the U.S. Government.

Financial Instruments With Off-Balance Sheet Risk

The State Employees’ Retirement System (SERS) enters into derivative and structured financial instruments primarily to enhance the performance and reduce the volatility of its investment portfolio. It enters into foreign exchange contracts to hedge foreign currency exposure, futures contracts to gain or hedge exposure to certain equity markets and manage interest rate risk, swaps to hedge against the effects of inflation, and collateralized mortgage obligation investments as part of its overall fixed income portfolio.

Foreign exchange contracts are agreements to exchange the currency of one country for the currency of another country at an agreed upon price and settlement date. The SERS uses these contracts primarily to hedge the currency exposure of its investments. To reduce the risk of counterparty nonperformance, the SERS generally enters into these contracts with institutions regarded as meeting high standards of creditworthiness. The unrealized gain/loss on contracts is included in the SERS’s net assets and represents the fair value of the contract on December 31. At December 31, 2001, the SERS had contracts to purchase foreign currencies for a total notional amount of \$3,999,140 and contracts to sell foreign currencies for a total notional amount of \$3,113,334, for a total notional amount of \$7,112,474. (amounts in thousands). Net unrealized gains on foreign currency contracts were approximately \$23.5 million at December 31, 2001.

Discretely Presented Component Units

(amounts in thousands)

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>
Asset backed securities.....	\$ -	\$ 83,559	\$ -	\$ 83,559
Commercial paper	-	115,834	174,621	290,455
Common and preferred stocks.....	16,852,046	592	11	16,852,649
Corporate bonds and notes	4,300,793	88,914	114,941	4,504,648
International equities	6,777,450	-	-	6,777,450
International fixed income.....	1,055,057	-	-	1,055,057
Mortgage-backed securities.....	5,171,543	56,324	-	5,227,867
Repurchase agreements	120,377	99,822	81,236	301,435
State and municipal obligations.....	-	43,200	6,000	49,200
U.S. Treasury obligations	-	480,361	67,477	547,838
U.S. Government agency obligations	843,071	340,893	184,948	1,368,912
Various short-term investments.....	<u>861,050</u>	<u>4,049</u>	<u>1,022</u>	<u>866,121</u>
Total categorized investments	<u>\$ 35,981,387</u>	<u>\$1,313,548</u>	<u>\$ 630,256</u>	\$ 37,925,191

Investments not susceptible to credit risk categorization:

Investments owned by the Ben Franklin/IRC Partnership in Pennsylvania Treasury	
Common Investment Pool at June 30, 2002	242
Investments owned by the Ben Franklin Technology Development Authority in Pennsylvania Treasury	
Common Investment Pool at June 30, 2002.....	27,704
Investments owned by the Pennsylvania Housing Finance Agency at June 30, 2002:	
Investment agreements	28,357
Money market funds.....	146,583
Investments owned by the Pennsylvania Higher Education Assistance Agency at June 30, 2002:	
Guaranteed investment contracts.....	102,119
Investment agreements	<u>6,000</u>
Subtotal forwarded to next page	\$ 38,236,196

NOTE D - DEPOSITS AND INVESTMENTS (continued)

Subtotal forwarded from previous page	\$ 38,236,196
Money market funds.....	124,584
Pennsylvania Treasury Common Investment Pool	225,587
Investments owned by the Pennsylvania Infrastructure Investment Authority in	
Pennsylvania Treasury Common Investment Pool at June 30, 2002	377,491
Guaranteed investment contracts owned by the	
Pennsylvania Turnpike Commission at May 31, 2002	375,441
Investments owned by the Public School Employees' Retirement System at June 30, 2002:	
Invested with Pennsylvania Treasury Department	1,330,999
Mutual funds	1,269,174
Private equity.....	2,712,854
Real estate	1,754,636
Securities lending collateral	2,282,799
Securities lending investments	2,224,751
Venture capital	231,194
Investments owned by the Port of Pittsburgh Commission in the Pennsylvania	
Treasury Common Investment Pool at June 30, 2002	1,664
Mutual funds and other investments owned by the State System of Higher Education	
at June 30, 2002.....	<u>34,344</u>
Total temporary and long-term investments	<u>\$51,181,714</u>

The total amount reported by discretely presented component units in the Pennsylvania Treasury Common Investment Pool is \$632,688 at June 30, 2002; Common Investment Pool disclosures are included as part of Primary Government investment disclosures. Of the \$51,181,714 in total temporary and long-term investments, non-fiduciary component units reported \$2,152,100 in temporary investments and \$1,952,426 in long-term investments; fiduciary component units reported \$4,309,178 in temporary investments and \$42,768,010 in long-term investments at June 30, 2002 (amounts in thousands). Fiduciary component unit investments are not included in government-wide financial statements.

The Public School Employees' Retirement System (PSERS), a Pension Trust fund, owns approximately 100 percent of the common and preferred stocks, 95 percent of the corporate bonds and notes, 100 percent of the international equities, 100 percent of the international fixed income, 99 percent of the mortgage-backed securities, and 100 percent of the real estate reported in the above summary. The Pennsylvania Higher Education Assistance Agency owns 56 percent of commercial paper. The Pennsylvania Turnpike Commission owns 79 percent of the guaranteed contracts, 56 percent of state and municipal obligations and 85 percent of U.S. government obligations. The State System of Higher Education owns 100 percent of asset backed securities and 96 percent of mutual funds. The Pennsylvania Housing Finance Authority owns 56 percent of the various short-term investments, 83 percent of investment agreements and 54 percent of money markets. There were no violations of statutory authority or contractual provisions for investments during the fiscal year ended June 30, 2002.

Financial Instruments with Off-Balance Sheet Risk

The Public School Employees' Retirement System (System) enters into a variety of financial contracts, which include options and futures. The System also enters into foreign exchange positions, such as forward and spot contracts to hedge foreign exposure; collateralized mortgage obligations (CMOs); other forward contracts, and U.S. Treasury STRIPS. The System is not a dealer, but an end-user of these instruments. The contracts are used primarily to enhance performance and reduce the volatility of the portfolio. Short-term investments and cash equal to or greater than performance obligations under these contracts are maintained at all times. The System is exposed to credit risk in the event of nonperformance by counterparties to financial instruments. As the System 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 System 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 System's involvement in the various types and uses of derivative financial instruments and do not measure the System's 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.

NOTE D - DEPOSITS AND INVESTMENTS (continued)

The following table summarizes the aggregate notional or contractual amounts for the System’s derivative financial instruments at June 30, 2002 (in thousands):

Futures contracts – long.....	\$ 4,974,538
Futures contracts – short.....	3,286,061
Foreign exchange forward and spot contracts, gross ...	3,287,684
Options – calls purchased	83,000
Options – calls sold.....	214,148
Options – puts sold	129,602

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 System enters into short sales, sales of securities it does not presently own, to neutralize the market risk of certain equity positions. Initial margin requirements on futures contracts and collateral for short sales are provided by investment securities pledged as collateral or by cash held in segregated accounts by the System’s custodial bank or short sale broker. Although the System 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, 2002 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 System has authorized an investment manager to write covered call stock index option spreads up to a notional amount of \$500,000,000.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. The contracts reported above primarily include forwards. The \$3,287,684,000 of foreign currency contracts outstanding at June 30, 2002 consist of “buy” contracts, which represents the U.S. dollar equivalents of commitments to purchase foreign currencies of \$2,223,356,000 and “sell” contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of \$1,064,328,000. The unrealized gain/(loss) on contracts of \$54,776,000 at June 30, 2002 is included in the System’s net assets and represents the fair value of the contracts.

The System also invests in mortgage-backed securities (MBS) such as CMOs and MBS forwards to maximize yields. These securities are sensitive to prepayments by mortgagees, which may result from a drop in interest rates. The MBS forwards are subject to credit risk in the event of nonperformance by counterparties. The fair value of CMOs at June 30, 2002 is \$2,229,059,000.

The System 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 System 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 AND INVESTMENTS (continued)

Securities Lending Program

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

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

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

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, 2002 (December 31, 2001 for the **SWIF**, the **SERS** and the **Deferred Compensation Fund**), there were no failures by any borrower to return securities lent or pay distributions thereon. Also, there were no losses resulting from a lending agent or borrower default and there were no Treasury Department restrictions on the amount of the loans that could be made.

At June 30, 2002 (December 31, 2001 for the **SWIF**, the **SERS** and the **Deferred Compensation Fund**), there was no Treasury Department or participant credit risk to the borrowers because the fair value of collateral received was greater than the fair value of the securities lent, consistent with the lending agreements outstanding. The carrying amount and fair value of the securities lent are (amounts in thousands):

General Fund	\$ 279,688
State Lottery Fund	3,298
Motor License Fund	64,713
State Workmen's Insurance Fund	536,502
Tuition Payment Fund	34,176
Workmen's Compensation Security Trust Fund...	84,104
Deferred Compensation Fund.....	53,830
State Employees' Retirement System.....	1,216,066
Public School Employees' Retirement System.....	2,364,972
Underground Storage Tank Indemnification Fund	41,856

NOTES TO FINANCIAL STATEMENTS

(Restated)

NOTE E – CAPITAL ASSETS

A summary of capital assets by category at June 30, 2002 is as follows (amounts in thousands):

	Primary Government			Discretely Presented Component Units	
	Governmental Activities	Business-Type Activities			
	General Capital Assets	Internal Service Funds	Enterprise Funds	Non-Fiduciary Funds	Fiduciary Funds
Land	\$ 287,010	\$ 6	\$ 323	\$ 135,494	\$ -
Highway right-of-way	940,300	-	-	-	-
Buildings	3,693,636	3,981	6,711	1,376,138	-
Improvements other than buildings	386,556	3,025	16,095	198,906	-
Machinery and equipment	538,067	91,809	64,919	470,002	11,277
Library books and other	-	-	-	138,131	-
Turnpike infrastructure	-	-	-	3,649,109	-
Highway infrastructure	13,025,900	-	-	-	-
Bridge infrastructure	5,369,900	-	-	-	-
Waterway infrastructure	9,412	-	-	-	-
Construction in progress	1,101,165	-	-	430,736	-
Highway and bridge construction in progress	1,522,400	-	-	-	-
Total	\$ <u>26,874,346</u>	\$ <u>98,821</u>	\$ <u>88,048</u>	\$ <u>6,398,516</u>	\$ <u>11,277</u>

Changes in general capital assets for the fiscal year ended June 30, 2002 are as follows (amounts in thousands):

	Balance June 30, 2001 (Restated)	Additions	Retirements	Balance June 30, 2002
Non-Depreciable General Capital Assets:				
Land	\$ 264,568	\$ 22,456	\$ 14	\$ 287,010
Highway right-of-way	840,100	100,200	-	940,300
Construction in progress	651,361	563,290	113,486	1,101,165
Transportation construction in progress ..	<u>1,183,100</u>	<u>1,648,700</u>	<u>1,309,400</u>	<u>1,522,400</u>
Subtotal	<u>2,939,129</u>	<u>2,334,646</u>	<u>1,422,900</u>	<u>3,850,875</u>
Depreciable General Capital Assets:				
Buildings	3,541,868	154,338	2,570	3,693,636
Improvements other than buildings	360,425	26,223	92	386,556
Machinery and equipment	522,945	64,634	49,512	538,067
Highway infrastructure	12,145,400	880,500	-	13,025,900
Bridge infrastructure	4,941,000	428,900	-	5,369,900
Waterway infrastructure	<u>0</u>	<u>9,412</u>	<u>-</u>	<u>9,412</u>
Subtotal	<u>21,511,638</u>	<u>1,564,007</u>	<u>52,174</u>	<u>23,023,471</u>
Total general capital assets	\$ <u>24,450,767</u>	\$ <u>3,898,653</u>	\$ <u>1,475,074</u>	\$ <u>26,874,346</u>

NOTES TO FINANCIAL STATEMENTS

(Restated)

NOTE E – CAPITAL ASSETS (continued)

Changes in General Capital Assets Accumulated Depreciation for the fiscal year ended June 30, 2002 are as follows (amounts in thousands):

	Balance June 30, 2001 (Restated)	Additions	Retirements	Balance June 30, 2002
Buildings	\$ 1,535,221	\$ 93,930	\$ 948	\$ 1,628,203
Improvements other than buildings	144,957	13,061	-	158,018
Machinery and equipment	285,306	35,917	34,599	286,624
Highway infrastructure	4,744,100	503,400	-	5,247,500
Bridge infrastructure	950,500	103,100	-	1,053,600
Waterway infrastructure	-	219	-	219
Total accumulated depreciation....	<u>\$ 7,660,084</u>	<u>\$ 749,627</u>	<u>\$ 35,547</u>	<u>\$ 8,374,164</u>

Depreciation expense, by function, related to General Capital Assets for the fiscal year ended June 30, 2002 is as follows (amounts in thousands):

Direction and supportive services.....	\$ 21,297
Protection of persons and property	51,844
Public education	23,416
Health and human services.....	14,033
Recreation and cultural enrichment.....	10,159
Transportation	<u>628,878</u>
Total depreciation expense	<u>\$ 749,627</u>

The Pennsylvania Turnpike Commission, a discretely presented component unit, capitalized interest costs of \$1.5 million during its fiscal year ended May 31, 2002.

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, 2002 the amount of general capital assets related to the initial 1986 valuation amounts to \$1,241 million and does not include highway, bridge or waterway infrastructure.

Construction in progress included in general capital assets at June 30, 2002 includes project information as follows (amounts in thousands):

	Expended Through June 30, 2002			Authorization Available
	Project Authorization	Amounts Previously Capitalized	Amounts Not Capitalized To Date	
Department of Corrections Institutions	\$ 934,957	\$ 152,111	\$ 510,641	\$ 272,205
Capital Complex	782,842	191,246	341,990	249,606
State Parks and Forests	171,483	-	45,905	125,578
Agriculture Facilities	94,803	-	29,861	64,942
Veterans Homes and Military Armories	61,679	-	36,710	24,969
Transportation Facilities	61,508	-	34,994	26,514
Historical & Museum Commission Facilities.....	48,059	-	15,936	32,123
State Police Facilities	32,464	-	21,578	10,886
Education Institutions.....	271,125	-	50,368	220,757
Department of Public Welfare Institutions	46,406	-	10,850	35,556
Other.....	8,038	-	2,332	5,706
Total	<u>\$2,513,364</u>	<u>\$ 343,357</u>	<u>\$ 1,101,165</u>	<u>\$ 1,068,842</u>

NOTE F - INSURANCE LOSS LIABILITY AND TUITION BENEFITS PAYABLE

Insurance Loss Liability

The reported insurance loss liability of the **State Workmen’s 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 a 4.5 percent and a 4.0 percent discount rate at December 31, 2000 and 2001, respectively. There is uncertainty as to whether the reported liability will be supported by future claim experience, including payments; this uncertainty must be considered when evaluating the reported insurance loss liability.

For the calendar years ended December 31, 2001 and 2000, 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>	
2001.....	\$1,054,252	\$ 127,025	\$ (4,267)	\$ 15,322	\$ 129,182	\$1,032,506
2000.....	\$1,137,459	\$ 103,184	\$ (31,831)	\$ 11,505	\$ 143,055	\$1,054,252

Tuition Benefits Payable

The reported liability for tuition benefits payable of \$399 million of the **Tuition Payment Fund**, an Enterprise Fund, at June 30, 2002, is based on several actuarial assumptions, including those related to future sales of tuition credits, tuition cost increases, investment experience and program expenses. The June 30, 2002 actuarial analysis includes the effects of material changes, in both structural items relating to the Tuition Account Program (TAP) and in outlook regarding economic items, from the June 30, 2001 analysis. Based on implementation of a separate market based investment plan, program expenses to be paid by the fund are significantly reduced. Projected voluntary termination of TAP Credit owners has been increased to 1.0 percent from 0.5 percent. The projected tuition inflation assumptions have been revised because of higher than projected tuition inflation during the fiscal year ended June 30, 2002. The short-term investment return assumptions have been reduced from 8.5 percent to 8.0 percent for the fiscal years ending June 30, 2004 and 7.5 percent for the following three fiscal years. For fiscal years ending June 30, 2008 and later, the investment return assumption reverts to 8.5 percent. The effect of these changes increased the aggregate actuarial reserve (actuarial value of assets less liabilities) by \$1.4 million.

NOTE G - TAXES, LOANS AND LEASE RENTALS RECEIVABLE

Taxes Receivable: Taxes receivable at June 30, 2002 consisted of the following (amounts in thousands):

Statement of Net Assets

Governmental Activities	
Sales and use.....	\$ 927,627
Personal income.....	453,765
Corporation.....	759,740
Liquid fuels.....	63,358
Other.....	<u>544,164</u>
Total	<u>\$ 2,748,654</u>

Governmental activities taxes receivable includes \$696,625 expected to be collected after June 30, 2003 (amounts in thousands).

Fund Balance Sheets

	<u>General</u>	<u>Nonmajor</u>		
		<u>Motor License</u>	<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Sales and use	\$ 899,549	\$ -	\$ 28,078	\$ -
Personal income	453,765	-	-	-
Corporation	759,740	-	-	-
Liquid fuels	-	63,358	-	-
Other	<u>458,097</u>	<u>86,067</u>	-	<u>22,679</u>
Total	<u>\$ 2,571,151</u>	<u>\$ 149,425</u>	<u>\$ 28,078</u>	<u>\$ 22,679</u>

General Fund taxes receivable includes \$696,625 expected to be collected after June 30, 2003 (amounts in thousands).

Loans Receivable: Loans receivable at June 30, 2002 consisted of the following (amounts in thousands):

	<u>Primary Government</u>		
	<u>Governmental Activities Special Revenue Funds</u>	<u>Business Type Activities Enterprise Funds</u>	<u>Discretely Presented Component Units</u>
Mortgage loans.....	\$ -	\$ -	\$ 3,153,369
Student loans	-	-	3,260,384
Economic development loans.....	44,711	147,998	580,265
Drinking water, storm water and sewer system loans	11,650	-	1,271,612
Volunteer fire company loans	-	109,794	-
Other notes and loans	<u>15,543</u>	<u>13,699</u>	<u>74,854</u>
	71,904	271,491	8,340,484
Less: allowance for uncollectible amounts.....	<u>31,941</u>	<u>33,238</u>	<u>424,541</u>
Loans receivable, net.....	<u>\$ 39,963</u>	<u>\$ 238,253</u>	<u>\$ 7,915,943</u>

Special Revenue funds report \$37,479 in loans due after June 30, 2003 and the Enterprise funds report \$196,803 in loans due after June 30, 2003. Discretely presented component units reported \$6,966,683 in loans receivable due after June 30, 2003 (amounts in thousands).

The **General Fund** and Agency Funds reported \$10,097 and \$6,015 in loans, respectively, for program objectives and to replace underground storage tanks at June 30, 2002 (amounts in thousands).

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

Lease Rentals Receivable: The Capital Facilities Fund, a Capital Projects fund, reports 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, 2002 the total minimum lease payments to be received were \$1.7 million and the present value of the lease payments was \$1.5 million, the difference representing interest of \$.2 million. The Pennsylvania Industrial Development Authority, a discretely presented component unit, reported a lease rental receivable with total minimum payments of \$28 million, present value of \$18 million and interest of \$10 million at June 30, 2002. Minimum lease payments receivable for the five fiscal years succeeding June 30, 2002 are as follows (amounts in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units
2003.....	\$ 194	\$ 634
2004.....	193	634
2005.....	194	634
2006.....	193	2,923
2007.....	194	5,212

Except for \$194 due to the primary government and \$634 due to discretely presented component units, all amounts receivable under lease rentals are due after June 30, 2003 (amounts in thousands).

NOTES TO FINANCIAL STATEMENTS

(Restated)

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS

In the Statement of Net Assets, reported internal balances assets/liabilities for governmental activities differ from internal balances assets/liabilities for business-type activities because the **State Workmen’s Insurance Fund**, an Enterprise Fund, reports for its fiscal year ended December 31, 2001.

The composition of governmental and proprietary funds interfund balances reported at June 30, 2002 is as follows, with Major Fund titles in bold. Aggregate nonmajor governmental funds receivables from other funds and from component units, respectively, amount to \$48,238 and \$21,849; aggregate nonmajor enterprise funds receivables amount to \$2,385; aggregate internal service funds receivables amount to \$821; and aggregate fiduciary funds receivables amount to \$1,515 at June 30, 2002 (amounts in thousands):

FUND TYPE/FUND PRIMARY GOVERNMENT	DUE FROM		DUE TO	
	OTHER FUNDS	COMPONENT UNITS	OTHER FUNDS	COMPONENT UNITS
General Fund	\$ 49,109	\$ 7,043	\$ 72,999	\$ 134
Special Revenue:				
Motor License Fund	4,985	2,054	40,215	8,116
Tobacco Settlement Fund	-	-	4	-
Hazardous Sites Clean-up Fund.....	16,487	-	9	-
State Racing Fund.....	-	-	7,312	-
Vocational Rehabilitation Fund.....	50	-	1,798	-
Pharmaceutical Assistance Fund.....	3,500	-	-	-
Agricultural Conservation Easement Fund.....	10,242	-	-	-
Public Transportation Assistance Fund.....	3,241	-	385	-
Other Funds.....	1,835	-	5,157	-
	<u>40,340</u>	<u>2,054</u>	<u>54,880</u>	<u>8,116</u>
Debt Service:				
Pennsylvania Infrastructure Investment Authority				
Redemption Fund.....	-	21,849	-	-
Other Funds.....	13	-	-	-
	<u>13</u>	<u>21,849</u>	<u>-</u>	<u>-</u>
Capital Projects:				
Capital Facilities Fund.....	12,870	-	1	-
Keystone Recreation, Park and Conservation Fund.....	-	-	5,700	-
	<u>12,870</u>	<u>-</u>	<u>5,701</u>	<u>-</u>
Enterprise:				
Unemployment Compensation Fund	2,668	399	-	-
State Lottery Fund	-	-	42	-
State Workmen’s Insurance Fund	130	-	2,637	-
Tuition Payment Fund	-	-	16	-
State Stores Fund.....	313	-	20,827	-
Rehabilitation Center Fund.....	1,606	-	44	-
Other Funds.....	466	60	9	-
	<u>5,183</u>	<u>459</u>	<u>23,575</u>	<u>-</u>
Internal Service:				
Purchasing Fund.....	836	287	-	-
Manufacturing Fund.....	5	51	3	-
	<u>841</u>	<u>338</u>	<u>3</u>	<u>-</u>
Pension Trust:				
State Employees’ Retirement System.....	1,515	-	-	-
	<u>1,515</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total primary government.....	<u>\$ 109,871</u>	<u>\$ 31,743</u>	<u>\$ 157,158</u>	<u>\$ 8,250</u>

NOTES TO FINANCIAL STATEMENTS

(Restated)

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

DISCRETELY PRESENTED COMPONENT UNITS	DUE FROM		DUE TO	
	PRIMARY GOVERNMENT	COMPONENT UNITS	PRIMARY GOVERNMENT	COMPONENT UNITS
<u>Non-fiduciary:</u>				
Pennsylvania Turnpike Commission.....	\$ 6,643	\$ -	\$ 5,773	\$ -
Pennsylvania Infrastructure Investment Authority	-	130	24,767	16
Other Component Units	95	16	801	130
	<u>6,738</u>	<u>146</u>	<u>31,341</u>	<u>146</u>
<u>Fiduciary:</u>				
Public School Employees Retirement System .	562	-	409	-
Total discretely presented component units...	<u>\$ 7,300</u>	<u>\$ 146</u>	<u>\$ 31,750</u>	<u>\$ 146</u>

The amount of total reported interfund receivables of \$149,060 thousand does not agree with total reported interfund payables of \$197,304 thousand at June 30, 2002 due to different fiscal year ends and reporting differences for certain Funds included in the Fund Financial Statements at June 30, 2002. The amount reported for the Pennsylvania Turnpike Commission, a discretely presented component unit, is reported at its fiscal year ended May 31, 2002 and the amounts reported as interfund balances for the State Employees' Retirement System and the Deferred Compensation Fund, Pension Trust Funds, the INVEST Program for Local Governments, an Investment Trust Fund and the **State Workmen's Insurance Fund**, an Enterprise Fund, are reported at their fiscal years ended December 31, 2001. The following presents a reconciliation of interfund balances reported at June 30, 2002 and those amounts which would have been reported if all Funds reported at the same fiscal year end (amounts in thousands):

Due from other funds at June 30, 2002	\$ 109,823
Due from fiduciary funds at June 30, 2002	48
Due from primary government at June 30, 2002	7,300
Due from component units at June 30, 2002	<u>31,889</u>
Reported Interfund Receivables	149,060
Pennsylvania Turnpike Commission increase in receivables from June 1, 2002 to June 30, 2002	1,473
State Workmen's Insurance Fund decrease in receivables from January 1, 2002 through June 30, 2002	61
State Employees' Retirement System increase in receivables from January 1, 2002 through June 30, 2002	702
Interfund receivables eliminated from Internal Service Funds	37,443
Interfund receivables eliminated from certain Enterprise Funds	64
Interfund receivables reported as Accounts Receivable in Fiduciary Funds	<u>7,965</u>
Reconciled Interfund Receivables	<u>\$ 196,768</u>
Due to other funds at June 30, 2002	\$ 157,070
Due to fiduciary funds at June 30, 2002	88
Due to primary government at June 30, 2002	31,750
Due to component units at June 30, 2002	<u>8,396</u>
Reported Interfund Payables	197,304

NOTES TO FINANCIAL STATEMENTS

(Restated)

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

State Employees' Retirement System increase in payables from January 1, 2002 through June 30, 2002.....	714
State Workmen's Insurance Fund decrease in payables from January 1, 2002 through June 30, 2002.....	(2,440)
Deferred Compensation Fund increase in payables from January 1, 2002 through June 30, 2002.....	85
Interfund payables eliminated from Internal Service Funds.....	373
Interfund payables eliminated from certain Enterprise Funds.....	67
Interfund payables reported as Accounts Payable in Fiduciary Funds.....	<u>665</u>
Reconciled Interfund Payables	<u>\$ 196,768</u>

At June 30, 2002 the **General Fund** reported Advances to Other Funds of \$29,108. Specifically, this amount has been advanced as follows: \$2,300 to the **State Workmen's Insurance Fund**, an Enterprise Fund, \$2,175 to the **Motor License Fund**, \$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 Workmen's Insurance Fund**, which has reported an advance of \$1,803 at its fiscal year ended December 31, 2001 and the Purchasing Fund, which reports a \$14,300 "other" liability (amounts in thousands). At June 30, 2002 the Hazardous Sites Cleanup Fund, a Special Revenue Fund, has reported an Advance to Other Funds of \$3,000. This amount was advanced to the Small Business First Fund, an Enterprise Fund, which has reported an Advance from Other Funds of \$3,000 (amounts in thousands). At June 30, 2002 the **Tuition Payment Fund**, an Enterprise Fund, has reported an Advance from Other Funds of \$50 thousand.

In the Statement of Net Assets, only advances between governmental activities and business-type activities are reported.

A summary of transfers reported for the fiscal year ended June 30, 2002 is as follows, with Major Fund titles in bold. Aggregate nonmajor governmental fund transfers from other funds amount to \$1,201,120 during June 30, 2002 and include a \$359,000 transfer from the **State Lottery Fund** to the Pharmaceutical Assistance Fund (amounts in thousands):

	TRANSFERS			
	<u>In</u>	<u>From Component Units</u>	<u>Out</u>	<u>To Component units</u>
PRIMARY GOVERNMENT				
General Fund	<u>\$ 213,419</u>	<u>\$ 256,206</u>	<u>\$1,528,451</u>	<u>\$1,043,197</u>
<u>Special Revenue:</u>				
Tobacco Settlement Fund	853,938	-	96,109	8,000
Motor License Fund	3,937	-	86,756	28,000
Hazardous Sites Clean-up Fund.....	-	-	7,000	-
State Racing Fund.....	-	-	7,293	-
Vocational Rehabilitation Fund.....	37,357	-	-	-
Pharmaceutical Assistance Fund.....	418,560	-	-	-
Water Facilities Loan Fund.....	-	-	2,491	-
Environmental Stewardship Fund.....	80,000	-	19,130	-
Other Funds.....	<u>30,212</u>	<u>-</u>	<u>40,225</u>	<u>-</u>
	<u>1,424,004</u>	<u>-</u>	<u>259,004</u>	<u>36,000</u>
<u>Debt Service:</u>				
Land and Water Development Sinking Fund.....	7,751	-	-	-
Water Facilities Loan Redemption Fund.....	11,823	-	-	-
Capital Debt Fund.....	546,781	-	-	-
Pennsylvania Infrastructure Investment Authority Redemption Fund.....	23,587	-	-	-
Local Criminal Justice Sinking Fund.....	14,926	-	-	-
Agricultural Conservation Easement Sinking Fund..	7,239	-	-	-
Keystone Recreation, Park and Conservation Fund..	4,157	-	-	-

NOTES TO FINANCIAL STATEMENTS

(Restated)

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

	<u>TRANSFERS (continued from previous page)</u>			
	<u>In</u>	<u>From Component Units</u>	<u>Out</u>	<u>To Component units</u>
<u>Debt Service continued:</u>				
Disaster Relief Redemption Fund	9,759	-	-	-
Pennsylvania Economic Revitalization Sinking Fund	5,055	-	-	-
Volunteer Company Loan Sinking Fund.....	2,882	-	-	-
Other Funds.....	1,031	-	-	-
	<u>634,991</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Capital Projects:</u>				
Capital Facilities Fund	-	-	3,937	-
<u>Enterprise:</u>				
State Lottery Fund	-	-	359,000	-
State Stores Fund.....	-	-	121,716	-
Small Business First Fund.....	-	-	306	-
	<u>-</u>	<u>-</u>	<u>481,022</u>	<u>-</u>
Total primary governments.....	<u>\$2,272,414</u>	<u>\$256,206</u>	<u>\$2,272,414</u>	<u>\$1,079,197</u>

<u>DISCRETELY PRESENTED COMPONENT UNITS</u>	<u>In</u>	<u>From Primary Government</u>	<u>Out</u>	<u>To Primary Government</u>
<u>Non-fiduciary:</u>				
Pennsylvania Higher Education Assistance Agency .	\$ -	\$ 412,618	\$ -	\$ -
Ben Franklin/Technology Development Authority...	-	71,009	-	-
Pennsylvania Industrial Development Authority	-	-	-	256,206
State System of Higher Education.....	-	471,821	-	-
Pennsylvania Turnpike Commission.....	-	<u>28,000</u>	-	-
Total discretely presented component units.....	<u>\$ -</u>	<u>\$ 983,448</u>	<u>\$ -</u>	<u>\$ 256,206</u>

Total primary government governmental funds transfers between governmental funds of \$1,791,392 have been eliminated in the Statement of Activities; total business-type activities transfers of \$481,022 to governmental activities are reported. The total amount of primary government governmental funds transfers to component units of \$1,079,197 is reported as part of governmental activities expenses in the Statement of Activities. Total component unit subsidies reported in the Statement of Activities does not include \$95,749 in resources from the primary government to the Pennsylvania Infrastructure Investment Authority that are reported as capital grants and contributions. During the fiscal year ended June 30, 2002 the Pennsylvania Industrial Development Authority issued bonds and deposited \$256,206 (amounts in thousands) in a Commonwealth account. The amount deposited will be used to fund debt service expenditures during the fiscal year ending June 30, 2003.

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

<u>Assigning Fund</u>	<u>Receiving Fund</u>	<u>Reason</u>	<u>Amount</u>
Liquor License	General	Legal/contractual	\$ 76
Liquid Fuels Tax	Motor License	Legal/contractual	365
Land and Water Development	Land and Water Development		
	Sinking	Legal/contractual	49
Remining Financial Assurance	Land and Water Development		
	Sinking	Other than legal/contractual	99
PA Economic Revitalization	PA Economic Revitalization		
	Sinking	Other than legal/contractual	26
Fire Insurance Tax	State Insurance	Legal/contractual	783
Fire Insurance Tax	Municipal Pension Aid	Legal/contractual	301

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. Commonwealth employees are members of the State Employees' Retirement System (SERS), a blended component unit. The SERS is the only blended component unit in the financial reporting entity and it is the only pension trust fund included in the primary government. Public school employees are members of the Public School Employees' Retirement System (PSERS), a discretely presented component unit. The PSERS is the only Fiduciary Fund reported as a discretely presented component unit. Both the SERS and the PSERS issue stand-alone 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, 2001 there were 106 employer state agencies and other organizations participating in the SERS. The SERS provides retirement, death, and disability benefits. Retirement benefits vest after 5 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.

The general annual benefit for full retirement for Class A members is 2 percent of the member's highest three-year 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.

Article II of the Pennsylvania Constitution provides the General Assembly the authority to establish or amend benefit provisions. Act 9, signed into law on May 17, 2001 established Class AA membership whereby, generally, annual full retirement benefits for electing active members were increased by 25 percent and, for certain members of the General Assembly, by 50 percent effective July 1, 2001. State employees hired after June 30, 2001 are Class AA members.

Funding Policy: 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. Commonwealth law determines all member contribution rates. The active plan member contribution rate is 5 percent of covered payroll for most employees; higher contributions are required for certain members of the General Assembly and judges and district justices who elect higher contribution rates. Act 9 of 2001 provides that new benefits arising from Act 9 are to be funded over a ten-year period, with level dollar funding, beginning July 1, 2002. Act 9 also provides that all the existing actuarial assets and liabilities will be combined and refinanced over a ten-year period using level dollar funding and future actuarial gains and losses are to be amortized using ten-year level dollar funding.

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>
2001	\$ 52,104	147.2
2000	\$ 168,002	100
1999	\$ 269,869	100

At December 31, 2001, the SERS disclosed no long-term contracts for contributions to the plan.

NOTE I - RETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

Investment Valuation: The investment in the Commonwealth Treasury short-term investment pool is reported at cost plus allocated interest, which approximates fair value. Collateral received under the Commonwealth Treasury securities lending program is reported at cost plus accrued interest. United States government obligations, corporate and foreign bonds and notes, and common and preferred stocks are generally valued based on published market prices and quotations from national security exchange and securities pricing services. Collective trust funds do not pay interest or dividends to shareholders, and reinvest all income earned on securities held by the fund. The fair value of these funds is based on the reported share value of the respective fund. Collective trust funds are principally managed by Barclays Global Investors, N.A. for which the United States Office of the Comptroller of the Currency has regulatory oversight. Securities that are not traded on a national security exchange are valued by the asset manager or third parties based on similar sales. 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 venture capital, leveraged buyouts, international private equities and other investments are valued based on amounts established by valuation committees, which are subject to an annual independent audit. Foreign exchange contracts, which are not reported in the statement of plan net assets, are marked-to-market daily with changes in fair value recognized as part of investment income. During 2001 the reported value of total investments declined by over \$2 billion.

Investment Concentration: At December 31, 2001, approximately \$452 million, or 17.8 percent, of the total SERS real estate portfolio was located in the Commonwealth of Pennsylvania. Also, investments in corporate and foreign bonds and notes include approximately \$774 million and \$1,049 million of high-yield bonds at December 31, 2001.

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, 2002 there were 706 participating employers, generally school districts. The PSERS provides retirement, death, disability and health care benefits. In most cases, retirement benefits vest after 5 years of credited service. Members are eligible for full monthly retirement benefits upon reaching (a) age 62 with at least one year of service, (b) age 60 with 30 or more years of service, or (c) 35 or more years of service regardless of age.

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

Funding Policy: The Public School Employees' Retirement Code provides that the PSERS Board has the authority to establish or amend periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll. 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 contribution is paid equally by the employer and the Commonwealth to the PSERS; no Commonwealth reimbursement occurs.

NOTE I - RETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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>
2002	\$ 539	100
2001	\$ 158,193	100
2000	\$ 390,504	100

At June 30, 2002, the PSERS disclosed that \$82,900 of \$166,238 (in thousands) of member receivables for purchases of service credit are due subsequent to June 30, 2003.

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

Investment Valuation: Investments are reported at fair value, which is the amount that the PSERS can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Short-term securities are reported at cost, which approximates fair value, unless they have a published market price or quotation from national security exchanges and securities pricing services, in which case they are reported at the published market price. Fixed income securities and common and preferred stocks are generally reported based on published market prices and quotations from national security exchanges and securities pricing services. Securities that are not traded on a national security exchange are valued by the respective fund manager or other third parties based on similar sales. Real estate is primarily valued based on appraisals performed by independent appraisers or, for properties not appraised, at the present value of projected future net income. Private equity, venture capital and equity real estate are reported 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.

Investment Concentration: At June 30, 2002, there were no investments in any one organization that represented 5 percent or more of plan net assets.

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 \$295 million for the fiscal year ended June 30, 2002. Approximately 86,000 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, 2002.

INDEX TO NOTES

	<u>Page</u>
Note A Summary of Significant Accounting Policies	51
Note B Restatement of Previously Reported Fund Balance/ Fund Equity/Net Assets at June 30, 2001	62
Note C Net Assets/Fund Equity	67
Note D Deposits and Investments.....	69
Note E Capital Assets.....	77
Note F Insurance Loss Liability and Tuition Benefits Payable.....	79
Note G Taxes, Loans and Lease Rentals Receivable.....	80
Note H Internal/Interfund Balances and Transfers	82
Note I Retirement and Other Postemployment Benefits.....	86
Note J Notes and Demand Revenue Bonds Payable	89
Note K Long-Term Obligations.....	91
Note L Refunded Debt.....	97
Note M Self-Insurance.....	99
Note N Commitments and Contingencies.....	101
Note O Certain Agency Fund Claims Liabilities	103
Note P Deferred Compensation.....	104
Note Q Joint Venture	104
Note R Subsequent Events.....	105
Note S Restatement as of and for the Fiscal Year Ended June 30, 2002 – Inheritance Taxes and Certain General Capital Assets.	106

NOTE J - NOTES AND DEMAND REVENUE BONDS PAYABLE

Primary Government

During the fiscal year ended June 30, 2002, 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, 2002 and 2001, no short-term debt was outstanding.

Discretely Presented Component Units

The Pennsylvania Higher Education Assistance Agency (PHEAA), a discretely presented component unit, has reported \$2,061 million of demand revenue bonds outstanding and \$970 million of notes payable, consisting of student loan financing of \$770 million, capital financing of \$78.8 million, term financing of \$91.2 million and other lines of credit of \$30 million at June 30, 2002 as follows (amounts in thousands):

	<u>Balance June 30, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2002</u>
Student loan demand revenue bonds due 2018-2040, at weighted average interest rates of 1.58 and 3.23 percent at June 30, 2002 and 2001, respectively	\$ <u>1,711,000</u>	\$ <u>350,000</u>	\$ <u>-</u>	\$ <u>2,061,000</u>
Notes Payable:				
Student loan financing, due in 2001-2007, at weighted average interest rates of 2.33 and 5.25 percent at June 30, 2002 and 2001, respectively	735,785	193,974	159,800	769,959
Capital financings, due 2001-2031 at weighted average interest rates of 5.36 and 6.06 percent at June 30, 2002 and 2001, respectively	82,155	681	3,553	79,283
Term financings, due 2002-2003 at weighted average interest rates of 5.26 and 5.93 percent at June 30, 2001 and 2002, respectively	19,773	76,501	4,448	91,826
Other lines of credit, due on demand at weighted average interest rates of 3.91 and 6.50 percent at June 30, 2002 2001, respectively	<u>20,000</u>	<u>10,000</u>	<u>-</u>	<u>30,000</u>
	857,713	281,156	167,801	971,068
Less: unamortized discount	<u>421</u>	<u>647</u>	<u>31</u>	<u>1,037</u>
Total Notes Payable	\$ <u>857,292</u>	\$ <u>280,509</u>	\$ <u>167,770</u>	\$ <u>970,031</u>

The note and bond indentures, among other things, require 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 PHEAA on demand of the bondholders upon seven days prior irrevocable written notice. Under the irrevocable letters of credit issued by the Student Loan Marketing Association, 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 2002 through 2010. The PHEAA is required to pay annual commitment fees ranging from 15 to 33 basis points on the stated amount of the letter of credit coverage. At June 30, 2002 total letter of credit coverage was \$1.3 billion.

All student loan financing notes payable, demand student loan revenue bonds payable and student loan revenue bonds payable are collateralized by student loans and investments. At June 30, 2002, \$3.4 billion of debt is collateralized by \$3.2 billion of student loan principal and related interest receivable, and \$327 million of investments and related interest receivable. Capital

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

financings are collateralized with capital assets. Amounts due under other lines of credit are generally unsecured. At June 30, 2002 the PHEAA had \$50 million of available credit under student loan financing arrangements and \$16 million available under other lines of credit.

Debt service requirements subsequent to June 30, 2002, based upon stated maturities of notes payable, bonds payable and other financings and obligations are as follows (amounts in thousands):

<u>Year of Maturity</u>	<u>Student Loan Bonds And Financings</u>		<u>Capital and Other Financings and Obligations Under Capital Lease</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 147,049	\$ 49,265	\$ 87,004	\$ 12,386
2004	-	48,528	9,304	8,616
2005	587,910	34,535	9,467	8,037
2006	-	34,534	5,697	7,577
2007	35,000	34,373	3,652	7,291
2008-12	-	167,842	74,970	28,599
2013-17	-	167,842	11,120	13,626
2018-22	321,000	150,523	13,970	10,669
2023-27	375,000	139,649	17,820	6,710
2028-32	425,000	101,215	17,735	1,790
2033-37	-	89,089	-	-
2038-42	<u>940,000</u>	<u>65,559</u>	<u>-</u>	<u>-</u>
Total	\$ <u>2,830,959</u>	\$ <u>1,082,954</u>	\$ <u>250,739</u>	\$ <u>105,301</u>

The PHEAA has \$2.8 billion of student loan bonds and financings that are variable-rate debt, of which \$971 million resets based upon auctions every seven days, \$940.1 million resets based upon auctions every 28 days, \$150 million resets based upon auctions every 35 days, \$622.9 million is indexed to 91-day Treasury bills, and the remaining \$147 million is indexed to the 3-month LIBOR.

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.

The Pennsylvania Housing Finance Agency (PHFA), a discretely presented component unit, maintains a \$50 million note for the funding of the Hafer Homebuyer Program. This note bears interest from the date of issuance at a rate equal to the daily short-term investment pool rate. At June 30, 2002 there was no balance owed against this note. The PHFA also maintains a Regional Housing Development Corporation Bridge Loan Note bearing interest at a fixed rate of 3 percent and a Pew Foundation Bridge Loan Note bearing interest at a fixed rate of 3 percent. At June 30, 2002 the amounts owed against these notes were zero and \$796 thousand, respectively.

NOTES TO FINANCIAL STATEMENTS

(Restated)

NOTE K – LONG TERM OBLIGATIONS

Long-term obligations of the Commonwealth’s primary government at June 30, 2002 and changes for the fiscal year ended June 30, 2002 are as follows (amounts in thousands):

GENERAL LONG-TERM OBLIGATIONS	Issue Dates	Interest Rates	Maturity Dates Through	Bonds Authorized But Unissued	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002
General Obligation Bonds Payable From								
Tax Revenues:								
Capital Facilities	1972-02	4.36-6.60%	2022	\$ 27,826,406	\$ 3,687,885	\$ 1,000,000	\$ 516,905	\$ 4,170,980
Disaster Relief	1973-01	4.60- 5.56%	2021	105,908	37,550	-	7,795	29,755
Land and Water Development.....	1972-94	4.89- 6.44%	2014	300	19,660	-	7,990	11,670
Nursing Home Loan Development.....	1983	8.26%	2002	31,000	1,075	-	525	550
Volunteer Companies Loan.....	1982-98	4.84-8.26%	2018	-	20,675	-	2,670	18,005
Vietnam Conflict Veterans								
Compensation	1974	5.36%	2003	3,000	1,365	-	430	935
Water Facilities Loan	1983-97	4.89- 8.26%	2017	11,500	98,880	-	19,045	79,835
Pennsylvania Economic Revitalization	1991-95	5.04- 6.44%	2015	14,000	23,465	-	13,020	10,445
Pennsylvania Infrastructure								
Investment Authority.....	1991-01	4.62- 6.44%	2021	267,000	230,935	-	45,085	185,850
Agricultural Conservation Easement								
Purchase	1991-98	4.47- 6.60%	2018	-	66,070	-	21,420	44,650
Local Criminal Justice.....	1992-01	4.36- 6.60%	2021	8,000	146,600	1,000	45,195	102,405
Keystone Recreation, Park and								
Conservation.....	1994-98	4.84- 6.60%	2018	-	41,640	-	6,995	34,645
Refunding Bonds	1992-02	4.36- 5.73%	2018	-	1,169,281	354,312	141,380	1,382,213
				<u>28,267,114</u>	<u>5,545,081</u>	<u>1,355,312</u>	<u>828,455</u>	<u>6,071,938</u>
Other General Long-Term Obligations								
Payable From Tax and Other Revenues:								
Installment Purchase Obligations.....	-	-	-	-	26,165	1,733	13,554	14,344
Capital Lease Obligations.....	-	-	-	-	52,299	4,034	4,260	52,073
Obligations Under Master Lease—								
Prison Facilities	-	-	-	-	594,520	-	31,500	563,020
Self-Insurance—Note M	-	-	-	-	633,446	172,567	98,736	707,277
Compensated Absences.....	-	-	-	-	699,178	360,515	324,196	735,497
Catastrophic Motor Vehicle Losses	-	-	-	-	126,368	14,509	18,890	121,987
Other	-	-	-	-	329,212	279,528	182,469	426,271
				<u>-</u>	<u>2,461,188</u>	<u>832,886</u>	<u>673,605</u>	<u>2,620,469</u>
TOTAL GENERAL LONG-TERM OBLIGATIONS				<u>\$ 28,267,114</u>	<u>\$ 8,006,269</u>	<u>\$ 2,188,198</u>	<u>\$ 1,502,060</u>	<u>\$ 8,692,407</u>

Revenue bond obligations of discretely presented component units at June 30, 2002 (May 31, 2002 for the Pennsylvania Turnpike Commission) and changes for the fiscal year then ended are as follows (amounts in thousands):

Pennsylvania Higher Education								
Assistance Agency.....	1988-02	4.18%	2026		\$ 537,925	\$ -	\$ -	\$ 537,925
Philadelphia Regional Port Authority	1993	2.75-6.20%	2020		54,445	-	1,870	52,575
State System of Higher Education.....	2000	5.70-10.00%	2032		15,970	-	-	15,970
Pennsylvania Housing Finance Agency.	1982-02	1.80-9.48%	2033		2,884,769	495,660	406,310	2,974,119
Pennsylvania Industrial Development								
Authority.....	1994-02	4.00-7.00%	2021		328,220	258,100	29,695	556,625
Pennsylvania Turnpike Commission.....	1992-01	2.50-6.00%	2041		1,936,365	732,545	517,675	2,151,235
Pennsylvania Infrastructure Investment								
Authority.....	1990-98	4.00-6.45%	2013		161,400	-	14,085	147,315
					5,919,094	1,486,305	969,635	6,435,764
Less: Bond discounts								
Deferred costs of refunding.....	-	-	-		42,082	14,323	53,298	3,107
Deferred refunding loss.....	-	-	-		11,565	13,467	961	24,071
					<u>2,166</u>	<u>286</u>	<u>323</u>	<u>2,129</u>
TOTAL REVENUE BONDS					<u>\$ 5,863,281</u>	<u>\$ 1,458,229</u>	<u>\$ 915,053</u>	<u>\$ 6,406,457</u>

NOTE K – LONG TERM OBLIGATIONS (continued)

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, 2002, respectively, these Funds transferred \$462,709 and \$84,072 to the Capital Debt fund, which reported \$667,439 (88 percent) of total Debt Service funds principal and interest expenditures of \$757,823 (amounts in thousands). Except for Catastrophic Motor Vehicle Losses, which are funded by motorist violation fines, general long-term obligations other than general obligation bonds are funded by specific Funds where capital assets are procured using long-term vendor or other financing, where employees earn compensated absences or where self-insurance claims originate.

The total “Additions” of \$1,355,312 for General Obligations Bonds Payable from Tax Revenues at June 30, 2002 differs from total bond and refunding bond proceeds of \$1,419,667 for Governmental Funds, as reported in the Statement of Revenues, Expenditures and Changes in Fund Balances, by \$64,355. This difference includes premium on bonds issued of \$68,032, less principal accretion for capital appreciation bonds of \$3,677. During the fiscal year ended June 30, 2002 \$1,532 of bond premium was amortized and credited to bond interest expense in the Statement of Activities, unamortized premium in the Statement of Net Assets at June 30, 2002 is \$62,823 (amounts in thousands).

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

The balance outstanding at June 30, 2002 for general obligation refunding bonds includes \$26.7 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 workmen’s compensation assessments and **General Fund** tax revenues are the following at June 30, 2002 (amounts in thousands):

Workmen’s Compensation Security Trust Claims.....	\$ 363,911
Public Utility Realty Tax Act (PURTA).....	25,614
Litigation—Note N.....	36,438
Arbitrage Rebate Tax.....	<u>308</u>
	<u>\$ 426,271</u>

The Workmen’s Compensation Security Trust Fund provides for payment of valid claims under the Workmen’s Compensation Law to individuals whose employers are insured by insolvent insurance carriers. 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, 2002 relating to Workmen’s Compensation Claims, Litigation and Arbitrage Rebate Tax are not payable with currently expendable available financial resources.

In 1991, the Commonwealth entered into lease arrangements with five local government authorities for the rental of five new prisons. Each authority issued bonds to finance the construction of the prisons. Each lease provided for the Commonwealth to pay periodic rentals equal to debt service payments on each authority’s debt obligation. On July 1, 1993 a finance corporation issued certificates of participation to refund the authority debt obligations, to consolidate the financing of the prisons and to provide additional construction funding. As a result of the consolidated financing, the Commonwealth makes lease payments equal to the finance corporation’s debt service payments. Both the original and the new leases provide that the Commonwealth’s obligation to make lease payments is subject to Commonwealth appropriations made to provide for these obligations. In the fiscal year ended June 30, 1994 the Commonwealth began using the new prison facilities. The finance corporation holds nominal title to the facilities as security for the Commonwealth lease payments. When the certificates are fully redeemed, at which time the lease agreement expires, legal title vests with the Commonwealth. At June 30, 2002 the Commonwealth has reported \$563 million as a liability under prison master lease arrangements and has reported general fixed assets for the related prison facilities.

NOTE K – LONG TERM OBLIGATIONS (continued)

The Commonwealth’s constitutional debt limit, which allows for the incurrence of debt to be used for capital projects without electorate approval as specifically itemized in a capital budget, was \$41.4 billion as of August 31, 2002, with net debt outstanding of \$5.3 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, 2002 (May 31, 2002 for the PTC) include bond discounts, deferred costs of refunding, and deferred refunding losses of \$3.1 million, \$24.1 million, and \$2.1 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, 2002 (May 31, 2002 for the Pennsylvania Turnpike Commission) (amounts in thousands):

PRIMARY GOVERNMENT

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008-12</u>	<u>2013-17</u>
GENERAL OBLIGATION BONDS:							
Capital Facilities	\$ 478,405	\$ 452,473	\$ 427,486	\$ 416,161	\$ 407,301	\$ 1,851,426	\$ 1,401,753
Disaster Relief	9,717	2,735	2,656	2,577	2,494	11,215	8,976
Land and Water Development.....	4,492	1,092	1,036	982	977	4,884	1,265
Nursing Home Loan Development.....	550	-	-	-	-	-	-
Volunteer Companies Loan.....	2,473	2,013	1,992	1,877	1,857	9,073	5,277
Vietnam Conflict Veterans Compensation	487	491	-	-	-	-	-
Water Facilities Loan	10,652	10,026	9,216	8,773	8,749	43,157	17,310
Pennsylvania Economic Revitalization..	1,830	1,820	1,060	1,059	1,046	5,161	1,722
Pennsylvania Infrastructure Investment Authority	23,605	23,324	21,187	19,990	19,815	96,154	46,517
Agricultural Conservation Easement Purchase	6,236	6,148	5,552	4,642	4,591	20,143	10,393
Local Criminal Justice.....	13,761	13,743	12,761	12,735	12,699	50,739	19,732
Keystone Recreation, Park and Conservation	3,960	3,915	3,881	3,842	3,802	16,174	12,911
Refunding Bonds	<u>218,002</u>	<u>208,625</u>	<u>173,061</u>	<u>170,126</u>	<u>147,941</u>	<u>588,962</u>	<u>227,866</u>
Total Principal and Interest	774,170	726,405	659,888	642,764	611,272	2,697,088	1,753,722
Less: Interest Payments	<u>288,211</u>	<u>263,275</u>	<u>244,349</u>	<u>242,231</u>	<u>220,614</u>	<u>806,573</u>	<u>357,039</u>
Other General Long-Term Obligations ..	485,959	463,130	415,539	400,533	390,658	1,890,515	1,396,683
	<u>164,895</u>	<u>120,440</u>	<u>123,966</u>	<u>128,056</u>	<u>129,592</u>	<u>665,662</u>	<u>657,470</u>
TOTAL GENERAL LONG- TERM OBLIGATIONS	<u>\$ 650,854</u>	<u>\$ 583,570</u>	<u>\$ 539,505</u>	<u>\$ 528,589</u>	<u>\$ 520,250</u>	<u>\$ 2,556,177</u>	<u>\$ 2,054,153</u>

NOTES TO FINANCIAL STATEMENTS

(Restated)

NOTE K – LONG TERM OBLIGATIONS (continued)

	<u>2018-22</u>	<u>2023-27</u>	<u>2028-32</u>	<u>2033-37</u>	<u>2038-42</u>	<u>Total</u>
GENERAL OBLIGATION BONDS:						
Capital Facilities	\$ 670,886	\$ -	\$ -	\$ -	\$ -	\$ 6,105,891
Disaster Relief	579	-	-	-	-	40,949
Land and Water Development	-	-	-	-	-	14,728
Nursing Home Loan Development	-	-	-	-	-	550
Volunteer Companies Loan	312	-	-	-	-	24,874
Vietnam Conflict Veterans Compensation	-	-	-	-	-	978
Water Facilities Loan	-	-	-	-	-	107,883
Pennsylvania Economic Revitalization ..	-	-	-	-	-	13,698
Pennsylvania Infrastructure Investment Authority	3,189	-	-	-	-	253,781
Agricultural Conservation Easement Purchase	1,995	-	-	-	-	59,700
Local Criminal Justice	1,299	-	-	-	-	137,469
Keystone Recreation, Park and Conservation	729	-	-	-	-	49,214
Refunding Bonds	<u>23,986</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,758,569</u>
Total Principal and Interest	702,975	-	-	-	-	8,568,284
Less: Interest Payments	<u>74,054</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,496,346</u>
Other General Long-Term Obligations ..	<u>628,921</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,071,938</u>
	<u>474,494</u>	<u>155,894</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,620,469</u>
TOTAL GENERAL LONG-TERM OBLIGATIONS	<u>\$ 1,103,415</u>	<u>\$ 155,894</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,692,407</u>

DISCRETELY PRESENTED COMPONENT UNITS

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008-12</u>	<u>2013-17</u>
Pennsylvania Higher Education							
Assistance Agency	\$ 22,137	\$ 22,137	\$ 22,137	\$ 22,138	\$ 22,137	\$ 110,686	\$ 251,623
Philadelphia Regional Port Authority	5,118	5,115	5,107	5,059	4,547	22,623	22,565
State System of Higher Education	1,082	1,237	1,252	1,223	1,227	6,146	6,508
Pennsylvania Housing Finance Agency ..	243,317	236,051	240,434	239,505	238,637	1,218,888	1,135,879
Pennsylvania Industrial Development Authority	50,517	51,956	53,491	54,239	55,697	269,242	201,047
Pennsylvania Turnpike Commission	136,909	137,213	138,710	139,441	139,825	635,863	699,568
Pennsylvania Infrastructure Investment Authority	<u>22,075</u>	<u>21,768</u>	<u>21,388</u>	<u>20,493</u>	<u>19,446</u>	<u>59,891</u>	<u>21,265</u>
Total Principal and Interest	481,155	475,477	482,519	482,098	481,516	2,323,339	2,338,455
Less: Interest Payments	<u>316,997</u>	<u>313,627</u>	<u>305,540</u>	<u>296,719</u>	<u>287,064</u>	<u>1,258,239</u>	<u>949,991</u>
TOTAL REVENUE BONDS	<u>\$ 164,158</u>	<u>\$ 161,850</u>	<u>\$ 176,979</u>	<u>\$ 185,379</u>	<u>\$ 194,452</u>	<u>\$ 1,065,100</u>	<u>\$ 1,388,464</u>

	<u>2018-22</u>	<u>2023-27</u>	<u>2028-32</u>	<u>2033-37</u>	<u>2038-42</u>	<u>Total</u>
Pennsylvania Higher Education						
Assistance Agency	\$ 295,320	\$ 181,657	\$ -	\$ -	\$ -	\$ 949,972
Philadelphia Regional Port Authority	17,838	-	-	-	-	87,972
State System of Higher Education	6,646	6,144	9,335	-	-	40,800
Pennsylvania Housing Finance Agency ..	960,892	711,792	322,210	16,731	-	5,564,336
Pennsylvania Industrial Development Authority	112,918	-	-	-	-	849,107
Pennsylvania Turnpike Commission	483,341	401,729	416,621	45,346	199,676	3,574,242
Pennsylvania Infrastructure Investment Authority	-	-	-	-	-	186,326
Total Principal and Interest	1,876,955	1,301,322	748,166	62,077	199,676	11,252,755
Less: Interest Payments	<u>601,868</u>	<u>304,107</u>	<u>117,786</u>	<u>46,172</u>	<u>18,881</u>	<u>4,816,991</u>
TOTAL REVENUE BONDS	<u>\$ 1,275,087</u>	<u>\$ 997,215</u>	<u>\$ 630,380</u>	<u>\$ 15,905</u>	<u>\$ 180,795</u>	<u>\$ 6,435,764</u>

NOTE K – LONG TERM OBLIGATIONS (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, 2002 (amounts in thousands):

	<u>Primary Government</u>			<u>Discretely Presented Component Units</u>	
	<u>Capital Lease Obligations</u>	<u>Master Lease Obligations</u>	<u>Installment Purchase Obligations</u>	<u>Pennsylvania Higher Education Assistance Agency</u>	<u>State System of Higher Education</u>
Fiscal year ending June 30					
2003.....	\$ 8,732	\$ 61,337	\$ 5,466	\$ 51,554	\$ 41,360
2004.....	8,161	61,287	3,942	-	41,075
2005.....	6,902	61,224	2,516	-	40,545
2006.....	6,233	61,197	1,227	-	40,053
2007.....	6,179	61,071	664	-	38,962
2008-12.....	31,416	304,411	2,545	-	175,241
2013-17.....	24,713	155,473	1,067	-	168,457
2018-22.....	-	-	-	-	127,902
2023-27.....	-	-	-	-	34,142
Total minimum lease payments.....	92,336	766,000	17,427	51,554	707,737
Less: amount representing estimated executory cost included in minimum lease payments.....	11,342	-	-	-	-
Net minimum lease payments and					
Installment purchases.....	80,994	766,000	17,427	51,554	707,737
Less: amount representing interest.....	28,921	202,980	3,083	1,924	268,077
TOTAL CAPITAL LEASE AND INSTALLMENT PURCHASE OBLIGATIONS ..	\$ 52,073	\$ 563,020	\$ 14,344	\$ 49,630	\$ 439,660

At June 30, 2002 general capital assets included \$95.8 million of buildings and \$8.3 million of equipment being procured by capital leases. A total of \$29.4 million in general capital assets is being procured by vendor-financed installment purchase arrangements.

Capital lease obligations outstanding as of June 30, 2002 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 \$116.7 million of construction in progress related to capital leases at June 30, 2002.

Conduit Debt

The State Public School Building Authority (SPSBA) 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, 2002 the SPSBA has \$521 million 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 and 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, 2002 the PHEFA has \$4.02 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.

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, 2002 the PEDFA

NOTE K – LONG TERM OBLIGATIONS (continued)

has \$1,624.5 million 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 \$92.9 million in revenue bonds outstanding at June 30, 2002. The Commonwealth has no obligation for this debt. Accordingly, neither the financed assets nor the bonds are included in the accompanying financial statements.

NOTE L - REFUNDED DEBT**Primary Government**

During the fiscal year ended June 30, 2002 the Commonwealth issued \$350.6 million in general obligation bonds, First Refunding Series of 2002, with an average interest rate of 5.31 percent to advance refund \$349.1 million of previously issued general obligation bonds with an average interest rate of 6.48 percent. The net refunding bond proceeds of \$376.9 million (including bond premium of \$27.9 million), after payment of underwriting fees, insurance, and other issuance costs, were deposited in irrevocable trusts to provide for all future debt service payments on the refunded bonds. As a result, the bonds refunded are considered to be defeased and have been removed from the Commonwealth's financial statements. The Commonwealth advance refunded its previously issued bonds to reduce debt service payable on its general obligation bonds by \$36 million and to obtain an economic gain of \$33.2 million.

In prior years, the Commonwealth defeased certain general obligation bonds by placing the proceeds of refunding bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. At June 30, 2002, \$202 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, 2002, the Pennsylvania Higher Education Assistance Agency (PHEAA) issued \$312.9 million of student loan revenue bonds at a weighted average interest rate of 2.64 percent to current refund \$312.9 million of outstanding student loan revenue bonds with a weighted-average interest rate of 7.10 percent. The current refunding bonds are fixed rate bonds with a mandatory tender on July 1, 2003. At that date, the bonds will be remarketed. The PHEAA expects to reduce interest payments over the next year by \$13.9 million as a result of the refunding. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$8.2 million. This difference, reported in the accompanying statement of net assets as a deduction from student loan revenue bonds payable, is being charged to student loan financings and bonds payable interest expense ratably over the life of the student loan revenue bonds.

During the fiscal year ended June 30, 2002 the Pennsylvania Housing Finance Agency (PHFA) redeemed prior to maturity \$331.7 million of Single Family Mortgage Revenue Bonds, Series 1990-29, 1991-30, 1991-31, 1991-32, 1992-33, 1992-34, 1994-38, 1994-39, 1994-40, 1994-41, 1994-42, 1995-44, 1995-45, 1995-46, 1996-47, 1996-48, 1996-50, 1996-51, 1996-52, 1996-53, 1997-54, 1997-56, 1997-57, 1997-58, 1997-59, 1997-60, 1997-61, 1998-62, 1998-64, 1999-65, 1999-66, 1999-67, 1999-68, 2000-69 and 2000-70 using mortgage prepayments. Extraordinary losses of \$734 thousand that resulted from the redemptions as unamortized bond discount and related costs of issuance for the bonds redeemed were expensed. Additionally, during the year ended June 30, 2002 the PHFA redeemed prior to maturity \$257.7 million of Single Family Mortgage Revenue Bonds, Series U, 1990-29, 1991-31, 1992-34, 1991-32, 1991-30, 1991-31, 1992-33, 1994-39, 1994-40, 1994-41, 1994-42, 1994-44, 1996-49, 1996-50 and 1996-51 using bond proceeds.

Although a deferred loss of \$5.3 million resulted from the refundings, the PHFA in effect obtained an economic gain of \$67.2 million and was able to reduce its aggregate debt service payments as a result of these transactions by a total of \$190.6 million over the next 30 years.

At June 30, 2002, \$7.1 million of bonds outstanding that were previously accounted for in the financial statements of the PHFA have been defeased through refundings.

During the fiscal year ended May 31, 2002 the Pennsylvania Turnpike Commission (PTC) issued \$86.6 million in Series T Revenue Refunding Bonds and \$169.8 million in Series U Revenue Refunding Bonds. The proceeds of the bonds were used to advance refund the PTC's Series M and N Revenue Bonds. As a result of the Series T and U advance refundings, the PTC incurred economic losses of \$6.4 million and \$12.1 million, respectively, which will be amortized over the life of the new bonds.

At May 31, 2002, the PTC has no bonds outstanding that were previously accounted for in their financial statements that have been defeased through refundings.

At June 30, 2002, \$24.3 million of bonds outstanding that were previously accounted for in the financial statements of the Pennsylvania Infrastructure Investment Authority have been defeased through refundings.

NOTE L - REFUNDED DEBT (continued)

At June 30, 2002, \$6 million of bonds outstanding that were previously accounted for in the financial statements of the Pennsylvania Industrial Development Authority have been defeased through refundings.

At June 30, 2002, \$63.9 million of bonds outstanding that were previously accounted for in the financial statements of the State System of Higher Education have been defeased through refundings.

NOTE M - SELF-INSURANCE

The Commonwealth is self-insured for statutory workers' compensation, which includes indemnity and medical benefits (employee disability), for its employees injured on the job. The Commonwealth is also self-insured for annuitant medical/hospital claims and for tort liability claims. Major tort risks include automobile, employee and general torts. For property losses, the Commonwealth has \$1 million retention with excess commercial insurance coverage up to \$134 million per occurrence. The Commonwealth is also self-insured for claims against the Department of Transportation (transportation claims). The Commonwealth has established various administrative policies that are intended to avoid or limit the aforementioned risks.

There were no reductions in commercial insurance coverage during the fiscal year ended June 30, 2002. No settlements exceeded commercial insurance coverage during each of the past three fiscal years.

The accrued liabilities for employee disability and annuitant medical/hospital claims are determined by an actuary in accordance with accepted actuarial principles. The accrued liability for employee disability was calculated including the effects of changes in statutory benefits from Act 44 of 1993 and Act 57 of 1997. Accrued liabilities for tort and transportation claims are established based on reserves computed from the Commonwealth's claim experience; such claims are not discounted. These liabilities include liabilities for allocated claim adjustment expenditures/expenses and include salvage and subrogation. Salvage and subrogation were not material for the fiscal year ended June 30, 2002. No accrued liability has been reported for property losses.

At June 30, 2002, the accrued liabilities that will be paid with current expendable available financial resources are reported in the **General Fund** (\$108,577), the **Motor License Fund** (\$17,605), a Special Revenue Fund, and the State Stores Fund (\$2,277), an Enterprise Fund. Those liabilities that will not be paid with current expendable available financial resources at June 30, 2002 are reported as governmental long-term obligations and will be funded by the **General Fund** (\$382,947), the **Motor License Fund** (\$313,753), a Special Revenue Fund, and as a non-current liability of the State Stores Fund (\$10,577), an Enterprise Fund. All accrued self-insurance liabilities at June 30, 2002 are summarized as follows (amounts in thousands):

	<u>General Fund</u>	<u>Motor License Fund</u>	<u>State Stores Fund</u>	<u>GLTO</u>	<u>Total</u>
Employee disability.....	\$ 64,908	\$ -	\$ 2,277	\$ 312,063	\$ 379,248
Annuitant medical/hospital	36,499	-	-	-	36,499
Automobile tort.....	2,850	-	-	16,826	19,676
Employee tort.....	2,500	-	-	25,131	27,631
General tort	1,820	-	-	39,504	41,324
Transportation	-	<u>17,605</u>	-	<u>313,753</u>	<u>331,358</u>
Totals	<u>\$ 108,577</u>	<u>\$ 17,605</u>	<u>\$ 2,277</u>	<u>\$ 707,277</u>	<u>\$ 835,736</u>

The following summary provides aggregated information on June 30, 2001 reported self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2002 and reported self-insurance liabilities at June 30, 2002 (amounts in thousands):

	June 30, 2001	Incurred Claims		Payments		June 30, 2002
	<u>Liability</u>	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	<u>Liability</u>
-						
Employee disability.....	\$ 378,934	\$ 44,363	\$ 9,966	\$ 5,965	\$ 48,050	\$ 379,248
Annuitant medical/hospital ..	36,181	314,832	-	278,333	36,181	36,499
Automobile tort.....	17,786	6,850	(2,054)	1,046	1,860	19,676
Employee tort.....	26,086	1,269	1,384	82	1,026	27,631
General tort	32,729	7,125	2,557	20	1,067	41,324
Transportation	<u>272,815</u>	<u>67,050</u>	<u>3,642</u>	<u>463</u>	<u>11,686</u>	<u>331,358</u>
Totals.....	<u>\$ 764,531</u>	<u>\$ 441,489</u>	<u>\$ 15,495</u>	<u>\$ 285,909</u>	<u>\$ 99,870</u>	<u>\$ 835,736</u>

NOTES TO FINANCIAL STATEMENTS**(Restated)****NOTE M - SELF-INSURANCE (continued)**

The following summary provides aggregated information on June 30, 2000 self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2001 and reported self-insurance liabilities at June 30, 2001 (amounts in thousands):

	June 30,	Incurred		Payments		June 30,
	2000	Claims				2001
	<u>Liability</u>	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	<u>Liability</u>
-						
Employee disability	\$ 351,801	\$ 42,509	\$ 51,240	\$ 6,770	\$ 59,846	\$ 378,934
Annuitant medical/hospital ..	32,205	289,386	-	253,205	32,205	36,181
Automobile tort	17,827	6,079	(3,596)	917	1,607	17,786
Employee tort	29,242	1,754	(2,664)	4	2,242	26,086
General tort	36,407	6,751	(8,138)	32	2,259	32,729
Transportation	<u>254,131</u>	<u>56,858</u>	<u>(26,811)</u>	<u>440</u>	<u>10,923</u>	<u>272,815</u>
Totals.....	<u>\$ 721,613</u>	<u>\$ 403,337</u>	<u>\$ 10,031</u>	<u>\$ 261,368</u>	<u>\$ 109,082</u>	<u>\$ 764,531</u>

NOTE N – COMMITMENTS AND CONTINGENCIES

Construction and Other Commitments: At June 30, 2002, the Department of Transportation and at May 31, 2002, the Pennsylvania Turnpike Commission, a discretely presented component unit, have contractual commitments of approximately \$1,978.8 million and \$450 million, respectively, for various highway construction and mass transit projects. Financing for these future expenditures will be primarily from approved federal grants and general obligation bond proceeds. In addition, the Commonwealth has a variety of contractual and other commitments for future subsidies and purchases of goods and services for approximately \$5.6 billion at June 30, 2002. Actual expenditures are contingent upon approved spending authority and/or availability of financial resources.

Loan Commitments: At June 30, 2002, the following discretely presented component units had approved loans that had not been disbursed (amounts in millions):

Pennsylvania Housing Finance Agency.....	\$	133
Pennsylvania Industrial Development Authority		154
Pennsylvania Infrastructure Investment Authority		458

Operating Lease Commitments: The Commonwealth and its discretely presented component units have commitments to lease certain buildings and equipment. Future minimum rental commitments for noncancelable operating leases as of June 30, 2002 were as follows (amounts in thousands):

Fiscal year ending June 30:	<u>Primary Government</u>	<u>Discretely Presented Component Units</u>
2003	\$ 263,372	\$8,245
2004	142,247	6,594
2005	103,599	3,071
2006	77,783	1,446
2007	58,281	341
2008-2012	<u>157,512</u>	<u>586</u>
Total Minimum Lease Payments	<u>\$ 802,794</u>	<u>\$20,283</u>

Rental expenditures/expenses for all operating leases for the fiscal year ended June 30, 2002 amounted to \$296.1 million (\$287.1 million for primary government, \$9 million for discretely presented component units).

Child Support Payments: At June 30, 2002, the Commonwealth is contingently liable for approximately \$48 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, 2002 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 \$36,438 thousand for which the likelihood of an unfavorable outcome is probable.

Additionally, the Commonwealth is currently involved in certain legal proceedings relative to a case concerning the distribution of certain state funding for public education in an approximate amount ranging from \$200 million to \$1 billion. Other cases that the Commonwealth is vigorously contesting could range from approximately \$80 million to \$463 million, .4 to \$228 million, .2 to \$38.2 million, zero to \$1 million, zero to \$37 million, and zero to \$1.1 billion of additional liabilities for the **General Fund**, Special Revenue Funds, Capital Projects Funds, Enterprise Funds, Agency Funds and the Pension Trust Funds, respectively.

Based on the current status of all these legal proceedings, for which accruals have not been made, it is the opinion of the Commonwealth’s management and counsel that they will not have a material effect on the Commonwealth’s financial position.

The range of potential liability for governmental and business-type activities, respectively, is between \$280 million and \$1.7 billion and zero to \$1 million at June 30, 2002. The range for the **Motor License Fund** and the **Unemployment Compensation Fund**, respectively, is between \$400 thousand and \$225 million and zero and \$1 million at June 30, 2002.

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 general purpose 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 \$37 to \$275 million at June 30, 2002. 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 \$18.2 billion at June 30, 2002. 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, 2002, 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, 2002, the amount of future payments owed to prizewinners is \$1.65 billion. To satisfy its financial obligation to these prizewinners, the Fund purchases annuity contracts from insurance companies whereby the insurance companies make periodic payments to prizewinners. Generally, in the event of insurance company default, the Fund is liable for the related annuity payments. However, certain prizewinners voluntarily assign their annuity rights to other parties and receive lump-sum payments in return. In the event of insurance company default where annuity rights have been voluntarily assigned by prizewinners, the Fund is not liable for the related annuity payments. At June 30, 2002, the future payments of \$381 million have been voluntarily assigned by prizewinners.

NOTE O - CERTAIN AGENCY FUND CLAIMS LIABILITIES

The Medical Professional Liability Catastrophe Loss 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, 2002 totals \$2.2 billion. The amount of expendable financial resources available to pay claims at June 30, 2002 is \$157.7 million. This is reported as a fund liability. The remaining claims will be funded exclusively through surcharge assessments in future years as claims are settled and paid; as a result, a financial liability for remaining claims is not reported.

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 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 \$471.1 million at December 31, 2001; on a pro-rata basis, \$431.8 million at June 30, 2002. 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, 2002. 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 \$1,047 million in assets reported in the Deferred Compensation Fund, a Pension Trust Fund, at December 31, 2001, \$1,026 million relates to primary government employees and \$18 million relates to employees of discretely presented component units. The remaining balance of \$3 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 is required to fund almost all necessary contributions to pay for the cost of providing benefits; the unions are not required to make contributions. Collective bargaining agreements and administrative policies establish contribution rates and/or amounts. During the fiscal year ended June 30, 2002, the Commonwealth contributed over \$715 million to fund benefits. Neither the Commonwealth nor the unions have an equity interest in the PEBTF.

At June 30, 2002, the PEBTF reported total assets of \$247 million, total liabilities and benefit obligations of \$110 million, and net assets available for benefits of \$137 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, 2002 the PEBTF reported a decrease in net assets available for benefits of \$120 million for the Active Plan program. This was caused by a continuing increase in the cost of medical benefits incurred without an increase in contributions made by the Commonwealth. Also, investment income decreased during the fiscal year due to a decrease in the average investment balance as the PEBTF liquidated certain investments to pay claims. The PEBTF prepared an analysis that showed that the decrease in net assets available for benefits would likely continue through the fiscal year ending June 30, 2003 to the point where total benefit obligations would exceed total net assets.

The PEBTF is in the process of changing certain benefit provisions under its current agreement with labor unions. However, the changes in benefit provisions may not be sufficient to ensure that total net assets continue to equal or exceed total benefit obligations. In addition, neither the Commonwealth nor the various labor unions can presently guarantee that either joint venture participant would subsidize the Active Plan program in the event that the PEBTF does not generate adequate cash flows to pay for claims and other operating expenses through June 30, 2003 and subsequent periods.

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 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 is required to fund almost all necessary contributions to pay for the cost of providing benefits; the unions are not required to make contributions. Collective bargaining agreements and administrative policies establish contribution rates and/or amounts. During the fiscal year ended June 30, 2002, the Commonwealth contributed over \$715 million to fund benefits. Neither the Commonwealth nor the unions have an equity interest in the PEBTF.

At June 30, 2002, the PEBTF reported total assets of \$247 million, total liabilities and benefit obligations of \$110 million, and net assets available for benefits of \$137 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, 2002 the PEBTF reported a decrease in net assets available for benefits of \$120 million for the Active Plan program. This was caused by a continuing increase in the cost of medical benefits incurred without an increase in contributions made by the Commonwealth. Also, investment income decreased during the fiscal year due to a decrease in the average investment balance as the PEBTF liquidated certain investments to pay claims. The PEBTF prepared an analysis that showed that the decrease in net assets available for benefits would likely continue through the fiscal year ending June 30, 2003 to the point where total benefit obligations would exceed total net assets.

The PEBTF is in the process of changing certain benefit provisions under its current agreement with labor unions. However, the changes in benefit provisions may not be sufficient to ensure that total net assets continue to equal or exceed total benefit obligations. In addition, neither the Commonwealth nor the various labor unions can presently guarantee that either joint venture participant would subsidize the Active Plan program in the event that the PEBTF does not generate adequate cash flows to pay for claims and other operating expenses through June 30, 2003 and subsequent periods.

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**Primary Government**

On October 1, 2002, the Commonwealth issued \$641.2 million of General Obligation Bonds, Second Refunding Series of 2002 with an interest rate of 4.99 percent. The Commonwealth issued the bonds to refund a portion of seven separate issues of previously issued Commonwealth of Pennsylvania General Obligation Bonds in order to reduce debt service on its general obligation bonds.

Discretely Presented Component Units

On July 12, 2002, the Pennsylvania Housing Finance Agency (PHFA) issued \$124.1 million of Series 2002 Rental Housing Refunding Bonds. The proceeds of the bonds will be used to refund the PHFA's outstanding Series 1992 Rental Housing Refunding Bonds. On July 25, 2002, the PHFA issued \$100 million of Series 2002-74 Single Family Mortgage Revenue Bonds. The proceeds of the bonds will be used to refund certain of PHFA's outstanding Single Family Mortgage Revenue Bonds and to fund new single family mortgage loans.

On September 2, 2002, the PHFA signed a five year lease for office space in the Pittsburgh area. The lease, which is retroactive to June 1, 2002, requires annual rental payments of \$58 thousand.

In July 2002, the Pennsylvania Turnpike Commission (PTC) approved the issuance of Series A and B of 2002 Revenue Refunding Bonds for the purpose of advance refunding Series O and P Revenue Bonds. These revenue refunding bonds will be issued in September 2002.

Subsequent to June 30, 2002, the Pennsylvania Higher Education Assistance Agency (PHEAA), issued \$1.11 billion of student loan demand revenue bonds. Of that amount, \$150 million was issued to refund existing student loan revenue bonds.

In August 2002, the State System of Higher Education (SSHE) entered into a loan agreement with the Pennsylvania Higher Educational Facilities Authority (PHEFA) in connection with the issuance by the PHEFA of \$14.4 million of Series U tax-exempt bonds and \$25.2 million of Series V tax-exempt bonds. In October 2002, the SSHE entered into another loan agreement with the PHEFA in connection with the issuance by the PHEFA of \$69.1 million of Series W tax-exempt bonds to refund the debt of Series H, J, and M. Under the agreements, the SSHE pledged its full faith and credit for the repayment of the bonds.

**NOTE S – RESTATEMENT AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2002 –
INHERITANCE TAXES AND CERTAIN GENERAL CAPITAL ASSETS**

Subsequent to the initial issuance of the Commonwealth's June 30, 2002 financial statements, the Commonwealth determined that inheritance taxes receivable and related accrued revenue should have been reported as of and for the year ended June 30, 2002. The June 30, 2002 Governmental Activities and **General Fund** financial statements have been restated accordingly. The Governmental Activities Statement of Net Assets includes \$444 million of additional taxes receivable at June 30, 2002 and the Governmental Activities Statement of Activities includes a decrease in general revenues taxes of \$63 million. The **General Fund** Balance Sheet includes \$444 million of additional taxes receivable and \$324 million of additional deferred revenues, and the **General Fund** Statement of Revenues, Expenditures, and Changes in Fund Balances includes a decrease in tax revenues, net of refunds, of \$39 million. The effects of these changes are included in Notes A, B, C and G to the June 30, 2002 financial statements. Also, Note 3 to the June 30, 2002 Required Supplementary Information has been changed.

In addition, subsequent to the initial issuance of the Commonwealth's June 30, 2002 financial statements, the Commonwealth determined that certain Commonwealth-owned and titled capital assets that are used by the State System of Higher Education (SSHE), a discretely presented component unit, should have been reported as general capital assets as part of governmental activities in the Statement of Net Assets. In the previously issued June 30, 2002 financial statements these capital assets were reported by the SSHE and included in the Commonwealth's statements for discretely presented component units. The effect of this restatement is to increase capital assets on the Governmental Activities Statement of Net Assets at June 30, 2002 by \$419.4 million and to decrease public education expenses by \$37.3 million on the Statement of Activities. Governmental Activities capital assets at July 1, 2001 have been increased by \$382.1 million. Likewise, SSHE's financial information, as presented in the statements for discretely presented component units, was adjusted to decrease capital assets on the Statement of Net Assets at June 30, 2002 by \$422.3 million and to reduce revenues by \$46.8 million and to decrease expenses by \$20.2 million on the Statement of Activities. Discretely presented component unit capital assets at July 1, 2001 have been decreased by \$395.7 million. The effects of these changes are included in Notes A, B, C and E to the June 30, 2002 financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview and discussion of basic financial statements

For the fiscal year ended June 30, 2002, the Commonwealth of Pennsylvania is presenting "Basic Financial Statements" (BFS) as required by the Governmental Accounting Standards Board's Statement No. 34. BFS replace what were formerly General-Purpose Financial Statements and retain part of what was formerly presented in our financial statements. The Commonwealth's BFS consist of its government-wide and fund financial statements which are supplemented by note disclosures and required supplementary information (such as this Management's Discussion and Analysis). Government-wide statements are being presented for the very first time and will be discussed first.

Government-wide financial statements

Government-wide financial statements portray the Commonwealth's overall financial position at June 30, 2002 and its aggregate revenues and expenses for the fiscal year ended June 30, 2002. Government-wide statements do not report information fund-by-fund (as in General Fund, Motor License Fund, State Lottery Fund, etc.); rather, they reveal information for all governmental activities in a separate column and all business-type activities in a separate column. Governmental activities include those traditionally provided by practically all states: public cash, medical and other assistance, public education, correction and rehabilitation, public works projects, issuing and then retiring general obligation debt, etc. Business-type activities, on the other hand, include activities where individuals and organizations provide resources to the government *in exchange for* a product or service. Typical examples would be customers paying for wine or liquor, parents or others purchasing tuition credits for school-age children or lottery players purchasing instant or other game tickets. In government-wide statements, for both governmental and business-type activities, the economic resources measurement focus and accrual basis of accounting are used, meaning revenues and expenses are recognized when they occur, not when cash is received or paid.

Government-wide statements include a Statement of Net Assets and a Statement of Activities. Whereas the Statement of Net Assets includes an estimate of the total amount of receivables due at June 30, 2002 that are expected to be collected in the future, fund financial statements only include certain receivables collected within 60 days after the fiscal year end. Capital assets, such as highways, bridges, heavy equipment and buildings, are reported on the Statement of Net Assets with acquisition or construction costs being reported when the assets are placed in service. To recognize the cost of using up each capital asset, we report annual depreciation expense over future fiscal years instead of reporting the entire asset cost as a current-year expenditure. In other words, in government-wide statements, we assign a specific portion of capital asset cost (annual depreciation expense) to a specific accounting period, or fiscal year.

The Statement of Net Assets also includes all liabilities regardless of when payment is due. Examples include bond principal payments which may not be due for several years and an employee disability claims liability, much of which will not be payable until years after fiscal year end. Likewise, employee compensated absence liabilities (such as vacation leave) are reported based on the predicted or actual cash payment value at fiscal year-end. In actual practice, however, employees often take accrued leave as "time off work" instead of receiving cash payment.

On the Statement of Activities, both revenues and expenses are reported without considering when the related cash is received or disbursed. The Statement of Activities reports the "whole cost" of operating the entire government during the fiscal year. The reported change in net assets reveals whether the overall financial position improved or deteriorated during the fiscal year, the key word being *overall*. Government-wide statements do not report fund-specific information; rather, they include aggregated information that has been adjusted for specific eliminations and reclassifications. The Statement of Activities is the "whole government," segregated between governmental activities and business-type activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed financial statement information – government-wide financial statements

The following condensed financial statement information is derived from the Commonwealth's government-wide June 30, 2002 financial statements and includes amounts for the "primary government" only. The government-wide statements include information for "component units," which are organizations that are legally separate from the Commonwealth's primary government. Information related to component units is not included in Management's Discussion and Analysis. Each component unit is identified and described in Note A to the financial statements. Audited financial statements for component units are available through the Deputy Secretary for Comptroller Operations. The following presents condensed financial statement information from the Statement of Net Assets at June 30, 2002 (amounts in billions):

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments	\$ 8.1	\$ 5.1	\$ 13.2
Capital assets (net)	18.1	-	18.1
All other assets	<u>4.3</u>	<u>.9</u>	<u>5.2</u>
Total assets	<u>30.5</u>	<u>6.0</u>	<u>36.5</u>
Liabilities:			
Accounts payable	3.0	.4	3.4
All other current liabilities	<u>2.6</u>	<u>.6</u>	<u>3.2</u>
Total current liabilities	<u>5.6</u>	<u>1.0</u>	<u>6.6</u>
Bonds payable	5.6	-	5.6
All other long-term liabilities	<u>2.4</u>	<u>1.5</u>	<u>3.9</u>
Total long-term liabilities	<u>8.0</u>	<u>1.5</u>	<u>9.5</u>
Total liabilities	<u>13.6</u>	<u>2.5</u>	<u>16.1</u>
Net assets:			
Invested in capital assets, net of related debt	14.4	-	14.4
Restricted	1.6	3.5	5.1
Unrestricted	<u>.9</u>	<u>-</u>	<u>.9</u>
Total net assets	<u>\$ 16.9</u>	<u>\$ 3.5</u>	<u>\$ 20.4</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following presents condensed financial statement information from the Statement of Activities for the fiscal year ended June 30, 2002 (amounts in billions):

	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program revenues:			
Charges for sales and services.....	\$ 4.2	\$ 5.1	\$ 9.3
Operating grants and contributions	13.1	.5	13.6
Capital grants and contributions.....	<u>.1</u>	<u>-</u>	<u>.1</u>
Total program revenues.....	<u>17.4</u>	<u>5.6</u>	<u>23.0</u>
General revenues:			
Taxes.....	<u>20.7</u>	<u>-</u>	<u>20.7</u>
Total general revenues	<u>20.7</u>	<u>-</u>	<u>20.7</u>
Total revenues.....	<u>38.1</u>	<u>5.6</u>	<u>43.7</u>
Expenses:			
Governmental activities:			
Direction and supportive services	1.3	-	1.3
Protection of persons and property	3.8	-	3.8
Public education.....	9.7	-	9.7
Health and human services.....	18.9	-	18.9
Economic development.....	1.4	-	1.4
Transportation	2.5	-	2.5
Recreation and cultural enrichment .....	.5	-	.5
Interest .....	.3	-	.3
Business-type activities:			
State lottery.....	-	1.7	1.7
Unemployment.....	-	2.8	2.8
Liquor control	-	.9	.9
Workmen's compensation.....	-	.2	.2
Tuition payment	<u>-</u>	<u>.2</u>	<u>.2</u>
Total expenses.....	<u>38.4</u>	<u>5.8</u>	<u>44.2</u>
Deficiency before special item and transfers	(.3)	(.2)	(.5)
Special item - component unit revenues .....	.3	-	.3
Transfers	<u>.5</u>	<u>(.5)</u>	<u>-</u>
Increase (decrease) in net assets .....	.5	(.7)	(.2)
Net assets, July 1, 2001	<u>16.4</u>	<u>4.2</u>	<u>20.6</u>
Net assets, June 30, 2002.....	<u>\$ 16.9</u>	<u>\$ 3.5</u>	<u>\$ 20.4</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overall analysis and discussion of condensed financial statements

During the fiscal year ended June 30, 2002, the overall financial position (net assets) of the Commonwealth, including both governmental and business-type activities, deteriorated by \$.2 billion from \$20.6 billion at June 30, 2001 to \$20.4 billion at June 30, 2002. This represents less than 1 percent of total beginning net assets. For all governmental activities, the net increase in net assets was \$.5 billion or 2.5 percent of beginning net assets of \$16.4 billion. Total governmental assets and liabilities were \$30.5 billion and \$13.6 billion, respectively, at June 30, 2002, leaving total governmental net assets of \$16.9 billion. Current accounts payable were \$3.0 billion for governmental activities; tax refunds payable were \$.6 billion; general obligation bonds outstanding were \$6.1 billion. Total investments, not counting the State Employees Retirement Fund or other fiduciary funds, were over \$10.6 billion and total cash balances were over \$2.6 billion. These amounts represent considerable liquidity for the current and future fiscal years. The \$.2 billion decrease in total net assets during the fiscal year demonstrates that the Commonwealth operated on essentially a break-even basis during the fiscal year. Remarkably, the slowing national economy, while causing lower tax revenues than expected, did not lead to a significant deterioration in the overall financial position of the Commonwealth. Total net assets for **governmental activities** actually increased by \$.5 billion and total net assets for **business-type activities** decreased by \$.7 billion during the fiscal year. Total **governmental activities** revenues were \$38.1 billion, more than 99.2 percent of total governmental activities expenses of \$38.4 billion. Total governmental activities revenues, special item and transfers exceeded total governmental activities expenses by \$.5 billion, the same amount by which governmental activities net assets increased during the fiscal year ended June 30, 2002. On a fund-specific basis, the fund balance for the General Fund decreased by \$1.583 billion, fund balance for the Motor License Fund decreased almost \$40 million, fund balance for the Tobacco Settlement Fund increased by \$935 million and fund balance for aggregated nonmajor funds increased by almost \$65 million; on a net basis, total governmental fund balance decreased by almost \$622 million during the fiscal year. The Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds and the accompanying reconciliation to the Statement of Activities provide more details about the changes in fund-specific fund balances and details on over \$1 billion (net) in reporting differences between governmental fund statements changes in fund balances and governmental activities change in net assets during the fiscal year ended June 30, 2002. The following section also describes some of the differences between fund financial statements and government-wide financial statements. Business-type activities operating revenues were over \$239 million less than operating expenses; including net non-operating revenues and transfers, business-type activities net assets decreased by almost \$692 million. The primary reason for this decrease was that Unemployment Compensation Fund expenses exceeded revenues by almost \$560 million. A \$600 million increase in revenues was far less than a \$1.1 billion increase in expenses during the fiscal year ended June 30, 2002. We will provide a more in-depth discussion of activities when we begin to issue comparative government-wide statement information for the fiscal year ending June 30, 2003.

Fund financial statements – governmental funds

Governmental fund financial statements provide fund-specific information about the General Fund, the Motor License Fund, and the Tobacco Settlement Fund, which are treated as major funds. Fund statements for governmental funds include an aggregated nonmajor column and continue to report what was formerly reported in governmental funds in the General Purpose Financial Statements, which the Commonwealth had been presenting since the fiscal year ended June 30, 1986. Fund statements differ from government-wide statements in a few fundamental ways. 1) While the government-wide statements focus on the government taken as a whole (including governmental and business type **activities**), the fund statements reveal fund-specific information for **major** governmental and proprietary **funds** and aggregated nonmajor **funds**. 2) Unlike the aggregated columns for governmental and business-type activities (in government-wide statements), individual funds are established by state law and are used to account for specific, mandated activities. Two examples of specific funds are the Motor License Fund, a special revenue fund where gasoline taxes and motor vehicle registration fees are collected and used to repair and build highways, and the Unemployment Compensation Fund, an enterprise fund, used to collect amounts from employers to pay for unemployment compensation to workers. 3) For governmental fund statements, the current financial resources measurement focus is used, along with the modified accrual basis of accounting. This means that balances and transactions are reported as cash is received and paid, plus certain accrued revenues received within 60 days of fiscal year end, minus amounts representing accrued expenditures, which are paid for with currently available revenues. Long-term receivables, for amounts earned or billed but not available at fiscal year end, and capital assets are not reported in the governmental fund financial statements. Nor are long-term liabilities reported. The governmental fund balance sheets report far fewer assets and liabilities than the government-wide Statement of Net Assets. The Statement of Revenues and Expenditures for governmental funds reports only those cash transactions that occurred during the fiscal year or specific cash transactions that occurred within 60 days of fiscal year end. 4) Both governmental and proprietary fund financial statements provide information about cash flows and liquidity. Government-wide financial statements do not provide such information.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Comparison Schedules are included as required supplementary information immediately following the Notes to the Financial Statements; they provide a measurement of compliance with legally adopted budgets.

General Fund – economic factors during the fiscal year ended June 30, 2002

The General Fund results reflect the effects of a slowing national economy. The 2001-02 fiscal year General Fund budget was adopted with a revenue estimate that assumed the economic recession that began in March 2001 would end and economic growth would resume for the fiscal year. Real gross domestic product during fiscal year 2001-02 was expected to increase by 2.8 percent on a quarter-to-quarter basis. In line with that expectation for economic growth, the unemployment rate was expected to be around 5 percent and gains in personal income were expected. Although statistics show the national recession ended by the first quarter of the 2001-02 fiscal year, the recovery has been modest compared to past recovery periods. Actual growth of gross domestic product during the 2001-02 fiscal year was 2.1 percent and was concentrated in the first quarter of 2002. That rate of growth was not sufficient to support expected employment and income gains. As a consequence of these trends, receipts for state tax revenues, especially those based on income, fell short of budget estimates. Aggravated further by a declining stock market, personal income tax receipts for the fiscal year actually declined from their previous fiscal year level. Total receipts for personal income tax fell by 4.7 percent from the fiscal year 2000-01 total. Income taxes paid by corporations declined by an even larger percentage, 11.5 percent. The Budgetary Comparison Schedule reveals that actual tax revenue receipts amounted to over \$1 billion less than the June 2001 Official Estimate.

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, 2002 is presented immediately following the Notes to the Financial Statements. Final budgeted revenues for departmental services exceed the original budget by \$697 million. This difference resulted primarily from transfers of \$340 million in augmenting revenues from the Motor License Fund for State Police protection of Commonwealth highways that were not reflected in the original budget for departmental services revenues and net intergovernmental transfers of \$335 million that were not reflected in the original budget for departmental services revenues. The General Fund Schedule also discloses that the final budget included \$1.1 billion more expenditures than the original budget. The \$1.1 billion increase includes \$789 million in state program expenditure increases and \$326 million in increased Federal participation related to the specific state program expenditure increases. Of the \$789 million state program difference, \$337 million (43%) relates to increased spending authority for State Police protection of Commonwealth highways and nearly \$400 million (51%) relates to increased spending authority for medical assistance and other human services benefits.

General Fund – budgetary basis - comparison between final budget and actual budgetary results

Actual budgetary results included tax collection revenues, which were lower than the final budgeted revenue estimate (from June 2001) by \$1.1 billion. Also, during the fiscal year, budgetary lapses, for a variety of specific appropriations and amounting to \$353 million, were posted to reduce state program spending authority. Actual Federal revenues were \$933 million lower than budget because of lower Federal participation than original estimates. Actual Federal revenues were lower than budgeted for the following departments: Public Welfare, \$292 million; Education, \$203 million; Labor and Industry, \$95 million; Health, \$76 million; Transportation and Executive Offices, \$58 million each; Community and Economic Development, \$49 million; Environmental Protection, \$39 million; and all other affected departments, \$63 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

At June 30, 2002, the Commonwealth's General Fund reported a fund balance of \$2,902.3 million, a decrease of \$1,582.7 million from the reported \$4,485.0 million fund balance at June 30, 2001. On a net basis, total assets decreased by \$490.3 million to \$7,692.9 million. Cash and investments decreased due to a decline in tax revenues and receivables increased because of a mandatory change in how taxes receivable are financially reported. Liabilities increased by \$1,092.4 million to \$4,790.6 million largely because of a mandatory offsetting change in deferred revenues related to how taxes receivable are reported. These changes and others are provided in the General Fund summary comparative balance sheet that follows:

General Fund Summary Comparative Balance Sheet (Modified Accrual Basis) (amounts in millions)

	<u>June 30, 2002</u>	<u>June 30, 2001</u>	<u>Increase (Decrease)</u>
Assets:			
Cash and investments	\$ 4,088.0	\$ 5,761.1	\$ (1,673.1)
Receivables, net	2,231.7	1,121.6	1,110.1
Due from other funds/component units/governments	<u>1,373.2</u>	<u>1,300.5</u>	<u>72.7</u>
Total assets	<u>\$ 7,692.9</u>	<u>\$ 8,183.2</u>	<u>\$ (490.3)</u>
Liabilities:			
Accounts payable and tax refunds payable	\$ 2,935.0	\$ 2,810.3	\$ 124.7
Due to other funds/component units/governments	764.3	800.5	(36.2)
Deferred revenue	<u>1,091.3</u>	<u>87.4</u>	<u>1,003.9</u>
Total liabilities	<u>4,790.6</u>	<u>3,698.2</u>	<u>1,092.4</u>
Fund Balance:			
Reserved	795.1	1,881.1	(1,086.0)
Unreserved:			
Designated	623.9	1,079.1	(455.2)
Undesignated	<u>1,483.3</u>	<u>1,524.8</u>	<u>(41.5)</u>
Total fund balance	<u>2,902.3</u>	<u>4,485.0</u>	<u>(1,582.7)</u>
Total liabilities and fund balance	<u>\$ 7,692.9</u>	<u>\$ 8,183.2</u>	<u>\$ (490.3)</u>

As previously mentioned, the slowing national economy led to lower tax revenue collections during the fiscal year ended June 30, 2002. Total tax revenue collections actually declined during the fiscal year, compared to the prior year, and actual tax collections were \$1 billion below the final budgeted revenue estimate. Executive controls over budgetary spending helped overcome the tax revenue shortfall during the fiscal year ended June 30, 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The General Fund, the Commonwealth's main operating fund, reported a \$1.6 billion decrease in total fund balance during the fiscal year. While a very large number in absolute terms, the General Fund total fund balance decrease includes the transfer of \$853.9 million to the new Tobacco Settlement Fund. In addition, on a net basis, the General Fund transferred \$461 million to other Funds and provided almost \$787 million to component units. Before transfers, the General Fund reported revenues over expenditures of almost \$515 million. General Fund unreserved, undesignated fund balance decreased during the fiscal year by \$41.5 million. During the fiscal year, total fund balance reservations decreased principally because of legislation closing the former Tax Stabilization Reserve Fund, the fund balance of which was financially reported as a General Fund fund balance reservation at June 30, 2001. On a net basis, fund balance designations declined by \$455.2 million because prior year receipts from the Tobacco Master Settlement Agreement and related investment income totaling \$851.4 million through June 30, 2001 were previously reported as a General Fund fund balance designation at June 30, 2001; those amounts were transferred to the newly-established Tobacco Settlement Fund during the fiscal year ended June 30, 2002. General Fund fund balance designations increased because of a new \$300 million designation for the newly established Budget Stabilization Reserve Fund. Other fund balance designations increased by \$96.2 million on a net basis during the fiscal year, principally a \$78.7 million increase for group medical and life insurance, an \$8.2 million increase for a judicial computer system and a \$9.2 million increase for agency construction projects.

Motor License Fund

At June 30, 2002, the Motor License Fund reported total cash and investments of \$898.7, a decrease from the prior year balances of \$949.2. Total reported assets at June 30, 2002 amounted to \$1,271 compared to \$1,308 in the prior year. Both decreases, respectively \$50.5 and \$37, result from expenditures exceeding revenues by \$40 during the fiscal year ended June 30, 2002. During the fiscal year the Fund reported total tax revenues of \$1,694 and license and fee revenues of \$839. Reported Federal revenues, received principally from the Federal Highway Administration, amounted to \$1,402 during the fiscal year. The Commonwealth uses tax, license and Federal revenues to maintain and construct highways and bridges in the Commonwealth. At fiscal year-end, total fund balance of the Fund amounted to \$712, compared to the prior year's balance of \$752 (amounts in millions).

Tobacco Settlement Fund

At June 30, 2002, the Tobacco Settlement Fund reported total investments of \$1,053 and total assets of \$1,127. The Fund was established during the fiscal year ended June 30, 2002 and reported a transfer from the General Fund of \$854. This transfer consisted of previous year receipts from the Tobacco Master Settlement Agreement (MSA) and related investment income, which had been deposited in a separate account in the General Fund. During the fiscal year, the Fund received MSA payments of \$434 and reported investment income of \$8. During the fiscal year, the Fund reported expenditures of \$331. At June 30, 2002, the Fund reported total fund balance of \$935, reflecting revenues over expenditures of \$185.6, plus the General Fund transfer of \$854, less other transfers out of \$104.1 (amounts in millions).

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.

Unemployment Compensation Fund

The Unemployment Compensation Fund cash and investments, when compared to the June 30, 2001 balance, decreased by \$548 to \$2,351 and total assets decreased by \$454 to \$2,753 as of June 30, 2002. Total revenues for the fiscal year ended June 30, 2002 increased by \$617 to \$2,260 while total expenses increased by \$1,098 to \$2,820. Fund net assets at year-end totaled \$2,591 – a decrease of almost \$560 from June 30, 2001 restated balance of \$3,151. Because the Fund, under the new reporting standards, was reclassified from an expendable trust fund to an enterprise fund, related accruals, reclassifications and eliminations produced a change in June 30, 2001 net asset balance of \$52.2 (amounts in millions).

MANAGEMENT'S DISCUSSION AND ANALYSIS

During the fiscal year, federal legislation increased the number of weeks Unemployment Compensation claimants could collect benefits. This increase in benefits – Temporary Extended Unemployment Compensation (TEUC) – began in March 2002. This Federal program extended UC benefits to claimants for an additional 13 weeks. If a claimant exhausted the additional benefits during a period of high unemployment, the program made available another 13 weeks of benefits. Additional expenses for the fiscal year related to the TEUC program amounted to \$313.2 million.

State Workmen's Insurance Fund

The State Workmen's Insurance Fund cash and investments as of December 31, 2001 amounted to \$1,771, an increase of \$80 during the year then ended. Total assets of \$1,805 represent an increase of \$91 during the year. Total revenue of nearly \$150 decreased by \$50 during the fiscal year ended December 31, 2001. The net revenue decrease was caused by a \$90 decrease in investment income and an increase of \$40 in premiums collected from subscribing employers. Fund expenses increased by \$53 to \$175. At December 31, 2001, Fund net assets totaled \$246 – a decrease of \$25 from the previous year-end (amounts in millions).

State Lottery Fund

At June 30, 2002, the State Lottery Fund reported cash and investments of \$354 and total assets of \$376 compared to \$387 and \$408, respectively, at June 30, 2001. During the fiscal year, the Fund reported total revenues of \$1,998 and total expenses of \$1,683, an increase of \$113 and \$46, respectively, over the prior fiscal year. The transfer for the payment of benefits to the elderly that the Fund subsidizes amounted to \$359, an increase of \$69 over the prior fiscal year. Net assets of the Fund at June 30, 2002 amounted to \$181, a decrease of \$20 from the prior year-end. Because the Fund, under the new reporting standards, was reclassified from a special revenue fund to an enterprise fund, related accruals, reclassifications and eliminations produced a change in June 30, 2001 net asset balance of \$.2 (amounts in millions).

Tuition Payment Fund

At June 30, 2002, the Tuition Payment Fund cash and investments, when compared to June 30, 2001 balances, increased by \$161 to \$411. Total assets increased \$160 to \$412. During the fiscal year ended June 30, 2002, total revenues increased by \$100 to \$151 and expenses increased \$129 to \$191. Fund net assets decreased by \$40 during the fiscal year, resulting in total net assets of \$(26) at June 30, 2002. Tuition cost inflation and a \$6 negative return on investments caused the decline in net assets (amounts in millions).

Capital asset activity during the fiscal year ended June 30, 2002

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 and Transportation projects at June 30, 2002 amounted to \$1.1 and \$1.5 billion, respectively. Authorized but unissued general obligation bonds at June 30, 2002 totaled \$28.3 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, 2002 amounted to \$18.1 billion at actual or estimated historical cost, net of accumulated depreciation of \$7.9 billion. In the government-wide statements, depreciation expense for all capital assets is reported to recognize the cost of “using up” capital assets over their estimated useful lives. This treatment differs from reporting capital outlay as a current year expenditure in governmental funds. Highway and bridge infrastructure assets are typically funded by Motor License Fund taxes, license and registration fees and Federal revenues. The Motor License Fund reports transportation and capital outlay expenditures in fund statements; a portion of such expenditures is reported as additions to capital assets in government-wide statements. Depreciation of highway and bridge infrastructure assets is not related to the quality or relative value of these assets; rather, it is a specific accounting treatment to recognize the cost of “using up” the assets over long periods of time (25 years for highways and 50 years for bridges.) Depreciation is an allocation of an asset's

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2002.

Long-term debt activity during the fiscal year ended June 30, 2002

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, 2002 was \$41.4 billion. Outstanding capital project debt at August 31, 2002 amounted to \$5.3 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, and water facilities restoration; and for special purposes approved by the General Assembly, such as disaster relief.

The total general obligation bond indebtedness outstanding at June 30, 2002 was \$6,072 million. Total debt service 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, 2002 amounted to \$635 million. The table that follows shows total outstanding long-term indebtedness for general obligation bonds (expressed in millions) at the end of the seven most recent fiscal years.

<u>At June 30</u>	<u>Outstanding Bond Indebtedness</u>
1996	\$ 5,062
1997	4,842
1998	4,841
1999	5,254
2000	5,367
2001	5,545
2002	6,072

Note K to the financial statements provides more specific details on long-term debt balances and activity during the fiscal year ended June 30, 2002.

Debt administration – fiscal year ending June 30, 2003

During the fiscal year ending June 30, 2003 the Office of the Budget currently plans general obligation bond issuances amounting to \$709 million, a decrease of \$646 million as compared to actual bond issuances of \$1,355 million during the fiscal year ended June 30, 2002. This plan reflects the need to make investments in the Commonwealth's capital infrastructure, particularly prisons, highways, bridges, mass transportation and water supply systems. Debt principal retirements of \$486 million are currently planned for the fiscal year ending June 30, 2003.

In addition to general obligation bonds, the Commonwealth may issue tax anticipation notes to meet operating cash needs during certain months of the fiscal year. Tax anticipation notes may be issued only for the General Fund and the Motor License Fund. They may not exceed 20 percent of the funds' estimated revenues for the year, and must mature during the fiscal year in which they are 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 four fiscal years and has no plans to issue any during the 2003 fiscal year. There were no changes in credit ratings and there were no debt limitations during the fiscal year ended June 30, 2002 that may affect the Commonwealth's plans during the fiscal year ending June 30, 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Legislative changes during fiscal year 2002-2003

During the fiscal year that began July 1, 2002, the legislature passed several laws that are expected to have an effect on financial position or changes in financial position: Act 130 of 2002 (October 28, 2002) increases the outstanding debt authorization for redevelopment assistance capital projects by \$250 million. If all potential new bonds were issued before July 1, 2003, fiscal year 2003-2004 debt service costs could be increased over current estimates by \$28 million; Act 217 of 2002 (December 9, 2002) permits additional Keystone Opportunity Zones to receive tax-exemption that could result in \$20 million (estimated) of tax relief to businesses in these zones in fiscal year 2003-2004; and Act 212 of 2002 (December 9, 2002) permits a trial opening of certain State Stores on Sundays. Incremental administration costs for those open stores may exceed sales revenue increases. If no sales revenue increase occurs, increased costs could approximate \$17 million and reduce amounts available to transfer from the State Stores Fund to the General Fund.

Fiscal year 2002-2003 tax collections

Through December 2002, economic growth in the nation and the Commonwealth has not achieved the projections used to estimate fiscal year 2003 revenues. Consequently, actual General Fund revenues (budgetary basis) for the fiscal year through December 2002 are \$184 million below estimate for that period, a shortfall of 2 percent. Most major revenue sources show receipts below estimate for the fiscal year-to-date period. Recent assessments of the national economy now expect slower economic growth rates for the balance of fiscal year 2003 than was used for the fiscal year 2003 revenue estimates. The Commonwealth now anticipates, based on these revised assessments, that General Fund revenues may be \$433 million below budget estimates, a 1.2 percent reduction from the official budget estimate for the fiscal year ending June 30, 2003.

Responding to slower than anticipated growth in the national economy and Commonwealth revenues, the Governor has directed that \$270 million of fiscal year 2003 General Fund appropriations from Commonwealth revenues be placed in budgetary reserve and be unavailable for encumbrance or expenditure. In addition to placing a portion of appropriated funds into budgetary reserve, the Commonwealth currently estimates that \$95 million in various appropriation lapses will also be available to offset revenue shortfalls. Finally, the Governor has proposed that the General Assembly approve the transfer of \$50 million from the Budget Stabilization Reserve Fund to the General Fund as a partial offset of revenue shortfalls. The actions proposed by the Governor are intended to permit the Commonwealth to avoid an unappropriated General Fund fund balance deficit for the fiscal year ending June 30, 2003 based on current revised revenue and expenditure projections.

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.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (restated)

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**, Special Revenue Fund) and three nonmajor governmental funds (Workmen's 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 (restated)

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

	Major Budgeted Funds		Nonmajor Budgeted Funds		
	General Fund	Motor License Fund	Workmen's Compensation Administration Fund	Banking Department Fund	Milk Marketing Fund
Budgetary basis — revenues and other sources over (under) expenditures and other uses.....	\$(193,632)	\$(58,503)	\$2,558	\$773	\$(120)
Adjustments:					
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(578,688)	635,499	(1,880)	51	(90)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	(849,752)	(616,530)	6,125	(89)	129
Net adjustments.....	(1,428,440)	18,969	4,245	(38)	39
Modified accrual basis – net change in governmental fund balance.....	\$(1,622,072)	\$(39,534)	\$6,803	\$735	\$(81)

The above revenue adjustments include net revenue accruals, 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 \$287.4 million in supplemental appropriations approved during the fiscal year ended June 30, 2002.

A separately available report, the “*Status of Appropriations*,” demonstrates budgetary expenditure compliance for the **General Fund** for the fiscal year ended June 30, 2002. 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**, **Workmen’s Compensation Administration**, **Banking Department** and **Milk Marketing**. Both “*Status*” reports are available from the Office of the Budget. The Governor controls spending by using executive authorizations for Special Revenue funds not controlled by legislatively adopted budgets.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (restated)

Total reported actual expenditures for “Total State Programs” included in the Budgetary Comparison Schedule – Major Governmental Funds are based on appropriation, augmentation and lapse amounts reported in the respective June 30, 2002 “*Status of Appropriations*” (Total All Current State Ledgers) as follows (in thousands):

	“ <i>Status</i> ” Page <u>Reference</u>	Total Approved <u>Appropriations</u>	Total Actual <u>+ Augmentations</u>	Total Actual <u>- Lapses</u>	=	Actual Expenditure <u>Amounts</u>
General Fund amounts	7 ¹	\$ 21,749,468	\$ 2,326,023	\$ 352,869		\$ 23,722,622
Less: tax refunds	7 ¹	<u>(967,200)</u>	<u>-</u>	<u>-</u>		<u>(967,200)</u>
Amount reported		<u>\$ 20,782,268</u>	<u>\$ 2,326,023</u>	<u>\$ 352,869</u>		<u>\$ 22,755,422</u>
 Special Revenue Funds:						
Motor License Fund	50	\$ 2,778,590	\$ 1,613,493	\$ 62,456		\$ 4,329,627
less: reductions ²		<u>(717,564)</u>	<u>(1,294,294)</u>	<u>(42,733)</u>		<u>(1,969,125)</u>
Amount reported		<u>\$ 2,061,026</u>	<u>\$ 319,199</u>	<u>\$ 19,723</u>		<u>\$ 2,360,502</u>
 Workmen’s Compensation						
Administration Fund	238	\$ 55,435	\$ 179	\$ 351		\$ 55,263
Banking Department Fund	87	\$ 12,146	\$ -	\$ 5		\$ 12,141
Milk Marketing Fund	93	\$ 2,505	\$ -	\$ 111		\$ 2,394

Total actual expenditures for “Federal Programs” for the **General Fund** are derived from the **General Fund** “*Status*,” pkt page 222, page no. 222 “Summary of All Current Federal Ledgers by Character of Expenditure” as follows (in thousands): Commitments of \$1,250,411 and Expenditures of \$10,283,326, for a total of \$11,533,737.

Total actual expenditures for “Federal Programs,” Special Revenue funds, are derived from the Special Funds “*Status*” as follows (in thousands): **Motor License** - \$1,097,465 (calculated in footnote 3 below) for a total of \$1,170,345.

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

² Excludes the following appropriation symbols, beginning on page 51, Special Funds “*Status of Appropriations*”: 010-003-102-01-1; 010-008-051-01-1; 010-008-053-01-1; 010-008-181-01-1; 010-003-198-01-2; 010-038-230-01-2; 010-008-212-01-2; 010-008-214-01-2; 010-008-217-01-2; and 010-008-230-01-2 through 010-008-289-01-2.

³ Consists of \$1,290,985 in Year-to-Date “Total Federal Funds” on page 116 of “*Report of Revenues and Receipts*” less \$193,520 in Year-to-Date Federal Funds amounts for the following revenue codes (also on page 116 of the “*Report*”): 010811-008051-101; 010811-008181-101; 010811-008181-108; 010811-008232-101; 010811-008284-101; 010811-008289-101; and 010811-008289-102.

Note 5 – Restatement of June 30, 2001 Unreserved/Undesignated General Fund Fund Balance (Budgetary Basis)

The Budgetary Comparison schedule reflects a restatement of \$1 million to the June 30, 2001 budgetary basis Unreserved/Undesignated fund balance. The restatement includes in fund balance the result of a transfer of spending authority from a prior year appropriation to a new appropriation created in the 2001-2002 fiscal year. This appropriation was created to provide emergency and disaster relief to victims of Tropical Storm Allison, which occurred in June of 2001.

**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.

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

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

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

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

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

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

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

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

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

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

STATEMENT OF ACTIVITIES
Discretely Presented Nonfiduciary Component Units

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	State Public School Building Authority	Philadelphia Shipyards Development Corporation (December 31, 2001)	Ben Franklin/ IRC Partnership	Ben Franklin/ Technology Development Fund	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority
Expenses.....	\$ 2,457	\$ 46,178	\$ 3,339	\$ 40,844	\$ 9,889	\$ 1,267
Program revenues:						
Charges for goods and services.....	1,267	-	92	989	9,990	1,267
Operating grants and contributions.....	-	61,205	-	-	-	-
Capital grants and contributions.....	-	9,735	-	-	-	-
Investment/interest earnings.....	1,715	589	-	-	-	-
Total program revenues.....	<u>2,982</u>	<u>71,529</u>	<u>92</u>	<u>989</u>	<u>9,990</u>	<u>1,267</u>
Net (expense) revenue.....	<u>525</u>	<u>25,351</u>	<u>(3,247)</u>	<u>(39,855)</u>	<u>101</u>	<u>-</u>
General revenues:						
Taxes and other general revenues.....	8	-	-	2,400	-	-
Primary government subsidies—Note H.....	-	-	-	71,009	-	-
Total general revenues.....	<u>8</u>	<u>-</u>	<u>-</u>	<u>73,409</u>	<u>-</u>	<u>-</u>
Special item—primary government payment—Note H..	-	-	-	-	-	-
Net general revenues and special item.....	<u>8</u>	<u>-</u>	<u>-</u>	<u>73,409</u>	<u>-</u>	<u>-</u>
Change in net assets.....	533	25,351	(3,247)	33,554	101	-
Net assets, July 1, 2001 (restated)—Note B.....	32,098	22,726	3,263	-	4,306	-
Net assets, June 30, 2002.....	<u>\$ 32,631</u>	<u>\$ 48,077</u>	<u>\$ 16</u>	<u>\$ 33,554</u>	<u>\$ 4,407</u>	<u>\$ -</u>

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

<u>Port of Pittsburgh Commission</u>	<u>Pennsylvania Turnpike Commission (May 31, 2002)</u>	<u>Pennsylvania Industrial Development Authority</u>	<u>Pennsylvania Housing Finance Agency</u>	<u>Pennsylvania Higher Education Assistance Agency</u>	<u>Pennsylvania Infrastructure Investment Authority</u>	<u>State System of Higher Education</u>	<u>Philadelphia Regional Port Authority</u>	<u>Total</u>
\$ 990	\$ 515,063	\$ 25,692	\$ 461,214	\$ 746,319	\$ 48,158	\$ 1,349,611	\$ 19,686	\$ 3,270,707
39	420,854	20,794	24,691	154,326	29,913	662,078	4,168	1,330,468
754	36,197	-	242,744	6,365	-	211,262	8,768	567,295
-	-	-	-	-	112,489	16,463	2,058	140,745
62	-	9,960	207,571	214,182	18,532	35,011	458	488,080
855	457,051	30,754	475,006	374,873	160,934	924,814	15,452	2,526,588
(135)	(58,012)	5,062	13,792	(371,446)	112,776	(424,797)	(4,234)	(744,119)
-	45,512	606	1,926	-	-	4,263	168	54,883
-	28,000	-	-	412,618	-	471,821	-	983,448
-	73,512	606	1,926	412,618	-	476,084	168	1,038,331
-	-	(256,206)	-	-	-	-	-	(256,206)
-	73,512	(255,600)	1,926	412,618	-	476,084	168	782,125
(135)	15,500	(250,538)	15,718	41,172	112,776	51,287	(4,066)	38,006
1,686	1,535,954	534,156	563,110	225,865	1,400,798	396,462	28,171	4,748,595
\$ 1,551	\$ 1,551,454	\$ 283,618	\$ 578,828	\$ 267,037	\$ 1,513,574	\$ 447,749	\$ 24,105	\$ 4,786,601

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Fiduciary Funds and Similar Component Units

For the Fiscal Year Ended June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)	Pension and Other Employee Benefits Trust				Investment Trust Fund INVEST Program for Local Governments (December 31, 2001)
	State Employees' Retirement System (Blended Component Unit) (December 31, 2001)	Deferred Compensation Fund (December 31, 2001)	Public School Employees' Retirement System (Discretely Presented Component Unit)	Total	
ADDITIONS:					
Pension contributions:					
Employer.....	\$ 76,710	\$ -	\$ 109,450	\$ 186,160	\$ -
Employee.....	240,528	111,823	805,567	1,157,918	-
Total contributions.....	<u>317,238</u>	<u>111,823</u>	<u>915,017</u>	<u>1,344,078</u>	<u>-</u>
Investment income:					
Net depreciation in fair value of investments.....	(2,805,153)	(67,927)	(3,777,153)	(6,650,233)	-
Interest income.....	388,626	16,458	820,891	1,225,975	49,148
Dividend income.....	106,253	-	447,870	554,123	-
Rental and other income.....	223,534	-	131,890	355,424	-
Total investment activity income.....	<u>(2,086,740)</u>	<u>(51,469)</u>	<u>(2,376,502)</u>	<u>(4,514,711)</u>	<u>49,148</u>
Less: investment expenses					
Investment activity expense.....	(148,778)	(972)	(162,777)	(312,527)	-
Net investment earnings.....	<u>(2,235,518)</u>	<u>(52,441)</u>	<u>(2,539,279)</u>	<u>(4,827,238)</u>	<u>49,148</u>
Securities lending activities:					
Income.....	54,813	-	57,391	112,204	-
Expenses.....	(44,922)	-	(41,137)	(86,059)	-
Total securities lending income.....	<u>9,891</u>	<u>-</u>	<u>16,254</u>	<u>26,145</u>	<u>-</u>
Total net investment income.....	<u>(2,225,627)</u>	<u>(52,441)</u>	<u>(2,523,025)</u>	<u>(4,801,093)</u>	<u>49,148</u>
Share transactions (at net asset value of \$1.00 per share):					
Shares purchased.....	-	-	-	-	3,303,295
Shares issued in lieu of cash distributions.....	-	-	-	-	46,909
Shares redeemed.....	-	-	-	-	(3,111,721)
Net increase in net assets from share transactions.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>238,483</u>
TOTAL ADDITIONS.....	<u>(1,908,389)</u>	<u>59,382</u>	<u>(1,608,008)</u>	<u>(3,457,015)</u>	<u>287,631</u>
DEDUCTIONS:					
Benefit payments.....	1,237,953	27,922	2,888,871	4,154,746	-
Refunds of contributions.....	7,176	-	14,858	22,034	-
Administrative expenses.....	20,887	231	35,373	56,491	712
Other expenses.....	-	2,039	9,434	11,473	-
Distributions to participants.....	-	-	-	-	47,493
TOTAL DEDUCTIONS.....	<u>1,266,016</u>	<u>30,192</u>	<u>2,948,536</u>	<u>4,244,744</u>	<u>48,205</u>
CHANGE IN PLAN NET ASSETS HELD IN TRUST FOR:					
Pension and other employee benefits.....	(3,174,405)	-	(4,623,706)	(7,798,111)	-
Healthcare benefits.....	-	-	67,162	67,162	-
Employee salary deferrals.....	-	29,190	-	29,190	-
INVEST program participants.....	-	-	-	-	239,426
Net assets, July 1, 2001 (restated)—Note B.....	<u>27,880,468</u>	<u>963,341</u>	<u>48,153,194</u>	<u>76,997,003</u>	<u>1,087,825</u>
Net assets, June 30, 2002.....	<u>\$ 24,706,063</u>	<u>\$ 992,531</u>	<u>\$ 43,596,650</u>	<u>\$ 69,295,244</u>	<u>\$ 1,327,251</u>

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

STATEMENT OF FIDUCIARY NET ASSETS
Fiduciary Funds and Similar Component Units

June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Pension and Other Employee Benefits Trust				Investment Trust Fund INVEST Program for Local Governments (December 31, 2001)	Agency		
	State Employees' Retirement System (Blended Component Unit) (December 31, 2001)	Deferred Compensation Fund (December 31, 2001)	Public School Employees' Retirement System (Discretely Presented Component Unit)	Total		Primary Government Agency Funds	Discretely Presented Component Units	
						PA Life and Health Insurance Guaranty Assoc.	PA Property and Casualty Insuranc Guaranty Assoc.	
						(December 31, 2001)	(December 31, 2001)	(December 31, 2001)
ASSETS								
Cash—Note D.....	\$ -	\$ 6,511	\$ -	\$ 6,511	\$ -	\$ 23,526	\$ 4,836	\$ 3,919
Cash with fiscal agents—Note D.....	-	-	-	-	-	562,668	-	-
Temporary investments—Note D.....	810,937	86,212	3,990,427	4,887,576	1,328,897	735,482	241,152	77,599
Long-term investments—Note D.....	25,559,386	949,146	42,748,589	69,257,121	-	941,266	-	19,421
Receivables, net:								
Taxes—Note G.....	-	-	-	-	-	22,679	-	-
Accounts.....	-	-	-	-	-	177,209	-	771
Accrued interest.....	89,571	227	-	89,798	1,768	2,370	-	-
Loans—Note G.....	-	-	-	-	-	6,015	-	-
Pension contributions.....	-	4,524	203,468	207,992	-	-	-	-
Investment proceeds.....	186,976	-	1,000,379	1,187,355	-	-	-	-
Other.....	-	-	181,699	181,699	-	-	-	150,695
Due from other funds—Note H.....	1,515	-	-	1,515	-	-	-	-
Due from primary government—Note H.....	-	-	562	562	-	-	-	-
Due from political subdivisions.....	749	-	-	749	-	-	-	-
Due from other governments.....	5,362	-	19	5,381	-	-	-	-
Capital assets—Note E.....	-	-	11,277	11,277	-	-	-	-
Less: accumulated depreciation.....	-	-	(8,127)	(8,127)	-	-	-	-
Net depreciable capital assets.....	-	-	3,150	3,150	-	-	-	-
Other assets.....	-	-	-	-	-	475,622	-	265
TOTAL ASSETS.....	26,654,496	1,046,620	48,128,293	75,829,409	1,330,665	2,946,837	245,988	252,670
LIABILITIES								
Accounts payable and accrued liabilities.....	43,606	1,284	48,076	92,966	3,414	21,683	-	-
Investment purchases payable.....	692,319	-	1,992,272	2,684,591	-	-	-	-
Securities lending obligations.....	1,212,508	52,684	2,282,799	3,547,991	-	40,272	-	-
Due to primary government—Note H.....	-	-	409	409	-	-	-	-
Due to political subdivisions.....	-	-	-	-	-	274,994	-	-
Due to other governments.....	-	-	-	-	-	12	-	-
Deferred revenue.....	-	-	-	-	-	-	-	941
Other liabilities.....	-	121	208,087	208,208	-	2,609,876	245,988	251,729
TOTAL LIABILITIES.....	1,948,433	54,089	4,531,643	6,534,165	3,414	2,946,837	245,988	252,670
NET ASSETS:								
Held in trust for:								
Pension and other employee benefits.....	24,706,063	-	43,473,249	68,179,312	-	-	-	-
Healthcare benefits.....	-	-	123,401	123,401	-	-	-	-
Employee salary deferrals.....	-	992,531	-	992,531	-	-	-	-
INVEST Program participants.....	-	-	-	-	1,327,251	-	-	-
TOTAL NET ASSETS.....	\$ 24,706,063	\$ 992,531	\$ 43,596,650	\$ 69,295,244	\$ 1,327,251	\$ -	\$ -	\$ -

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

STATEMENT OF NET ASSETS
Discretely Presented Nonfiduciary Component Units

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	State Public School Building Authority	Philadelphia Shipyard Development Corporation (December 31, 2001)	Ben Franklin/ IRC Partnership	Ben Franklin/ Technology Development Fund	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority
ASSETS						
Cash—Note D.....	\$ 12,578	\$ 47,660	\$ -	\$ -	\$ 4,361	\$ -
Temporary investments—Note D.....	-	-	242	27,704	-	-
Receivables:						
Accounts.....	27	-	-	-	-	22
Accrued interest.....	314	20	-	-	-	-
Loans—Note G.....	1,593	30,000	-	9,800	-	-
Lease rentals—Note G.....	-	-	-	-	-	-
Other.....	4,780	817	-	-	-	-
Due from primary government—Note H.....	-	-	-	-	-	-
Due from component units—Note H.....	-	-	-	-	-	-
Due from Federal government.....	-	-	-	-	-	-
Due from political subdivisions.....	-	-	-	-	-	-
Due from other governments.....	-	7,196	-	-	119	-
Long-term investments—Note D.....	14,879	-	-	-	-	-
Inventory.....	-	-	-	-	-	-
Prepaid and deferred expenses.....	-	30	-	-	6	-
Capital assets—Note E:						
Land.....	-	161	-	-	-	-
Land improvements.....	-	-	-	-	-	-
Buildings and building improvements.....	-	-	-	-	-	-
Equipment.....	503	-	-	-	32	-
Infrastructure.....	-	-	-	-	-	-
Library books.....	-	-	-	-	-	-
Construction in progress.....	-	-	-	-	-	-
Other capital assets.....	-	-	-	-	26	-
Less: accumulated depreciation.....	(324)	-	-	-	(25)	-
Other assets.....	-	-	-	-	2	-
TOTAL ASSETS.....	34,350	85,884	242	37,504	4,521	22
LIABILITIES						
Current liabilities:						
Accounts payable and accrued liabilities.....	632	7,807	226	3,950	114	22
Due to primary government—Note H.....	-	-	-	-	-	-
Due to component units—Note H.....	-	-	-	-	-	-
Due to other governments.....	-	-	-	-	-	-
Interest payable.....	-	-	-	-	-	-
Deferred revenue.....	-	-	-	-	-	-
Notes payable—Note J.....	-	-	-	-	-	-
Bonds payable—Note K.....	-	-	-	-	-	-
Revenue bonds payable—Note K.....	-	-	-	-	-	-
Compensated absences.....	44	-	-	-	-	-
Other liabilities.....	48	-	-	-	-	-
Total current liabilities.....	724	7,807	226	3,950	114	22
Non-current liabilities:						
Deferred revenue.....	-	-	-	-	-	-
Demand revenue bonds payable—Note J.....	-	-	-	-	-	-
Other liabilities.....	742	-	-	-	-	-
Notes payable—Note J.....	-	-	-	-	-	-
Bonds payable—Note K.....	-	-	-	-	-	-
Revenue bond payable—Note K.....	-	-	-	-	-	-
Compensated absences.....	253	-	-	-	-	-
Capital lease obligation.....	-	30,000	-	-	-	-
Total Non-Current Liabilities.....	995	30,000	-	-	-	-
TOTAL LIABILITIES.....	1,719	37,807	226	3,950	114	22
NET ASSETS—Note C:						
Invested in capital assets, net of related debt.....	179	161	-	-	33	-
Restricted for:						
Capital projects.....	-	1,061	-	-	-	-
Debt service.....	-	-	-	-	-	-
Other purposes.....	32,452	46,855	16	33,554	4,374	-
Unrestricted.....	-	-	-	-	-	-
TOTAL NET ASSETS	\$ 32,631	\$ 48,077	\$ 16	\$ 33,554	\$ 4,407	\$ -

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

Port of Pittsburgh Commission	Pennsylvania Turnpike Commission (May 31, 2002)	Pennsylvania Industrial Development Authority	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Philadelphia Regional Port Authority	Total
\$ 2	\$ 72,689	\$ 589	\$ 63,917	\$ 28,829	\$ 509	\$ 27,988	\$ 4,173	\$ 263,295
1,664	202,901	230,464	861,023	149,095	418,039	260,968	-	2,152,100
95	13,537	-	-	12,975	-	3,798	1,373	31,827
-	13,421	4,781	-	81,514	2,051	-	-	102,101
124	-	554,629	2,814,373	3,222,787	1,249,300	33,337	-	7,915,943
-	-	17,966	-	-	-	-	-	17,966
-	-	18	3,016	-	-	42,750	-	51,381
-	6,643	-	-	95	-	-	-	6,738
-	-	-	16	-	130	-	-	146
-	-	-	-	6,117	2,706	-	-	8,823
-	-	-	-	-	-	5,284	-	5,284
-	-	-	-	-	-	-	-	7,315
-	764,971	49,562	85,552	561,596	-	475,866	-	1,952,426
-	13,836	-	-	-	-	11,183	-	25,019
-	-	-	27,179	-	16,791	5,079	-	49,085
-	121,380	-	-	-	-	13,953	-	135,494
-	-	-	-	2,946	-	195,960	-	198,906
-	621,958	-	-	62,720	-	587,978	103,482	1,376,138
2,096	250,938	-	-	17,787	-	179,461	19,185	470,002
-	3,649,109	-	-	-	-	-	-	3,649,109
-	-	-	-	-	-	73,707	-	73,707
-	334,128	-	-	-	-	96,334	274	430,736
-	-	-	-	59,788	603	-	4,007	64,424
(236)	(2,284,059)	-	-	(67,165)	(410)	(391,863)	(59,811)	(2,803,893)
-	59,489	14,550	-	69,797	1,843	20,993	6,883	173,557
3,745	3,840,941	872,559	3,855,076	4,208,881	1,691,562	1,642,776	79,566	16,357,629
156	36,338	1,232	2,874	60,594	2,454	125,489	1,640	243,528
-	5,773	-	5	97	24,767	699	-	31,341
-	-	-	130	-	16	-	-	146
-	-	-	-	-	6	-	-	6
-	49,392	-	48,939	18,712	2,674	-	-	119,717
-	16,428	469	-	-	-	26,561	191	43,649
-	-	-	-	234,053	-	-	-	234,053
-	-	-	-	-	-	18,315	-	18,315
-	48,595	24,815	74,092	-	14,685	-	1,970	164,157
3	11,653	-	-	2,790	-	-	-	14,490
-	-	10,312	2,035	-	-	76,586	302	89,283
159	168,179	36,828	128,075	316,246	44,602	247,650	4,103	958,685
-	-	-	-	-	-	-	242	242
-	-	-	-	2,061,000	-	-	-	2,061,000
-	25,342	-	281,926	246,819	1,843	424,027	-	980,699
-	-	-	-	735,978	-	-	-	735,978
-	-	-	-	-	-	421,345	-	421,345
-	2,095,966	552,113	2,866,247	529,856	131,543	15,970	50,605	6,242,300
35	-	-	-	2,315	-	61,454	511	64,568
2,000	-	-	-	49,630	-	24,581	-	106,211
2,035	2,121,308	552,113	3,148,173	3,625,598	133,386	947,377	51,358	10,612,343
2,194	2,289,487	588,941	3,276,248	3,941,844	177,988	1,195,027	55,461	11,571,028
(140)	597,488	-	-	17,163	193	299,379	15,658	930,114
-	739,873	-	-	-	-	20,523	-	761,457
-	-	-	85,552	197,140	-	-	5,449	288,141
1,691	214,093	-	493,276	52,734	1,513,381	127,847	2,998	2,523,271
-	-	283,618	-	-	-	-	-	283,618
\$ 1,551	\$ 1,551,454	\$ 283,618	\$ 578,828	\$ 267,037	\$ 1,513,574	\$ 447,749	\$ 24,105	\$ 4,786,601

- 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, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

Enterprise Funds

	Unemployment Compensation Fund	State Workmen's Insurance Fund (Dec. 31, 2001)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	Internal Service Funds
OPERATING REVENUES:							
Sales and services.....	\$ 1,760,461	\$ 99,687	\$ 1,932,692	\$ 157,360	\$ 997,835	\$ 4,948,035	\$ 333,878
Investment income.....	156,231	49,959	-	(6,211)	5,280	205,259	-
Interest on loans.....	-	-	-	-	7,821	7,821	-
Other.....	343,362	42	65,474	-	107	408,985	-
TOTAL OPERATING REVENUES.....	2,260,054	149,688	1,998,166	151,149	1,011,043	5,570,100	333,878
OPERATING EXPENSES:							
Cost of sales and services.....	2,819,878	167,789	1,614,322	191,188	928,737	5,721,914	349,327
Interest expense.....	-	4,608	-	-	-	4,608	-
Depreciation.....	-	173	27	-	5,196	5,396	11,353
Provision for uncollectible accounts.....	-	2,359	-	-	6,426	8,785	-
Other.....	-	-	68,326	-	320	68,646	-
TOTAL OPERATING EXPENSES.....	2,819,878	174,929	1,682,675	191,188	940,679	5,809,349	360,680
OPERATING INCOME (LOSS).....	(559,824)	(25,241)	315,491	(40,039)	70,364	(239,249)	(26,802)
NONOPERATING REVENUES (EXPENSES):							
Investment income.....	-	-	23,042	-	4,968	28,010	1,237
Other revenues.....	-	-	-	-	642	642	-
Other expenses.....	-	-	-	-	(82)	(82)	(442)
NONOPERATING REVENUES, NET.....	-	-	23,042	-	5,528	28,570	795
INCOME (LOSS) BEFORE TRANSFERS.....	(559,824)	(25,241)	338,533	(40,039)	75,892	(210,679)	(26,007)
TRANSFERS:							
Transfers out—Note H.....	-	-	(359,000)	-	(122,022)	(481,022)	-
TOTAL TRANSFERS.....	-	-	(359,000)	-	(122,022)	(481,022)	-
DECREASE IN NET ASSETS.....	(559,824)	(25,241)	(20,467)	(40,039)	(46,130)	(691,701)	(26,007)
TOTAL NET ASSETS, JULY 1, 2001 (restated)—Note B.....	3,151,052	271,411	201,388	14,034	528,427	4,166,312	81,713
TOTAL NET ASSETS, JUNE 30, 2002.....	\$ 2,591,228	\$ 246,170	\$ 180,921	\$ (26,005)	\$ 482,297	\$ 3,474,611	\$ 55,706

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

REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES ⁽¹⁾

TABLE 1
For the Last Ten Fiscal Years Ended June 30

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	<u>1993</u>	<u>1994⁽²⁾</u>	<u>1995⁽²⁾</u>	<u>1996⁽²⁾</u>	<u>1997⁽²⁾</u>	<u>1998⁽²⁾</u>	<u>1999⁽²⁾</u>	<u>2000⁽²⁾</u>	<u>2001⁽²⁾</u>	<u>(Restated) 2002⁽²⁾</u>
REVENUES BY SOURCE										
Taxes.....	\$ 15,467,501	\$ 16,094,540	\$ 16,990,198	\$ 17,220,048	\$ 18,168,581	\$ 19,043,735	\$ 20,105,276	\$ 20,956,743	\$ 22,621,745	\$ 20,636,762
Licenses and fees.....	717,508	740,723	773,463	796,150	804,429	1,004,050	1,019,256	1,143,789	1,237,179	1,246,232
Intergovernmental.....	6,949,683	7,822,596	7,959,997	9,517,277	9,499,083	9,669,407	10,563,455	11,093,738	12,154,600	13,259,463
Charges for sales and services.....	1,654,175	847,520	894,852	1,311,375	1,516,527	1,697,933	2,057,375	2,489,196	2,388,536	2,535,775
Investment income.....	94,362	79,329	145,124	152,724	174,604	225,805	258,525	396,499	465,178	29,615
Lottery receipts	1,440,784	1,574,949	1,595,726	1,699,277	1,722,558	1,684,015	1,659,305	1,695,371	1,788,333	
Other ⁽²⁾	348,727	171,555	167,452	228,931	187,592	178,042	214,254	656,086	647,322	755,226
TOTAL REVENUES	\$ 26,672,740	\$ 27,331,212	\$ 28,526,812	\$ 30,925,782	\$ 32,073,374	\$ 33,502,987	\$ 35,877,446	\$ 38,431,422	\$ 41,302,893	\$ 38,463,073
EXPENDITURES BY FUNCTION										
Direction and Supportive services	\$ 2,004,638	\$ 2,152,254	\$ 2,313,118	\$ 2,630,517	\$ 2,468,746	\$ 2,586,529	\$ 2,722,917	\$ 2,817,426	\$ 3,329,980	968,563
Protection of persons and property.....	1,466,885	1,772,639	1,927,228	2,345,462	2,462,026	2,613,021	2,785,269	2,933,612	3,072,205	3,876,449
Health and human services.....	11,288,552	11,810,077	12,249,729	13,651,317	13,907,167	14,341,539	15,320,410	16,486,542	19,204,847	18,990,802
Public education.....	6,460,659	6,784,190	7,006,744	7,417,504	7,397,274	7,714,443	7,842,732	8,283,144	8,677,284	8,814,273
Recreation and cultural enrichment.....	483,644	525,401	571,502	348,639	369,467	396,087	436,601	510,732	568,757	480,245
Economic development.....	284,940	272,212	338,377	285,092	300,310	338,984	469,005	539,068	745,143	1,245,292
Transportation.....	2,536,894	2,695,546	2,773,086	2,832,031	2,912,583	3,243,334	3,654,269	3,679,188	4,065,124	4,003,291
Capital outlay.....	418,062	210,083	264,464	319,195	253,758	360,238	582,863	586,801	655,248	694,219
Debt service:										
Principal retirement.....	594,472	482,344	516,705	447,790	437,880	435,090	443,675	479,350	477,001	479,395
Interest and fiscal charges.....	430,947	291,731	301,480	289,138	287,866	263,356	262,669	277,044	281,590	278,428
TOTAL EXPENDITURES	\$ 25,969,693	\$ 26,996,477	\$ 28,262,433	\$ 30,566,685	\$ 30,797,077	\$ 32,292,621	\$ 34,520,410	\$ 36,592,907	\$ 41,077,179	\$ 39,830,957

⁽¹⁾ Included General, Special Revenue, Debt Service, Capital Projects Funds and Discretely Presented Governmental Fund Component Units, through June 30, 1993.

⁽²⁾ Includes primary government only.

THIRTY LARGEST NONGOVERNMENTAL EMPLOYERS

TABLE 10

For the Calendar Year 2001 (Restated)

COMMONWEALTH OF PENNSYLVANIA

EMPLOYER	RANK
Wal-Mart Stores, Inc.....	1
University of Pennsylvania.....	2
Pennsylvania State University	3
US Airways, Inc.....	4
United Parcel Services, Inc.....	5
Giant Food Stores.	6
University of Pittsburgh.....	7
K-Mart Corporation.	8
Weis Markets, Inc.	9
Merck & Co. Inc....	10
Mellon Bank, NA.....	11
Sears Roebuck and Company	12
Verizon.....	13
May Department Stores Company.....	14
PNC Bank, NA.....	15
Aramark Corporation	16
Vanguard Group Inc.	17
UPMC-Presbyterian.....	18
Giant Eagle, Inc.	19
Hershey Foods, Inc....	20
Tenet Health System-Philadelphia.....	21
Acme Markets, Inc.....	22
Highmark Blue Cross/Blue Shield.....	23
The Home Depot USA, Inc.....	24
Agore Systems, Inc.	25
J.C. Penney Company, Inc	26
Southeastern PA Transportation	27
Rite Aid Corporation	28
Temple University	29
Boscov’s Department Store	30

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

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

**TABLE 11
(Restated)**

COMMONWEALTH OF PENNSYLVANIA

Adelphia Communications Corp.	Kennametal, Inc.
Air Products and Chemicals, Inc.	Knoll, Inc.
Airgas, Inc.	Kulicke and Soffa Industries, Inc.
Alcoa, Inc.	New Holland North America, Inc.
Allegheny Technologies, Inc.	Mylan Laboratories, Inc.
American Eagle Outfitters, Inc.	P.H. Glatfelter Company
Ametek, Inc.	Pep Boys
Amkor Technology, Inc.	Pet Quarters, Inc.
Aramark Corporation	PPG Industries, Inc.
Black Box Corporation	Rite Aid Corporation
Bon-Ton Stores	Rohm and HAAS Company
Brandywine Realty Trust	Safeguard Scientifics, Inc.
Cable Design Technology Corporation	SEI Investments Co.
Carpenter Technology Corporation	SmithKline Beecham Corp.
CDI Corporation	SPS Technologies, Inc.
Charming Shoppes, Inc.	Sunguard Data System, Inc.
Comcast Corporation.	Sunoco, Inc.
Consol Energy Inc.	SunSource, Inc.
Crown Cork and Seal Company	Teleflex, Inc.
Dentsply International, Inc.	Technitrol, Inc.
Electronics Boutique Holding Corporation	Toll Brothers, Inc.
Federated Investors, Inc.	UNISYS Corporation
FMC Corporation.	United States Steel
Foamex International, Inc.	Universal Health Services, Inc.
Genesis Health Services, Inc.	USX Corporation
H.J. Heinz Company	Vishay Intertechnology, Inc.
Harsco Corporation	Webtech Corp.
Hershey Foods Corporation	Weis Markets, Inc.
Ikon Office Solutions, Inc.	Wesco Distribution, Inc.
JLG Industries, Inc.	York International Corporation
Jones Apparel Group, Inc.	

SOURCE: *Ward's Business Directory* 2001

COMPUTATION OF LEGAL DEBT MARGIN

TABLE 4

As of August 31, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA

Average annual tax revenues deposited in the previous five fiscal years.....	\$ 23,661,031,603
Constitutional factor.....	<u>x 1.75</u>
Constitutional debt limit for debt incurred without the approval of the electors	41,406,805,305
Less outstanding net debt (non-electorate approved)	<u>5,257,508,994</u>
Legal debt margin.....	<u>\$ 36,149,296,311</u>

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

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

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

The figures above are abstracted from a certification of the Auditor General dated August 30, 2002.

June 30, 2002 (Restated)

COMMONWEALTH OF PENNSYLVANIA

Date of Ratification of U.S. Constitution	December 12, 1787
Form of Government	Legislative-Executive-Judicial
Miles of State Highway	39,935
Land Area – in square miles	44,888
State Police Protection:	
Number of Stations	90
Number of State Police	4,120
Higher Education (Universities, Colleges and Community Colleges):	
Number of campuses in state	246*
Number of educators	23,167*
Number of students	651,594*
Recreation:	
Number of State Parks	116
Area of State Parks	289,380 Acres
Area of State Forests	2,100,113 Acres

SOURCE: Pennsylvania Department of Transportation, Bureau of Strategic Planning
 Pennsylvania State Police, Bureau of Research and Development
 Pennsylvania Department of Education, Division of Data Services
 Pennsylvania Department of Conservation and Natural Resources, Bureau of Forestry
 *as of June 2001

NET BONDED DEBT PER CAPITA

TABLE 2
For the Last Ten Fiscal Years (Restated)

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)			
<u>At Fiscal Year Ended June 30</u>	<u>Net Bonded Debt</u>	<u>Population</u>	<u>Debt Per Capita</u>
1992	\$ 4,873,542	11,989	\$ 407
1993	5,040,938	12,026	419
1994	5,100,012	12,040	423
1995	5,040,662	12,044	418
1996	5,061,530	12,038	420
1997	4,841,729	12,015	403
1998	4,841,324	12,002	403
1999	5,253,614	11,994	438
2000	5,366,621	12,281	437
2001	5,545,081	12,287	451

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

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

TABLE 3
For the Last Ten Fiscal Years

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)			
<u>For The Fiscal Year Ended June 30</u>	<u>Debt Service Requirements Funded by General Fund</u>	<u>Budgetary Basis General Fund Expenditures⁽¹⁾</u>	<u>%</u>
1993	\$ 497,045	\$ 19,986,749	2.49
1994	512,094	21,060,058	2.43
1995	525,889	22,467,672	2.34
1996	551,133	23,480,336	2.35
1997	649,759	23,384,414	2.78
1998	624,642	24,891,340	2.51
1999	761,572	26,624,901	2.86
2000	627,817	28,755,784	2.18
2001	382,924	29,717,425	1.29
2002	551,189	31,666,564	1.74

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

SCHEDULE OF REVENUE BOND COVERAGE

TABLE 5
For the Last Ten Fiscal Years (Restated)

COMMONWEALTH OF PENNSYLVANIA

Pennsylvania Turnpike Commission ^(b)							
(Expressed in Thousands)							
For the Fiscal Year Ended May 31	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1993	\$ 329,452	\$ 134,844	\$ 194,608	\$ 11,595	\$ 65,600	\$ 77,195	2.52
1994	344,617	142,915	201,702	9,405	70,892	80,297	2.51
1995	375,754	146,325	229,429	15,715	72,548	88,263	2.60
1996	389,774	162,150	227,624	23,900	75,644	99,544	2.29
1997	398,897	158,705	240,192	22,845	74,462	97,307	2.47
1998	410,266	165,763	244,503	28,240	72,274	100,514	2.43
1999	441,235	190,179	251,056	29,085	86,483	115,568	2.17
2000	458,728	180,671	278,057	36,775	90,784	127,559	2.18
2001	490,494	212,365	278,129	48,245	106,949	155,194	1.79
2002	530,363	216,077	314,286	274,200	122,209	396,409	0.79

Pennsylvania Industrial Development Authority ^(b)							
(Expressed in Thousands)							
For the Fiscal Year Ended June 30	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1993	\$ 25,204	\$ 2,368	\$ 22,836	\$ 10,645	\$ 18,595	\$ 29,240	0.78
1994	29,802	2,138	27,664	23,085	19,116	42,201	0.66
1995	30,806	2,864	27,942	4,335	20,123	24,458	1.14
1996	30,487	2,898	27,589	10,695	19,747	30,442	0.91
1997	32,963	2,865	30,098	12,955	22,314	35,269	0.85
1998	35,967	2,861	33,106	19,380	22,852	42,232	0.78
1999	30,227	3,187	27,040	20,660	21,845	42,505	0.64
2000	34,581	3,315	31,266	22,585	20,615	43,200	0.72
2001	38,807	3,102	35,705	23,005	19,487	42,492	0.84
2002	31,360	4,236	27,124	23,695	18,830	42,525	0.64

Pennsylvania Housing Finance Agency ^(b)							
(Expressed in Thousands)							
For the Fiscal Year Ended June 30	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest ^(a)	Total	
1993	\$ 200,268	\$ 9,803	\$ 190,465	\$ 27,410	\$ 166,480	\$ 193,890	0.98
1994	194,025	13,325	180,700	29,426	143,904	173,330	1.05
1995	196,023	16,095	179,928	51,406	139,621	191,027	0.94
1996	208,048	16,979	191,069	40,839	146,452	187,291	1.02
1997	222,736	16,748	205,988	39,463	157,989	197,452	1.04
1998	247,841	17,931	229,910	43,558	172,268	215,826	1.06
1999	237,346	19,544	217,802	54,438	175,337	229,775	0.95
2000	249,336	20,303	229,033	93,240	176,399	269,639	0.85
2001	260,049	24,398	235,651	62,582	174,349	236,931	0.99
2002	231,306	25,701	205,605	75,934	166,224	242,158	0.85

^(a) Excludes interest on notes payable.

^(b) Discretely Presented Component Unit.

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

TABLE 6
For the Last Ten Calendar Years (Restated)

COMMONWEALTH OF PENNSYLVANIA

<u>Calendar Year</u>	(Expressed in Thousands)		<u>%</u>
	<u>United States</u>	<u>Pennsylvania</u>	
1992	255,011	11,989	4.70
1993	257,753	12,026	4.66
1994	260,289	12,040	4.63
1995	262,803	12,044	4.58
1996	265,228	12,038	4.54
1997	267,783	12,015	4.49
1998	270,248	12,002	4.44
1999	272,690	11,994	4.40
2000	282,125	12,283	4.35
2001	284,797	12,287	4.31

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

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

TABLE 7
For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA

<u>Calendar Year</u>	(Expressed in Thousands)	
	<u>Demand Deposits</u>	<u>Time and Savings Deposits</u>
1992	\$ 7,150,024	\$ 51,434,858
1993	7,620,397	54,334,637
1994	6,952,868	49,674,200
1995	7,124,441	51,766,777
1996	4,233,735	37,254,292
1997	4,764,449	40,036,785
1998	4,581,076	35,885,048
1999	4,469,669	38,497,993
2000	4,680,714	40,344,204
2001	7,203,956	50,123,973

SOURCE: Pennsylvania Department of Banking

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

TABLE 8
For the Last Ten Calendar Years (Restated)

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands
Except Percents)

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
PENNSYLVANIA										
Civilian labor force.....	5,886	5,889	5,826	5,838	5,903	5,984	5,936	5,969	5,972	6,073
Employment.....	5,440	5,470	5,465	5,495	5,590	5,673	5,661	5,707	5,722	5,786
Unemployment.....	446	416	360	343	313	311	275	262	250	287
Rate %.....	7.5	7.1	6.2	5.9	5.3	5.2	4.6	4.4	4.2	4.7
UNITED STATES										
Civilian labor force.....	128,105	129,200	131,056	132,304	133,943	136,297	137,674	139,368	146,863	141,815
Employment.....	118,492	120,260	123,060	124,900	126,708	129,558	131,464	133,488	135,208	135,073
Unemployment.....	9,613	8,940	7,996	7,404	7,235	6,739	6,210	5,880	5,655	6,742
Rate %.....	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4	4.8

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

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

TABLE 9

For the Last Ten Calendar Years (Restated)

COMMONWEALTH OF PENNSYLVANIA

Calendar Year	TOTAL PERSONAL INCOME (Millions of Dollars)			PER CAPITA PERSONAL INCOME (Dollars)		
	United States	Pennsylvania	%	United States	Pennsylvania	%
1992	\$5,260,922	\$ 252,224	4.80	\$ 20,631	\$ 21,038	102.00
1993	5,469,485	260,109	4.80	21,220	21,635	102.00
1994	5,741,050	269,002	4.70	22,056	22,343	101.30
1995	6,192,235	285,923	4.60	23,562	23,738	100.70
1996	6,538,103	299,001	4.60	24,270	24,467	100.81
1997	6,928,545	313,457	4.50	25,412	25,635	100.88
1998	7,418,497	330,733	4.46	26,893	27,008	100.43
1999	7,779,511	342,452	4.40	27,880	27,924	100.16
2000	8,398,796	364,953	4.34	29,770	29,713	99.80
2001	8,678,255	377,461	4.35	30,472	30,720	100.81

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

Required Supplementary Information



Amish Buggy
Lancaster County

– THIS PAGE INTENTIONALLY LEFT BLANK –

Combining Financial Statements



Hersheypark

Hershey

– THIS PAGE INTENTIONALLY LEFT BLANK –

Special Revenue Funds



Gettysburg Battlefield

Gettysburg

Debt Service Funds



Flagship Niagara

Lake Erie

Capital Projects Funds



Three Rivers

Pittsburgh

Enterprise Funds



Fallingwater

Mill Run

– THIS PAGE INTENTIONALLY LEFT BLANK –

Internal Service Funds



Velodrome

Trexlerstown

– THIS PAGE INTENTIONALLY LEFT BLANK –

Agency Funds



Youghiogeny River

Ohiopyle

– THIS PAGE INTENTIONALLY LEFT BLANK –

Statistical Section



Drake Oil Well Museum

Titusville

– THIS PAGE INTENTIONALLY LEFT BLANK –