

# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**For the Fiscal Year Ended June 30, 1986**



**Commonwealth of Pennsylvania**  
**Dick Thornburgh, Governor**

**Prepared By: Office of the Budget**

*Robert A. Bittenbender, Secretary*

**Comptroller Operations**

*Harvey C. Eckert, Deputy Secretary*

**Commonwealth of Pennsylvania  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 1986**

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COMMONWEALTH OF PENNSYLVANIA  
OFFICE OF THE GOVERNOR  
HARRISBURG

THE GOVERNOR

December 19, 1986

To the Honorable Members of the General Assembly and to the Citizens of the Commonwealth of Pennsylvania:

This Comprehensive Annual Financial Report of the Commonwealth of Pennsylvania, the first ever, represents the fulfillment of this Administration's commitment to sound fiscal management and to responsible financial reporting based on nationally recognized standards. The report, which includes the Commonwealth's independently audited General Purpose Financial Statements as of and for the fiscal year ended June 30, 1986, will provide you and the financial community, in particular, with all the information required to fully assess the Commonwealth's financial position, results of operations, and the management of its resources.

Publication of this Comprehensive Annual Financial Report concludes a four-year undertaking to fully institute and firmly establish Commonwealth accounting and financial reporting practices that conform to generally accepted accounting principles (GAAP) as prescribed by pronouncements of the Governmental Accounting Standards Board. Previously noted exceptions to financial reporting as required by GAAP have been satisfied by the inclusion of a General Fixed Assets Account Group and financial data relating to the Pennsylvania Turnpike Commission and the State System of Higher Education in the Commonwealth's annual financial reporting. I commend the Office of the Budget for this accomplishment and extend my appreciation to the Office of the Auditor General and to the officers and staff of the other Commonwealth agencies for their part in making this report possible. The Comprehensive Annual Financial Report of the Commonwealth of Pennsylvania, as transmitted herewith, will be submitted to the Government Finance Officers Association (GFOA) to determine the Commonwealth's eligibility for the award of a Certificate of Achievement for Excellence in Financial Reporting.

Three years ago, the Commonwealth's General Fund, the largest and principal operating fund, reflected an unreserved/undesignated fund balance deficit of \$432.1 million on the modified accrual (GAAP) basis of accounting and an unreserved/undesignated fund balance deficit of \$234.7 million on a budgetary basis. Today, as in the previous two years, I am able to report an unreserved/undesignated fund balance (surplus) as a result of Commonwealth operations at June 30, 1986. The financial statements as of June 30, 1986, contained herein, reflect a General Fund surplus of \$104.9 million on the modified accrual basis of accounting (\$212.8 million on a budgetary basis). Moreover, during the three-year period, General Fund assets at the fiscal year end have virtually doubled to \$1,949.3 million; liabilities remain relatively unchanged at \$1,204.5 million; net tax-supported long-term general obligation bonds debt decreased nominally to \$4,529.4 million; and Commonwealth issuances of tax anticipation notes to meet temporary cash requirements were reduced. This represents a fiscal accomplishment in which we can take pride and which has not gone unnoticed in the financial community. Commonwealth of Pennsylvania bond ratings, unchanged since 1970, have been upgraded by both Standard and Poor's and Moody's Investors Services, Inc., from A+ to AA- and from A to A1, respectively. In granting these upgradings, the rating services emphasized the state's improved financial operations and controls, our consistent financial discipline, and our stabilized economy.

Pennsylvania's strong financial showing is the result of an impressive economic turnaround, attributable to various initiatives taken over the past three years.

To confront a faltering economy in an era of change, we established a \$190 million Economic Revitalization Program and increased appropriations to the Pennsylvania Industrial Development Authority and the Ben Franklin Partnership. As a result of these public expenditures, we have experienced an influx of private capital investment that has placed Pennsylvania among the nation's leaders in new manufacturing starts and growth in advanced technology and electronics firms. Our rate of new business formations is triple the national average and our unemployment rate has been below the national average for the last six months. At 6.3 percent, the November 1986 rate was at its lowest since 1979. Employment totalled 5,149,000 and unemployment stood at 348,000. Nearly 500,000 new jobs have been created in the past three years.

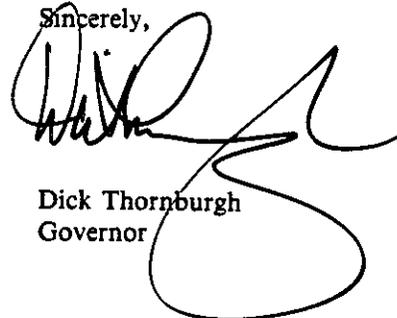
To further stimulate business investment and consumer spending, tax cuts were enacted which total \$1.1 billion. This will provide individuals with \$114 million more in spendable income annually and permit businesses to retain more than \$100 million each year when the tax cuts are fully implemented. During the same period \$50 million was set aside to meet future unanticipated revenue shortfalls; another \$50 million was placed in reserve to attract major industrial, manufacturing or research enterprises to Pennsylvania; and \$117 million of our Economic Revitalization Program was funded with current general revenues rather than long-term debt.

To improve upon the quality of life of our economically disadvantaged and to better prepare Pennsylvania's youth and unemployed to meet the challenges of a world in transition, cash assistance grants and food and nutrition services to the needy were increased, as were transportation, prescription and nursing home assistance to senior citizens, and mortgage assistance and health insurance programs for the unemployed were instituted. A concerted effort was made to improve education, from kindergarten to 12th grade, including remedial instruction and accelerated vocational and job training. During the fiscal year ended June 30, 1986, state general government expenditures for public health and welfare were increased to \$6,231.7 million and to \$4,122.9 million for public education, not including funds appropriated to the State System of Higher Education.

An essential element in the revitalization of the state's economy has been the rebuilding of our public infrastructure. During the fiscal year ended June 30, 1986, the Department of Transportation awarded more than \$1 billion in highway contracts and made significant progress in its \$1.4 billion program to repair and rebuild nearly 1,000 state and local bridges. These highway and bridge projects will generate an estimated 100,000 building trades and related jobs annually over the next decade. In addition, we established a \$300 million loan fund for water facilities improvements, authorized \$218.2 million for mass transit projects over the past three fiscal years, and are about to embark on a \$4 billion Pennsylvania Turnpike expansion and improvement program.

In conclusion, I submit that the financial gains reflected in this Comprehensive Annual Financial Report bode well for all Pennsylvanians; that the substantial progress we have made in reshaping Pennsylvania's economy will continue to lead to gains in employment, in personal and business income growth, and in greater consumer spending and business investment, all of which will contribute to additional growth in the major sources of Commonwealth revenues and reduced need for expenditures which are sensitive to economic downturns.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read 'Dick Thornburgh', is written over the typed name and title.

Dick Thornburgh  
Governor



COMMONWEALTH OF PENNSYLVANIA  
GOVERNOR'S OFFICE  
HARRISBURG

December 19, 1986

ROBERT A. BITTENBENDER  
SECRETARY  
OFFICE OF THE BUDGET

Dear Governor Thornburgh:

I am pleased to present the Commonwealth of Pennsylvania's first ever Comprehensive Annual Financial Report (CAFR) which includes the General Purpose Financial Statements (GPFS) of the Commonwealth as of and for the fiscal year ended June 30, 1986. The report and financial statements, for the first time, include a General Fixed Assets Account Group and financial data relating to the Pennsylvania Turnpike Commission and the State System of Higher Education. They are prepared in conformity with generally accepted accounting principles (GAAP) as prescribed in pronouncements by the Governmental Accounting Standards Board. This CAFR of the Commonwealth of Pennsylvania will be submitted to the Government Finance Officers Association (GFOA) to determine its eligibility for a Certificate of Achievement for Excellence in Financial Reporting.

The financial statements contained in this report were prepared by the Office of the Budget, Comptroller Operations, pursuant to the powers and duties assigned the Governor under Section 701 of the Administrative Code and delegated to the Secretary of the Budget by Executive Order No. 1984-3, October 11, 1984. They were jointly audited by the Commonwealth of Pennsylvania's elected Auditor General and Ernst & Whinney, a nationally recognized public accounting firm. Their Auditors' Report is included in this report.

I believe the financial statements are accurate and fairly stated in all material respects; that they are presented in a manner designed to fairly set forth the Commonwealth's financial position, results of operations, and changes in the fund balances as measured by the financial activity of its various fund types; and further that all disclosures necessary to enable the members of the General Assembly, the public, and the financial community to gain a full understanding of the Commonwealth's operations and financial affairs have been included. Responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the Commonwealth of Pennsylvania, Office of the Budget.

In addition to the GPFS which provide an overview of the Commonwealth's financial position and operating results by fund type, this comprehensive report includes: combining financial statements, presenting information for each fund; supporting schedules; certain narrative information, describing individual funds; and statistical tables presenting financial, economic, social and demographic data about the Commonwealth. The CAFR was prepared in accordance with standards established by the Government Finance Officers Association of the United States and Canada.

#### THE FINANCIAL REPORTING ENTITY

The GPFS include all funds, account groups, agencies, boards and commissions, and governmental public service organizations over which the Commonwealth's executive and legislative branches exercise an oversight responsibility. Criteria used to determine oversight responsibility includes budget adoption and approval, taxing authority, funding of outstanding debt, authority to appoint an organization's governing body, constitutional officers' ability to significantly influence operations, accountability for fiscal operations and scope of public service.

This year, the three departures from GAAP financial reporting requirements noted in previous years' financial statements were eliminated.

**General Fixed Assets Account Group.** Prior to this fiscal year, Commonwealth agencies, boards and commissions individually maintained fixed asset systems that were primarily designed to physically safeguard the assets. The records often lacked complete information necessary for reporting fixed assets and capital leases in a "General Fixed Assets Account Group" as

required by GAAP. To overcome this reporting deficiency, qualified consultants were engaged to develop a fixed asset reporting plan which would meet both GAAP and the internal management reporting needs of the individual agencies. Implementation of the plan by a task force, under the direction of the Deputy Secretary for Comptroller Operations, followed and resulted in the identification and verification of fixed assets amounting to \$2,563 million at June 30, 1986.

*State System of Higher Education (SSHE).* This year's financial statements include for the first time College and University Funds. They reflect the financial position and operating results of the Office of the Chancellor and the Commonwealth universities, comprising the SSHE, in accordance with standards established by the National Association of College and University Business Officers' *College and University Business Administration* and the American Institute of Certified Public Accountants' *Audits of Colleges and Universities*. Heretofore, the Commonwealth's financial statements reflected, as public education expenditures of the General Fund, only those amounts appropriated to SSHE by the General Assembly.

*Pennsylvania Turnpike Commission (PTC).* The financial activities of the PTC were not included in prior fiscal years' GPFS of the Commonwealth because financial statements prepared in accordance with GAAP were not available. This fiscal year, the PTC's independently audited financial statements were adjusted, with the assistance of qualified consultants, to meet GAAP requirements. The results of PTC operations are reflected in the Enterprise Fund Type of the Commonwealth's Financial Reporting Entity.

#### BUDGETARY CONTROLS AND ACCOUNTING SYSTEMS

The annual budget of the Commonwealth is comprised of separate appropriations to individual agencies for their specific programs, purposes, special outlays and/or operating expenditures. Budgetary control is exercised at the agency level by appropriation and by allocations to major categories of expenditure within each appropriation. Major expenditure categories include personnel services, operations, fixed assets, subsidies and grants, debt service and fixed charges, and nonexpenditure items. An encumbrance system is used to effect budgetary control at the appropriation and allocation levels.

Encumbrances represent the estimated amount of expenditures that are expected to be incurred when purchase orders issued are filled and contracts and other commitments entered into are performed. They serve to reserve that part of an appropriation until the actual liabilities are incurred and to ensure that funds committed, i.e., encumbered, and those expended do not exceed, in total, the amounts appropriated and/or allocated. Section 621 of the Administrative Code provides that unencumbered appropriated funds shall automatically lapse as of the fiscal year end and thus be available for appropriation in the new fiscal year. Encumbered appropriations are carried forward into the new fiscal year. They are reflected in the Commonwealth's governmental funds as reservations of fund balance as distinguished from unreserved fund balance. Funds reserved for appropriations carried forward may be expended until October 31 of the new fiscal year at which time any remaining balances must be lapsed, except amounts for encumbered items being litigated or arbitrated or otherwise extended for some other reason with approval of the Secretary of the Budget. In no event, however, can an encumbrance carried forward from one fiscal year be extended beyond June 30 of the next fiscal year except for a litigated item.

Accounting records of most departments under the Governor's jurisdiction are maintained on a centralized accounting system. The operations of this system are directed and supervised by the Office of the Budget, Comptroller Operations. Separate accounting systems are maintained by the Department of Transportation for the Motor License Fund; the Liquor Control Board for the State Stores Fund; and the Department of Labor and Industry, Office of Employment Security, for the payment of unemployment compensation benefits. The Treasury Department, the Department of the Auditor General, and the Legislative and Judicial branches likewise operate separate accounting systems.

The accounts of the Commonwealth's governmental fund types are maintained on a budgetary basis by fund, agency and appropriation. Revenues are recorded at the time cash is received. Expenditures are recorded at the time payment requisitions and invoices are submitted to the Treasury Department for payment. At the fiscal year end, both revenues and expenditures are adjusted to reflect appropriate accruals for financial reporting in conformity with GAAP.

Within the accounting systems, internal controls effectively provide reasonable assurance that financial transactions are executed in accordance with prior authorizations, that assets are protected from unauthorized use or disposition, and that the financial records are reliable for the purposes of preparing financial statements and maintaining accountability. All department records are reconciled monthly with the Treasury Department's records of cash disbursements and the Department of Revenue's records of cash receipts.

### THE GENERAL PURPOSE FINANCIAL STATEMENTS (GPFS)

Although the Commonwealth plans and manages its financial affairs on a budgetary basis, it has undertaken to prepare GPFS in conformity with GAAP applicable to governments. These financial statements differ from those prepared on a budgetary basis in that generic funds are combined by fund types and the financial data is presented on the basis of accounting principles applicable to each fund type. Accordingly, governmental, expendable trust, and agency funds are reported on the modified accrual basis of accounting; proprietary and pension trust funds are reported on the accrual basis of accounting. The College and University Funds are reported on the accrual basis of accounting.

In measuring financial position and operating results on the modified accrual basis of accounting, as compared to the budgetary basis, revenues are generally recognized when they become measurable and available to finance current obligations as opposed to when cash is received. Expenditures are generally reported when goods and services are received and a liability incurred rather than when cash is disbursed. Due to these differences, the Commonwealth's GPFS as of a fiscal year end include amounts which actually will not be received or disbursed until a future date. Such amounts are necessarily based on management's best assessment and evaluation of available financial data at the time the financial statements are prepared. They include revenues due the Commonwealth, net of credits and refunds, and accounts payable and accrued expenditures for which a liability had been incurred as of the fiscal year end. In management's opinion, the amounts of receivables and payables reflected in the financial statements, included in this report, are fairly stated in relation to the financial activities of the Commonwealth's reporting entity.

### THE GENERAL FUND

The General Fund, as the Commonwealth's largest fund, is the focal point in any determination of Pennsylvania's financial position. It accounts for all revenues and receipts which are not required by law to be accounted or deposited elsewhere and for the major portion of Commonwealth expenditures. Tax receipts, principally personal and corporate income and sales and use taxes, constitute more than 72 percent of the General Fund's revenues. Major fund expenditures are for public education, public health and welfare, economic development, protection of persons and property, general government operations and debt service on all obligations except those incurred for highway or other special revenue fund purposes. A comparison of how the Commonwealth has operated within its adopted General Fund budget, as amended, is presented in the "Combined Statement of Revenues, Expenditures and Encumbrances and Changes in Unreserved/Undesignated Fund Balances — Budget and Actual (Budgetary Basis)," included in the GPFS.

During the three most recent fiscal years, improved economic conditions and administrative actions taken to control expenditure growth, improved productivity and efficiency in government operations, cash management and tax collections have contributed to a marked and sustained improvement in the General Fund's financial position. This improvement is reflected in the General Fund's financial statements on both the budgetary and the modified accrual bases of accounting.

**Budgetary Basis:** At June 30, 1986, the General Fund's unreserved/undesignated fund balance (budgetary basis) amounted to \$212.8 million. It compares to a budgetary fund balance of \$310.5 million at June 30, 1985. The budgetary basis fund balance at June 30, 1986 was principally the result of revenue collections being \$229.2 million higher than the Official Estimate and appropriation lapses of \$94.3 million offset by supplemental appropriations totalling \$100.7 million.

The following table shows the General Fund's actual 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 (Deficit)</u>	<u>Increase (Decrease)</u>
1982	\$ 7.5	\$ (64.3)
1983	(234.7)	(242.2)
1984	76.4	311.1
1985	310.5	234.1
1986	212.8	(97.7)

**Modified Accrual Basis.** At June 30, 1986, the Commonwealth's General Fund reflects a fund balance of \$744.8 million, an improvement of \$140.3 million over the \$604.5 million reported a year ago. Total assets increased by \$162.2 million to \$1,949.3 million. Liabilities increased by \$21.9 million to \$1,204.5 million. The unreserved/undesignated fund balance at June 30, 1986 was \$104.9 million as compared to the \$374.8 million reported a year ago. These changes and others (expressed in millions) are reflected in the General Fund summary comparative balance sheet that follows.

General Fund  
Summary Comparative Balance Sheet (GAAP Basis)  
(Dollar Amounts in Millions)

	<u>June 30, 1986</u>	<u>June 30, 1985</u>	<u>Increase (Decrease)</u>
<b>Assets</b>			
Cash and temporary investments .....	\$ 982.8	\$ 837.3	\$ 145.5
Receivables, net .....	494.7	467.8	26.9
Due from other funds/governments .....	468.2	476.4	(8.2)
Other assets .....	3.6	5.6	(2.0)
<b>Total Assets</b> .....	<u>\$1,949.3</u>	<u>\$1,787.1</u>	<u>\$ 162.2</u>
<b>Liabilities</b>			
Accounts payable and other accrued liabilities .....	\$ 941.9	\$ 771.6	\$ 170.3
Matured bonds and interest payable .....	6.5	19.9	(13.4)
Due to other funds/governments .....	245.6	353.6	(108.0)
Deferred revenue .....	10.5	37.5	(27.0)
<b>Total Liabilities</b> .....	<u>\$1,204.5</u>	<u>\$1,182.6</u>	<u>\$ 21.9</u>
<b>Fund Balance</b>			
Reserved .....	\$ 127.1	\$ 53.1	\$ 74.0
Unreserved:			
Designated .....	512.8	176.6	336.2
Undesignated .....	104.9	374.8	(269.9)
<b>Total Fund Balance</b> .....	<u>\$ 744.8</u>	<u>\$ 604.5</u>	<u>\$ 140.3</u>
<b>Total Liabilities and Fund Balance</b> .....	<u>\$1,949.3</u>	<u>\$1,787.1</u>	<u>\$ 162.2</u>

## GENERAL GOVERNMENTAL FUNCTIONS — MODIFIED ACCRUAL BASIS

The Commonwealth's governmental fund types include the General Fund, the Motor License Fund and Other Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund. These funds account for most general operating revenues and expenditures. Their combined fund balances at June 30, 1986 increased by \$288.2 million to \$2,423.3 million from \$2,135.1 million at the beginning of the fiscal year. Unreserved/undesignated fund balances at June 30, 1986 amount to \$559.3 million as compared to \$1,005.4 million a year ago. Comparative summaries of general governmental revenues by source and expenditures by function (expressed in millions) follow.

**General Governmental Revenues by Source.** Revenues of the Commonwealth's General, Special Revenue, Debt Service and Capital Projects Funds totalled \$15,770 million. This represents a 5.4 percent increase over the previous fiscal year. Taxes, penalties and interest constituted 63.2 percent of general governmental revenues; intergovernmental revenues, primarily federal funds, constituted 23.7 percent.

<u>Revenue Source</u>	Fiscal Years Ended		Increase (Decrease)
	June 30, 1986	June 30, 1985	
Taxes, penalties and interest.....	\$ 9,970	\$ 9,552	\$ 418
Licenses and fees .....	540	525	15
Intergovernmental.....	3,745	3,491	254
Charges for goods and services .....	531	481	50
Investment income .....	195	203	(8)
Lottery receipts, net of prizes .....	557	593	(36)
Miscellaneous .....	232	122	110
<b>Total Revenues .....</b>	<b>\$ 15,770</b>	<b>\$ 14,967</b>	<b>\$ 803</b>

**General Governmental Expenditures by Function.** Expenditures of the Commonwealth's General, Special Revenue, Debt Service and Capital Projects Funds totalled \$16,668 million, reflecting an increase of \$1,587 million or 10.5 percent over the previous fiscal year. Of the total amount expended, public health and welfare accounted for 37.4 percent, public education for 24.7 percent not including the SSHE, and transportation, 12.3 percent.

<u>Expenditure Function</u>	Fiscal Years Ended		Increase (Decrease)
	June 30, 1986	June 30, 1985	
General government.....	\$ 804	\$ 830	\$ (26)
Protection of persons and property .....	912	779	133
Public health and welfare .....	6,232	5,687	545
Public education .....	4,123	4,063	60
Conservation of natural resources.....	302	257	45
Economic development and assistance .....	188	158	30
Transportation .....	2,054	1,844	210
Capital outlay .....	460	346	114
Debt service:			
Principal retirement .....	1,186	759	427
Interest and fiscal charges.....	407	358	49
<b>Total Expenditures .....</b>	<b>\$16,668</b>	<b>\$15,081</b>	<b>\$ 1,587</b>

## DEBT ADMINISTRATION

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 constitutional debt limit at August 29, 1986 was \$18.5 billion. Outstanding net capital project debt at August 29, 1986 amounted to \$3.7 billion.

In addition to constitutionally authorized capital project debt, the Commonwealth may incur debt for electorate approved programs, e.g., economic revitalization, land and water development, and water facilities restoration; and for special purposes approved by the General Assembly, e.g., disaster relief. Net electorate and other bonded debt outstanding at August 29, 1986, amounted to \$.8 billion.

The total general obligation bond indebtedness outstanding at June 30, 1986 was \$4,529.4 million. Total debt service expenditures paid from General Fund and Motor License Fund appropriations during the fiscal year ended June 30, 1986 amounted to \$501.8 million. On a per capita basis and as a percentage of personal income for the fiscal year ended June 30, 1985, bonded indebtedness amounted to \$382 and 3 percent, respectively.

During the fiscal year ending June 30, 1987, the Office of the Budget projects general obligation bond issuances amounting to \$384 million, an increase of \$134 million as compared to actual issuance of \$250 million, net of refunding bonds issued, during the fiscal year ended June 30, 1986. This forecast reflects the need to make investments in the Commonwealth's capital infrastructure, particularly prisons, mass transportation, water supply systems and interstate highway construction under the Federal Advance Construction Interstate Program. Debt principal retirements of \$292 million are forecast during fiscal 1987. 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.

At June 30	Outstanding Bond Indebtedness <sup>(a)</sup>
1980	\$4,642
1981	4,597
1982	4,450
1983	4,487
1984	4,484
1985	4,535
1986	4,529

(a) Net of sinking fund accumulations for all bonds. That portion of Commonwealth payments applicable to principal made to the authorities for debt service prior to repayment of debt is deducted.

In December 1985 and June 1986, the Commonwealth issued general obligation refunding bonds totalling \$188.7 million. The proceeds will be used to retire general obligation debt incurred at higher than currently prevailing interest rates in 1980, 1981, 1982 and 1984. This will result in estimated savings of \$10 million over the life of the refunding bonds, or \$7.6 million when discounted to present value.

In addition to general obligation bonds, the Commonwealth may issue tax anticipation notes to finance 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 in the aggregate 20 percent of the funds' estimated revenue for the fiscal year, and must mature within the fiscal year of issuance. The declining trend in issuances of General Fund tax anticipation notes (expressed in millions) shown below is the result of the Commonwealth's improved financial position and concerted efforts to more closely coordinate major disbursements with the receipt of revenue throughout the fiscal year. Motor License Fund tax anticipation notes were not issued during the periods shown below and none are anticipated in 1987.

Fiscal Year Issue Ended June 30	For the Account of the General Fund	Amount Issued as a percent of Actual Revenues General Fund
1983	\$950	12%
1984	970	12
1985	700	6
1986	500	4
1987 Estimated	490	4 <sup>(a)</sup>

(a) As a percent of estimated revenues.

#### CASH MANAGEMENT

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

In addition, the Treasury Department is empowered to invest such monies of the Commonwealth that have accumulated beyond the ordinary needs of the various Commonwealth Funds. Temporary cash surplus investments held by the Treasury Department by type, maturity ranges and percent at June 30, 1986 are depicted below.

<u>Investment Type</u>	<u>Maturity Range (days)</u>	<u>Percent June 30</u>
United States Treasury and Agency Obligations . . . . .	3-549	38%
Commercial Paper (Moody's Prime One Rating or Equivalent) . . . . .	1-81	23
Certificates of Deposit . . . . .	70-626	4
Repurchase Agreements . . . . .	1-30	28
Bankers' Acceptances (Moody's Aa Rating or Equivalent) . . . . .	7	0
Money Market Funds . . . . .	1	7
		<u>100%</u>

Temporary investments held by the Treasury Department amounted to \$4,078.3 million as of June 30, 1986. Temporary investments were made by specific funds. Interest on investments made by the Treasury Department during the fiscal year amounted to \$331.8 million at an average yield of 7.8 percent.

## CAPITAL PROJECTS FUND

Proceeds of general obligation bond issues are primarily accounted for in the capital projects fund. Completed projects and construction in progress at the fiscal year end are accounted for as assets and are capitalized in the General Fixed Assets Account Group. Projects completed during the fiscal year totalled \$30.3 million; construction in progress at June 30, 1986 amounted to \$298.9 million. Authorized but unissued general obligation bonds at June 30, 1986, totalled \$2,694.6 million.

## ENTERPRISE, FIDUCIARY AND COLLEGE AND UNIVERSITY FUNDS

All enterprise funds reported retained earnings for the fiscal year ended June 30, 1986. The overall increase in retained earnings for enterprise funds amounted to \$164.5 million.

Fiduciary type funds, including expendable trust funds and pension trust funds, reported fund balances of \$15,409.6 million at June 30, 1986, as compared to \$11,976.9 million at June 30, 1985.

The total fund balances for the College and University Funds at June 30, 1986 were \$255.1 million.

## GENERAL FIXED ASSETS

General fixed assets of the Commonwealth are those used in the performance of general governmental functions. They do not include the fixed assets of the proprietary and the fiduciary fund types and the College and University Funds, excepting real property. General fixed assets, identified and reported for the first time as of June 30, 1986, amounted to \$2,563 million at actual or estimated historical costs. Depreciation is not recognized for the Commonwealth's general fixed assets. Infrastructure assets, consisting primarily of highways, roads and bridges, are not recorded in the General Fixed Assets Account Group. Both of these practices are in conformity with GAAP.

## INDEPENDENT AUDIT

The audit of the GPFS evidenced by the Auditors' Report submitted herewith was performed jointly by the Department of the Auditor General and the independent public accounting firm of Ernst & Whinney. It was performed pursuant to the authority vested in the Auditor General and the Governor under Section 402 of the Fiscal Code of 1929, and in the Governor under Section 701 of the Administrative Code of 1929.

The Fiscal Code provides that the Department of the Auditor General shall make all audits of transactions after their occurrence, which may be necessary, in connection with the administration of the financial affairs of the government of the Commonwealth of Pennsylvania and that it shall be the duty of the Governor to cause such audits to be made of the affairs of the Department of the Auditor General.

## CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awards certificates of achievement to governmental units that publish readable and efficiently organized CAFRs which conform to the Association's program standards and satisfy both generally accepted accounting principles and applicable legal requirements. We believe this Comprehensive Annual Financial Report of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 1986 meets these requirements and are submitting it to the GFOA to determine its eligibility for a Certificate of Achievement for Excellence in Financial Reporting.

## OUTLOOK

For the past two years, economic growth in the United States has been characterized by moderate to low rates of Gross National Product (GNP) real growth. Declines in inflation and interest rates have helped consumers maintain high confidence levels about the future and promoted generous spending on consumption and investment. This continued stimulus, together with a stimulative fiscal policy, has permitted the recovery phase of the current business cycle to continue. The Pennsylvania economy has been, and is expected to continue to be, a beneficiary of this continued economic growth.

Based on present conditions and current revenue and expenditure forecasts, the Commonwealth is projecting a \$207.1 million General Fund budgetary balance, i.e., unappropriated surplus, at the end of the current fiscal year.

It is currently anticipated that revenue collections, net of refunds, will exceed estimated revenues, \$9,501.9 million, by \$135.7 million. This anticipated increase, coupled with anticipated appropriation lapses amounting to \$100 million and the beginning balance, \$212.8 million, will result in an increase of \$235.7 million, from \$9,721.8 to \$9,950.4 million, in estimated funds available during the fiscal year. The revenue estimates take into account the reduction in the personal income tax rate to 2.1 percent from 2.2 percent effective September 1, 1986, the lowering of the corporate net income tax rate to 8.5 percent on January 1, 1987, the lowering of the tentative tax percentage for the capital stock and franchise tax, and state tax credits to businesses creating new jobs for taxes paid under the Federal Unemployment Tax Act. These tax cuts will amount to an estimated \$164.5 million during the fiscal year.

Budgeted expenditures for the current fiscal year amount to \$9,667.7 million. Potential additional appropriations amounting to \$32.6 million would increase budgeted expenditures to \$9,700.3 million. These amounts do not include \$25 million appropriated to the Tax Stabilization Fund and another \$25 million to the Sunny Day Fund. These funds, totalling \$50 million, are intended for use in extraordinary economic circumstances.

## ACKNOWLEDGEMENTS

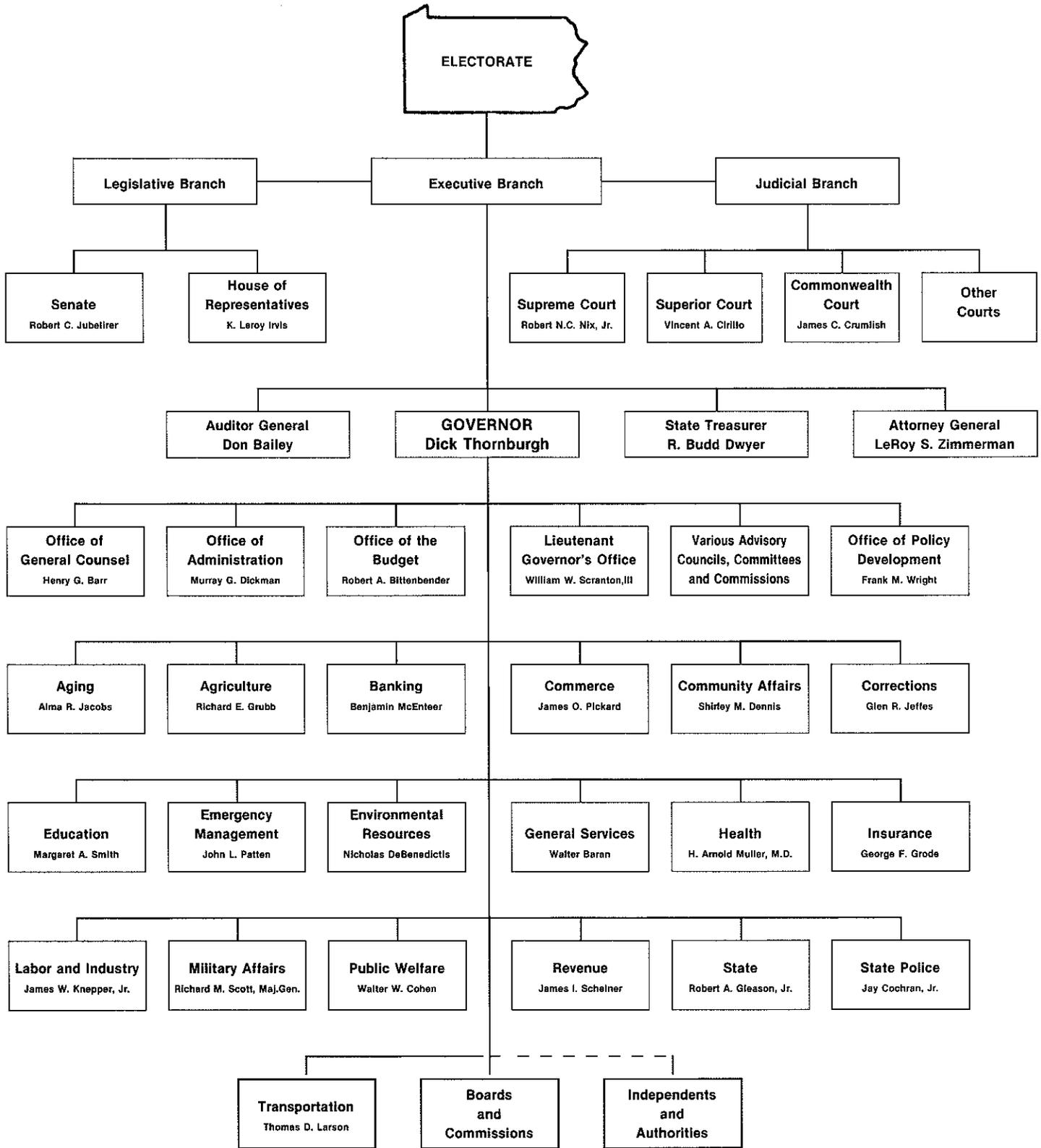
In conclusion, I wish to express my appreciation to all whose time and dedicated effort have made this report possible, and to express my special thanks to you for your encouragement and support in this endeavor. The publication of this Comprehensive Annual Financial Report represents the culmination of your personal commitment to financial accountability and responsibility in state government and to restoring the Commonwealth of Pennsylvania to a position of financial strength and leadership.

Sincerely,



Robert A. Bittenbender  
Secretary  
Office of the Budget

**COMMONWEALTH OF PENNSYLVANIA  
ORGANIZATION AND OFFICIALS CHART  
JUNE 30, 1986**



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## FINANCIAL SECTION

## PENNSYLVANIA FIRSTS

### *FIRST UNITED STATES CHARTERED BANK*

The Pennsylvania Bank, the first banking establishment to be recognized and assisted by the Continental Congress, opened for business on July 17, 1780, in Philadelphia, providing an invaluable service to the nation's struggle for independence.

It was succeeded 18 months later by the Bank of North America which opened for business on January 7, 1782, in Philadelphia. The Bank of North America was the first incorporated bank to be granted a charter by the Confederation Congress and was the first genuine commercial bank in the United States. Considering its national charter, the national subscription to its initial capital stock, its service to the national treasury during 1782 and 1783, and its temporary national monopoly, it was the first bank of the United States.

Pennsylvania has continued as an important center of banking, with major banking institutions in both Philadelphia and Pittsburgh.

### *FIRST LITTLE LEAGUE BASEBALL AND SOFTBALL*

The Little League was founded in 1939 in Williamsport as a three-team baseball league for eight-to-twelve-year-old boys. It has since expanded to become the world's largest baseball and softball competition for both boys and girls from eight to 18 years of age. Each August the Little League World Series in Williamsport brings together international competition.

### *FIRST GRADUATE SCHOOL FOR WOMEN*

Bryn Mawr College, established in 1880, became the first graduate school for women when classes began in 1885. Pennsylvania was an early leader in development of higher educational opportunities for women. In addition to development of a normal school system by the mid-1800s for the training of teachers, Pennsylvania established the first college for training female physicians in 1850, and in 1865 established the nation's first school for training of nurses.

### *FIRST LENDING LIBRARY*

The nation's first lending library was founded in Philadelphia by Benjamin Franklin. The Library Company of Philadelphia was established in 1731, becoming the first lending library in America. In 1745 Franklin ordered the first set of books for the Pennsylvania Assembly's library which would eventually become the State Library of Pennsylvania.

Access to many early libraries was limited to those who paid for a membership. In the early years of the 20th Century, Pittsburgh industrialist Andrew Carnegie advanced the "free" public library movement by financing the construction of 58 public library buildings in Pennsylvania and nearly 2,000 in the United States.

Today another "Pennsylvania First" ultimately will make the resources of all the state's 4,000 libraries accessible to all of the state's citizens. ACCESS PENNSYLVANIA will enable all Pennsylvanians to use any of the publicly supported libraries in the state through a statewide card system. This system includes a plan to compensate libraries for use by individuals outside the community for which the library was established. Providing walk-in access, including borrowing privileges, to all libraries for all Pennsylvanians is part of the process of ensuring that citizens can obtain the information they want when they need it.

### *THE NATION'S FIRST OIL WELL*

The drilling of the first successful oil well at Titusville in northwestern Pennsylvania by Edwin Z. Drake in August 1859 began a period during which Pennsylvania was the nation's leading oil producer. Although its output today is far exceeded by other regions of the country, the quality of Pennsylvania crude oil is still supreme, especially for lubricants.

### *FIRST MODERN SUPERHIGHWAY*

In 1940 Pennsylvania opened the first high-speed, multi-lane highway in the country, the Pennsylvania Turnpike, which set the pattern for modern superhighways throughout the nation. Initially connecting Harrisburg and Pittsburgh, the turnpike later was expanded from the western boundary of the state to the Delaware River.

Pennsylvania's tradition as a transportation center began early, leading the nation by 1832 with its more than 3,000 miles of improved roads. The Commonwealth's state-run highway system has grown to more than 43,000 miles of improved roads, one of the largest in the nation.

### *FIRST RADIO STATION*

KDKA, Pittsburgh, became the world's first radio station to broadcast commercially on November 2, 1920, when it carried the Harding-Cox Presidential election.

In more recent years Pennsylvania established an early leadership in the noncommercial public broadcasting area. In April 1954, when WQED, Pittsburgh, went on the air it was the first public television station in Pennsylvania and the first community owned station in the country. This station continues to produce considerable noncommercial programming for national consumption.

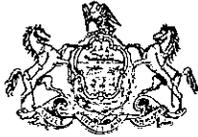
### *FIRST MEDICAL COLLEGE*

The first medical college in North America was inaugurated in 1765 as the medical department of the College of Philadelphia, graduating its first class in 1768. It later became the School of Medicine of the University of Pennsylvania.

Philadelphia was an early medical center. In addition to having the first medical college, it had the first continuing hospital in America, the Pennsylvania Hospital, which was chartered in 1751. Pennsylvania Hospital also was the first hospital to start free outpatient treatments for the poor in 1752.

Philadelphia later became the site of the first college for training female physicians when the Female Medical College of Pennsylvania was incorporated in 1850. It was renamed the Women's Medical College in 1865 and later began using the name Medical College of Pennsylvania.

Philadelphia continues as a major medical center. It has six medical schools, more than any city in the country.



Commonwealth of Pennsylvania  
Office of the Auditor General  
Harrisburg 17120

DON BAILEY  
AUDITOR GENERAL

**Ernst & Whinney**

300 Locust Court  
212 Locust Street  
Harrisburg, Pennsylvania 17101

December 5, 1986

The Honorable Dick Thornburgh  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania

We have examined the general purpose financial statements of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 1986, as listed in the table of contents. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain component units, which represent 96, 76, and 67 percent of total assets and 81, 67, and 33 percent of total revenues, respectively, of the Debt Service, Capital Projects and Enterprise Fund Types, 93 percent of total assets of the Trust and Agency Fund Type, all revenues of the Pension Trust Funds, and 25 percent of total liabilities of the General Long-Term Obligations Account Group, and we did not examine the financial statements of the State System of Higher Education which represent the amounts shown as the College and University Funds. The financial statements of the component units referred to above were audited by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the component units referred to above, is based solely upon the reports of other auditors.

In our opinion, based upon our examination and the reports of other auditors, the general purpose financial statements referred to above present fairly the financial position of the Commonwealth of Pennsylvania at June 30, 1986, and the results of its operations and the changes in financial position of its Proprietary Fund Types and Pension Trust Fund for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the inclusion of certain components of the reporting entity, with which we concur, as described in Note C.

Our examination was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not required for a fair presentation of the general purpose financial statements of the Commonwealth of Pennsylvania. Such information has been subjected to the auditing procedures applied in our examination of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

We did not examine the data included in the statistical section of this report and, therefore, express no opinion thereon.

*Don Bailey*

*Ernst & Whinney*

*FIRST UNITED STATES CHARTERED BANK*

The Pennsylvania Bank, the first banking establishment to be recognized and assisted by the Continental Congress, opened for business on July 17, 1780, in Philadelphia, providing an invaluable service to the nation's struggle for independence.

It was succeeded 18 months later by the Bank of North America which opened for business on January 7, 1782, in Philadelphia. The Bank of North America was the first incorporated bank to be granted a charter by the Confederation Congress and was the first genuine commercial bank in the United States. Considering its national charter, the national subscription to its initial capital stock, its service to the national treasury during 1782 and 1783, and its temporary national monopoly, it was the first bank of the United States.

Pennsylvania has continued as an important center of banking, with major banking institutions in both Philadelphia and Pittsburgh.



**GENERAL PURPOSE  
FINANCIAL  
STATEMENTS**

**COMBINED BALANCE SHEET  
All Fund Types and Account Groups**

June 30, 1986

**COMMONWEALTH OF PENNSYLVANIA**

	(Expressed in Thousands)										Totals (Memorandum Only)	
	Governmental Fund Types			Proprietary Fund Types			Fiduciary Fund Type		Account Groups			College and University Funds
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations			
<b>ASSETS</b>												
Cash .....	\$ 37,828	\$ 79,273	\$ 3,398	\$ 1,200	\$ 16,995	\$ 556	\$ 7,205	\$	\$	\$ 4,499	\$ 150,954	
Cash with fiscal agents—Note K .....	6,536	.....	26,750	.....	.....	.....	28,393	.....	.....	.....	61,679	
Temporary investments — Note D .....	938,463	1,083,173	124,085	388,498	1,225,078	6,323	2,590,424	.....	.....	128,684	6,484,728	
Long-term investments—Note D .....	.....	2,240	67,751	188,856	723,523	.....	12,978,921	.....	.....	15,483	13,976,774	
Receivables, net:												
Taxes .....	471,828	80,622	.....	.....	.....	.....	361,860	.....	.....	.....	914,310	
Accounts .....	18,815	32,177	.....	.....	9,712	21	7,525	.....	.....	7,215	75,465	
Accrued interest .....	3,050	8,989	5,448	5,283	30,596	29	209,563	.....	.....	859	263,817	
Notes and loans .....	.....	70,087	.....	.....	1,812,396	.....	.....	.....	.....	15,718	1,898,201	
Lease rental .....	.....	.....	2,049,053	.....	.....	.....	.....	.....	.....	.....	2,049,053	
Pension contributions .....	.....	.....	.....	.....	.....	.....	176,362	.....	.....	.....	176,362	
Other .....	1,029	5,719	.....	356	.....	33	152,173	.....	.....	1,359	160,669	
Due from other funds—Note H .....	35,474	2,704	4,211	.....	832	8,304	252,379	.....	.....	31,883	335,787	
Due from other governments—Note F .....	366,680	106,397	.....	.....	7,625	1,204	48,780	.....	.....	.....	530,686	
Advances to other fund .....	66,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	66,000	
Inventory .....	.....	.....	.....	.....	86,119	8,507	.....	.....	.....	3,778	98,404	
Fixed assets— Note E .....	.....	.....	.....	.....	1,056,930	8,524	2,888	2,563,035	.....	209,718	3,841,095	
Less: accumulated depreciation .....	.....	.....	.....	.....	(546,862)	(5,943)	(1,086)	.....	.....	.....	(553,891)	
Other assets .....	3,625	184	.....	.....	36,298	10	1,470	.....	.....	8,006	49,593	
Amounts available in Commonwealth Funds for:												
Retirement of general obligation bonds .....	.....	.....	.....	.....	.....	.....	.....	.....	19,371	.....	19,371	
Retirement of revenue bonds .....	.....	.....	.....	.....	.....	.....	.....	.....	145,073	.....	145,073	
Other general long-term obligations .....	.....	.....	.....	.....	.....	.....	.....	.....	100,114	.....	100,114	
Amounts to be provided for the retirement of:												
General obligation bonds .....	.....	.....	.....	.....	.....	.....	.....	.....	4,510,022	.....	4,510,022	
Revenue bonds .....	.....	.....	.....	.....	.....	.....	.....	.....	1,229,385	.....	1,229,385	
Other general long-term obligations .....	.....	.....	.....	.....	.....	.....	.....	.....	959,221	.....	959,221	
<b>TOTAL ASSETS</b> .....	<b>\$ 1,949,328</b>	<b>\$ 1,471,565</b>	<b>\$ 2,280,696</b>	<b>\$ 584,193</b>	<b>\$ 4,459,242</b>	<b>\$ 27,568</b>	<b>\$ 16,816,857</b>	<b>\$ 2,563,035</b>	<b>\$ 6,963,186</b>	<b>\$ 427,202</b>	<b>\$ 37,542,872</b>	

— See notes to financial statements. —



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

**All Governmental Fund Types and Expendable Trust Funds**

*For the Fiscal Year Ended June 30, 1986*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
<b>REVENUES:</b>						
Taxes, penalties and interest .....	\$ 9,011,620	\$ 958,594	\$ . . . . .	\$ . . . . .	\$ 585	\$ 9,970,799
Unemployment taxes .....	. . . . .	. . . . .	. . . . .	. . . . .	1,889,831	1,889,831
Licenses and fees .....	72,606	467,628	. . . . .	. . . . .	. . . . .	540,234
Intergovernmental .....	2,830,689	906,178	. . . . .	8,529	. . . . .	3,745,396
Charges for goods and services .....	352,782	142,283	35,454	. . . . .	159,699	690,218
Investment income .....	52,441	88,842	18,493	35,431	36,634	231,841
Lottery receipts, net of prizes .....	. . . . .	557,481	. . . . .	. . . . .	. . . . .	557,481
Other .....	147,530	64,722	13,859	5,235	817	232,163
<b>TOTAL REVENUES</b> .....	<u>12,467,668</u>	<u>3,185,728</u>	<u>67,806</u>	<u>49,195</u>	<u>2,087,566</u>	<u>17,857,963</u>
<b>EXPENDITURES:</b>						
Current:						
General government .....	645,027	158,882	. . . . .	. . . . .	10,351	814,260
Protection of persons and property .....	911,957	. . . . .	. . . . .	. . . . .	126,237	1,038,194
Public health and welfare .....	5,474,551	757,154	. . . . .	. . . . .	1,219,256	7,450,961
Public education .....	4,108,339	14,596	. . . . .	. . . . .	. . . . .	4,122,935
Conservation of natural resources .....	214,330	84,680	. . . . .	. . . . .	. . . . .	299,010
Economic development and assistance .....	176,887	10,727	. . . . .	. . . . .	. . . . .	187,614
Transportation .....	192,974	1,860,361	. . . . .	. . . . .	. . . . .	2,053,335
Capital outlay .....	69,493	. . . . .	. . . . .	394,178	. . . . .	463,671
Debt service:						
Principal retirement .....	. . . . .	. . . . .	1,186,619	. . . . .	. . . . .	1,186,619
Interest and fiscal charges .....	13,624	. . . . .	393,442	. . . . .	. . . . .	407,066
<b>TOTAL EXPENDITURES</b> .....	<u>11,807,182</u>	<u>2,886,400</u>	<u>1,580,061</u>	<u>394,178</u>	<u>1,355,844</u>	<u>18,023,665</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b> .....	<u>660,486</u>	<u>299,328</u>	<u>(1,512,255)</u>	<u>(344,983)</u>	<u>731,722</u>	<u>(165,702)</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Bond proceeds .....	. . . . .	39,281	323,410	1,163,375	. . . . .	1,526,066
Operating transfers in — Note H .....	203,677	132,884	1,246,584	246,237	3	1,829,385
Operating transfers out — Note H .....	(769,304)	(572,902)	(15,795)	(849,640)	. . . . .	(2,207,641)
Capital lease and installment purchase obligations .....	69,493	. . . . .	. . . . .	. . . . .	. . . . .	69,493
Other .....	. . . . .	(499)	(2,152)	(28)	. . . . .	(2,679)
<b>NET OTHER FINANCING SOURCES (USES)</b> .....	<u>(496,134)</u>	<u>(401,236)</u>	<u>1,552,047</u>	<u>559,944</u>	<u>3</u>	<u>1,214,624</u>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b> .....						
	164,352	(101,908)	39,792	214,961	731,725	1,048,922
<b>FUND BALANCES (DEFICIT), JULY 1,</b>						
1985—AS RESTATED—NOTE C .....	604,518	1,046,257	124,029	360,257	(827,882)	1,307,179
RESIDUAL EQUITY TRANSFERS — Note H .....	(24,000)	13,776	623	(19,399)	. . . . .	(29,000)
<b>FUND BALANCES (DEFICIT), JUNE 30, 1986</b> .....	<u>\$ 744,870</u>	<u>\$ 958,125</u>	<u>\$ 164,444</u>	<u>\$ 555,819</u>	<u>\$ (96,157)</u>	<u>\$ 2,327,101</u>

— See notes to financial statements. —

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND ENCUMBRANCES  
AND CHANGES IN UNRESERVED/UNDESIGNATED FUND BALANCES —  
BUDGET AND ACTUAL (BUDGETARY BASIS)  
General and Budgeted Special Revenue Funds**

*For the Fiscal Year Ended June 30, 1986*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	General Fund			Budgeted Special Revenue Funds — Note M		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>SOURCES OF FINANCIAL RESOURCES:</b>						
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>						
(BUDGETARY BASIS), JULY 1, 1985.....	\$ 310,468	\$ 310,468	\$ . . . .	\$ 486,706	\$ 486,706	\$ . . . .
<b>REVENUES:</b>						
<b>State Programs:</b>						
Taxes, net of refunds.....	8,783,298	9,011,645	228,347	896,100	884,651	(11,449)
Lottery receipts, net of prizes.....	. . . .	. . . .	. . . .	765,520	719,957	(45,563)
Liquor store profits transfer.....	33,000	33,000	. . . .	. . . .	. . . .	. . . .
Licenses and fees.....	30,437	36,590	6,153	386,590	423,004	36,414
Fines, penalties and interest.....	16,150	18,752	2,602	. . . .	. . . .	. . . .
Departmental services.....	454,603	454,603	. . . .	20,442	20,442	. . . .
Other.....	104,860	102,333	(2,527)	102,983	112,326	9,343
<b>TOTAL STATE PROGRAMS</b> .....	<b>9,422,348</b>	<b>9,656,923</b>	<b>234,575</b>	<b>2,171,635</b>	<b>2,160,380</b>	<b>(11,255)</b>
<b>Federal Programs</b> .....	<b>3,086,712</b>	<b>2,859,794</b>	<b>(226,918)</b>	<b>765,659</b>	<b>729,930</b>	<b>(35,729)</b>
<b>TOTAL REVENUES</b> .....	<b>12,509,060</b>	<b>12,516,717</b>	<b>7,657</b>	<b>2,937,294</b>	<b>2,890,310</b>	<b>(46,984)</b>
<b>Other Financing Resources:</b>						
Prior year lapses.....	42,056	42,056	. . . .	24,940	24,940	. . . .
Increase of budgeted revenues.....	229,216	. . . .	(229,216)	. . . .	. . . .	. . . .
<b>TOTAL OTHER FINANCING RESOURCES</b> .....	<b>271,272</b>	<b>42,056</b>	<b>(229,216)</b>	<b>24,940</b>	<b>24,940</b>	<b>. . . .</b>
<b>TOTAL SOURCES OF FINANCIAL RESOURCES</b> .....	<b>13,090,800</b>	<b>12,869,241</b>	<b>(221,559)</b>	<b>3,448,940</b>	<b>3,401,956</b>	<b>(46,984)</b>
<b>USES OF FINANCIAL RESOURCES:</b>						
<b>EXPENDITURES AND ENCUMBRANCES:</b>						
<b>State Programs:</b>						
General government.....	923,799	898,071	25,728	655,289	578,059	77,230
Protection of persons and property.....	753,251	747,230	6,021	148,112	148,112	. . . .
Public health and welfare.....	3,085,170	3,074,030	11,140	350,371	348,503	1,868
Public education.....	4,484,562	4,480,400	4,162	2,552	2,069	483
Conservation of natural resources.....	166,217	164,334	1,883	. . . .	. . . .	. . . .
Economic development and assistance.....	245,358	245,012	346	. . . .	. . . .	. . . .
Transportation.....	190,603	187,598	3,005	1,145,164	1,141,792	3,372
<b>TOTAL STATE PROGRAMS</b> .....	<b>9,848,960</b>	<b>9,796,675</b>	<b>52,285</b>	<b>2,301,488</b>	<b>2,218,535</b>	<b>82,953</b>
<b>Federal Programs</b> .....	<b>3,086,712</b>	<b>2,859,794</b>	<b>226,918</b>	<b>765,659</b>	<b>729,930</b>	<b>35,729</b>
<b>TOTAL USES OF FINANCIAL RESOURCES</b> ...	<b>12,935,672</b>	<b>12,656,469</b>	<b>279,203</b>	<b>3,067,147</b>	<b>2,948,465</b>	<b>118,682</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b> (BUDGETARY BASIS), JUNE 30, 1986.....	<b>\$ 155,128</b>	<b>\$ 212,772</b>	<b>\$ 57,644</b>	<b>\$ 381,793</b>	<b>\$ 453,491</b>	<b>\$ 71,698</b>

— See notes to financial statements. —

**COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS / FUND BALANCES**

**All Proprietary Fund Types and Pension Trust Funds**

*For the Fiscal Year Ended June 30, 1986*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Pension Trust (Note I)	
<b>OPERATING REVENUES:</b>				
Goods and services .....	\$ 990,670	\$ 48,072	\$ . . . .	\$ 1,038,742
Investment income .....	. . . .	. . . .	2,225,265	2,225,265
Pension contributions .....	. . . .	. . . .	1,645,437	1,645,437
Other .....	5,006	9	. . . .	5,015
<b>TOTAL OPERATING REVENUES</b> .....	<u>995,676</u>	<u>48,081</u>	<u>3,870,702</u>	<u>4,914,459</u>
<b>OPERATING EXPENSES:</b>				
Goods and services .....	899,758	47,858	13,591	961,207
Depreciation .....	31,889	311	341	32,541
Bad debts .....	13,110	. . . .	. . . .	13,110
Benefit payments and refunds .....	. . . .	. . . .	1,154,098	1,154,098
Other .....	603	. . . .	. . . .	603
<b>TOTAL OPERATING EXPENSES</b> .....	<u>945,360</u>	<u>48,169</u>	<u>1,168,030</u>	<u>2,161,559</u>
<b>OPERATING INCOME (LOSS)</b> .....	<u>50,316</u>	<u>(88)</u>	<u>2,702,672</u>	<u>2,752,900</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Investment income .....	198,170	453	. . . .	198,623
Interest expense .....	(180,845)	. . . .	. . . .	(180,845)
Other .....	(13,252)	. . . .	. . . .	(13,252)
<b>NONOPERATING REVENUES, NET</b> .....	<u>4,073</u>	<u>453</u>	<u>. . . .</u>	<u>4,526</u>
<b>INCOME BEFORE OPERATING TRANSFERS</b> .....	<u>54,389</u>	<u>365</u>	<u>2,702,672</u>	<u>2,757,426</u>
<b>OPERATING TRANSFERS:</b>				
Operating transfers in — Note H .....	143,326	. . . .	9,917	153,243
Operating transfers out — Note H .....	(33,226)	. . . .	(11,679)	(44,905)
<b>TOTAL OPERATING TRANSFERS</b> .....	<u>110,100</u>	<u>. . . .</u>	<u>(1,762)</u>	<u>108,338</u>
<b>NET INCOME</b> .....	<u>164,489</u>	<u>365</u>	<u>2,700,910</u>	<u>2,865,764</u>
<b>RETAINED EARNINGS/FUND BALANCES,</b> <b>JULY 1, 1985 — AS RESTATED — NOTE C</b> .....	<u>970,261</u>	<u>8,921</u>	<u>12,804,828</u>	<u>13,784,010</u>
<b>RETAINED EARNINGS/FUND BALANCES,</b> <b>JUNE 30, 1986</b> .....	<u>\$ 1,134,750</u>	<u>\$ 9,286</u>	<u>\$15,505,738</u>	<u>\$16,649,774</u>

— See notes to financial statements. —

**COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**All Proprietary Fund Types and Pension Trust Fund**

*For the Fiscal Year Ended June 30, 1986*

**COMMONWEALTH OF PENNSYLVANIA**

	(Expressed in Thousands)			
	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Pension Trust (Note I)	
<b>CASH PROVIDED FROM (USED FOR) OPERATIONS:</b>				
Net income .....	\$ 164,489	\$ 365	\$ 1,465,664	\$ 1,630,518
Items not using (providing) cash:				
Depreciation .....	31,889	311	336	32,536
Net amortization .....	.....	.....	(7,051)	(7,051)
Net (gain) on sale of long-term investments .....	.....	.....	(425,819)	(425,819)
	<u>196,378</u>	<u>676</u>	<u>1,033,130</u>	<u>1,230,184</u>
Increase in receivables .....	(261,479)	(51)	(10,710)	(272,240)
Decrease (Increase) in due from other funds .....	(700)	5,123	15,506	19,929
Decrease (Increase) in due from other governments .....	(767)	1,783	(162)	854
Decrease (Increase) in inventory .....	4,634	(292)	.....	4,342
Increase (Decrease) in accounts payable and accrued liabilities .....	18,384	(1,747)	(10,940)	5,697
Increase (Decrease) in due to other funds .....	(61,312)	(3,956)	1,699	(63,569)
Increase (Decrease) in due to other governments .....	1,001	(64)	.....	937
Increase (Decrease) in deferred revenue .....	1,984	(8)	.....	1,976
Increase in insurance loss liability .....	4,379	.....	.....	4,379
	<u>.....</u>	<u>.....</u>	<u>.....</u>	<u>.....</u>
<b>TOTAL CASH PROVIDED FROM (USED FOR)</b>				
<b>OPERATIONS .....</b>	<u>(97,498)</u>	<u>1,464</u>	<u>1,028,523</u>	<u>932,489</u>
<b>CASH PROVIDED FROM (USED FOR) INVESTMENT</b>				
<b>ACTIVITIES:</b>				
Decrease (Increase) in other current assets .....	(14,739)	23	(40,807)	(55,523)
Proceeds from sale of long-term investments .....	221,433	.....	5,921,342	6,142,775
Purchase of long-term investments .....	(286,838)	.....	(6,430,878)	(6,717,716)
Increase (Decrease) in other current liabilities .....	88,278	.....	(137,506)	(49,228)
Additions to fixed assets .....	(56,786)	(617)	(350)	(57,753)
	<u>.....</u>	<u>.....</u>	<u>.....</u>	<u>.....</u>
<b>NET CASH USED FOR INVESTMENT</b>				
<b>ACTIVITIES .....</b>	<u>(48,652)</u>	<u>(594)</u>	<u>(688,199)</u>	<u>(737,445)</u>
<b>CASH PROVIDED FROM (USED FOR) FINANCING</b>				
<b>ACTIVITIES:</b>				
Issuance of revenue bonds .....	332,845	.....	.....	332,845
Increase in contributed capital .....	29,203	.....	.....	29,203
Decrease in notes payable .....	(23,982)	.....	.....	(23,982)
Decrease in demand revenue bonds payable .....	(200,000)	.....	.....	(200,000)
Redemption of long-term obligations .....	(41,812)	.....	.....	(41,812)
	<u>.....</u>	<u>.....</u>	<u>.....</u>	<u>.....</u>
<b>NET CASH PROVIDED FROM FINANCING</b>				
<b>ACTIVITIES .....</b>	<u>96,254</u>	<u>.....</u>	<u>.....</u>	<u>96,254</u>
<b>INCREASE (DECREASE) IN CASH AND</b>				
<b>TEMPORARY INVESTMENTS .....</b>	<u>(49,896)</u>	<u>870</u>	<u>340,324</u>	<u>291,298</u>
<b>CASH AND TEMPORARY INVESTMENTS, JULY 1, 1985 .....</b>	<u>1,291,969</u>	<u>6,009</u>	<u>1,007,532</u>	<u>2,305,510</u>
<b>CASH AND TEMPORARY INVESTMENTS, JUNE 30, 1986 .....</b>	<u>\$ 1,242,073</u>	<u>\$ 6,879</u>	<u>\$ 1,347,856</u>	<u>\$ 2,596,808</u>

— See notes to financial statements. —

**COMBINED STATEMENT OF CHANGES IN FUND BALANCES**  
**College and University Funds**

*For the Fiscal Year Ended June 30, 1986*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds				Totals
	Unrestricted	Restricted			Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant	
<b>REVENUES AND OTHER ADDITIONS:</b>									
Unrestricted current funds	\$ 230,563	\$ . . . . .	\$ . . . . .	\$ . . . . .	\$ . . . . .	\$ . . . . .	\$ . . . . .	\$ . . . . .	\$ 230,563
Gifts and bequests		1,595		92	171	201		208	2,267
Grants and contracts		57,518	317		3,959	921			62,715
Federal advances			1,337						1,337
Endowment income		211	2						213
Investment income		125	111		2,540				2,776
Interest on loans receivable			370						370
Expended for plant facilities — Net of disposals (including \$11,611 charged to current funds expenditures)					7,652			21,949	29,601
Other		114		116	1,587	2,978	943	3,610	9,348
	<u>230,563</u>	<u>59,563</u>	<u>2,137</u>	<u>208</u>	<u>15,909</u>	<u>4,100</u>	<u>943</u>	<u>25,767</u>	<u>339,190</u>
<b>TOTAL REVENUE AND OTHER ADDITIONS</b>									
<b>EXPENDITURES AND OTHER DEDUCTIONS:</b>									
Educational and general	409,977	59,167							469,144
Auxiliary enterprise	66,234								66,234
Loan cancellations			543						543
Administrative and collection costs			405						405
Expended for plant facilities					14,375	5,233			19,608
Retirement of indebtedness							2,061		2,061
Interest on indebtedness					2,261		783		3,044
Other		582	331		974	1,750	1,240	2,955	7,832
	<u>476,211</u>	<u>59,749</u>	<u>1,279</u>	<u>208</u>	<u>17,610</u>	<u>6,983</u>	<u>4,084</u>	<u>2,955</u>	<u>568,871</u>
<b>TOTAL EXPENDITURES AND OTHER DEDUCTIONS</b>									
<b>TRANSFER AND ALLOCATION AMONG FUNDS — ADDITIONS (DEDUCTIONS):</b>									
Mandatory:									
Loan funds matching grant	(121)		124						
Principal and interest	(3,096)				(15)		3,111		
Other	(2,653)					2,500		151	
Nonmandatory:									
Operating transfers in from General Fund	263,803	1,853				2,500			268,156
Other	(7,200)	(41)		52	4,552	2,480		157	
	<u>250,733</u>	<u>1,811</u>	<u>124</u>	<u>52</u>	<u>4,537</u>	<u>7,480</u>	<u>3,111</u>	<u>308</u>	<u>268,156</u>
<b>TOTAL TRANSFERS AND ALLOCATIONS</b>									
	5,085	1,625	982	260	2,836	4,597	(30)	23,120	38,475
<b>NET INCREASE (DECREASE) FOR THE YEAR</b>									
	<u>17,679</u>	<u>3,527</u>	<u>17,218</u>	<u>2,904</u>	<u>3,525</u>	<u>6,237</u>	<u>30</u>	<u>165,487</u>	<u>216,607</u>
<b>FUND BALANCES, JULY 1, 1985—Note C</b>									
	<u>\$ 22,764</u>	<u>\$ 5,152</u>	<u>\$ 18,200</u>	<u>\$ 3,164</u>	<u>\$ 6,361</u>	<u>\$ 10,834</u>	<u>\$ . . . . .</u>	<u>\$ 188,607</u>	<u>\$ 255,082</u>

— See notes to financial statements. —

**COMBINED STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES  
AND OTHER CHANGES**

**College and University Funds**

*For the Fiscal Year Ended June 30, 1986*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Unrestricted	Restricted	Total
<b>REVENUES:</b>			
Tuition and fees .....	\$ 144,260	\$ . . . .	\$ 144,260
Government grants and contracts:			
State .....	188	15,395	15,583
Federal .....	399	39,494	39,893
Private gifts, grants, and contracts .....	872	2,322	3,194
Investment income .....	7,713	87	7,800
Endowment income .....	45	135	180
Activities of educational departments .....	826	. . . .	826
Other sources .....	6,925	661	7,586
Auxiliary enterprises .....	69,335	. . . .	69,335
<b>TOTAL REVENUES .....</b>	<b>230,563</b>	<b>58,094</b>	<b>288,657</b>
<b>EXPENDITURES AND MANDATORY TRANSFERS:</b>			
Educational and general:			
Instruction .....	209,554	4,563	214,117
Research .....	533	1,080	1,613
Public service .....	2,000	5,800	7,800
Academic support .....	43,593	1,353	44,946
Student services .....	35,524	2,217	37,741
Operations and maintenance of plant .....	59,873	271	60,144
General institutional support .....	57,290	883	58,173
Student aid .....	1,610	43,000	44,610
<b>TOTAL EDUCATIONAL AND GENERAL .....</b>	<b>409,977</b>	<b>59,167</b>	<b>469,144</b>
Auxiliary enterprises .....	66,234	. . . .	66,234
<b>TOTAL EXPENDITURES .....</b>	<b>476,211</b>	<b>59,167</b>	<b>535,378</b>
<b>MANDATORY TRANSFERS:</b>			
Renewal and replacement .....	2,500	. . . .	2,500
Retirement of indebtedness .....	3,096	. . . .	3,096
Loan funds matching grants .....	121	3	124
Other .....	153	(2)	151
<b>TOTAL MANDATORY TRANSFERS .....</b>	<b>5,870</b>	<b>1</b>	<b>5,871</b>
<b>TOTAL EXPENDITURES AND MANDATORY TRANSFERS .....</b>	<b>482,081</b>	<b>59,168</b>	<b>541,249</b>
<b>OPERATING TRANSFERS, OTHER TRANSFERS AND ADDITIONS:</b>			
Operating transfers in from General Fund .....	263,803	1,853	265,656
Other transfers .....	(7,200)	(41)	(7,241)
Additions .....	. . . .	887	887
<b>TOTAL OPERATING TRANSFERS, OTHER TRANSFERS AND ADDITIONS .....</b>	<b>256,603</b>	<b>2,699</b>	<b>259,302</b>
<b>TOTAL INCREASE IN FUND BALANCES .....</b>	<b>\$ 5,085</b>	<b>\$ 1,625</b>	<b>\$ 6,710</b>

— See notes to financial statements. —

# NOTES TO FINANCIAL STATEMENTS

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COMMONWEALTH OF PENNSYLVANIA

June 30, 1986

## NOTE A—FINANCIAL REPORTING ENTITY

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For financial reporting purposes, in conformity with generally accepted accounting principles (GAAP), the Commonwealth includes all funds, agencies, boards, commissions and authorities over which the Commonwealth's executive or legislative branches exercise oversight responsibility. Oversight responsibility of the Commonwealth was determined on the basis of budget adoption, tax authority, funding, outstanding debt secured by revenues or general obligations of the Commonwealth, authority to appoint an organization's governing board, and the organization's scope of service and financing relationship to the Commonwealth. The accompanying financial statements include all Commonwealth funds, agencies, boards and commissions required to submit an annual budget in accordance with Section 610 of the Administrative Code of 1929, as amended, and the following organizations:

- General State Authority
- Pennsylvania Higher Educational Facilities Authority
- Pennsylvania Higher Education Assistance Agency
- Pennsylvania Housing Finance Agency
- Pennsylvania Industrial Development Authority
- Pennsylvania Turnpike Commission
- Public School Employes' Retirement System
- State Employes' Retirement System
- State Highway and Bridge Authority
- State Public School Building Authority
- State System of Higher Education (excluding independent charitable foundations and affiliated organizations)

The Delaware River Joint Toll Bridge Commission and the Delaware River Port Authority are not considered part of the reporting entity, since they are multigovernmental special districts that are not controlled by or dependent on the Commonwealth. The following organizations are also excluded because of their administrative and financial independence from the Commonwealth:

- State-Related Universities:
  - Pennsylvania State University
  - Temple University
  - University of Pittsburgh
  - Lincoln University

- Pennsylvania Municipal Retirement System

## NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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**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 cases by administrative action.

# **NOTES TO FINANCIAL STATEMENTS**

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## **NOTE B—Summary of Significant Accounting Policies (continued)**

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The Commonwealth has established the following fund categories, fund types and account groups:

### **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 major operating fund.

*Special Revenue Funds* — Account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

*Debt Service Fund* — Accounts for the accumulation of resources, principally from transfers from other funds, for the payment of general long-term debt principal and interest.

*Capital Projects Fund* — Accounts 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).

### **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 Workmen's Insurance Fund is included for its fiscal year ended December 31, 1985, the Pennsylvania Turnpike Commission for its fiscal year ended May 31, 1986 and the State Stores Fund for its fiscal year ended June 24, 1986.

*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.

### **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 Expendable Trust Funds, Pension Trust Funds and Agency Funds. The State Employees' Retirement System, a Pension Trust Fund, is included for its fiscal year ended December 31, 1985.

### **Account Groups**

*General Fixed Assets Account Group* — Accounts for all General Fixed Assets acquired or constructed for use by the Commonwealth in the conduct of its activities, except those accounted for in Proprietary and Pension Trust Funds.

*General Long-Term Obligations Account Group* — Accounts for all long-term obligations of the Commonwealth, except those accounted for in Proprietary Funds.

# NOTES TO FINANCIAL STATEMENTS

## NOTE B—Summary of Significant Accounting Policies (continued)

### College and University Funds

Account for the operations of the Office of the Chancellor and the 14 state-owned universities, which comprise the State System of Higher Education, in accordance with existing authoritative accounting and reporting principles applicable to colleges and universities. Accordingly, the College and University Funds are an aggregation of the following funds:

*Current Funds—Unrestricted* — Account for economic resources of the institution which are expendable for any purpose in performing the primary objectives of the universities and have not been designated by the governing body for any other purpose.

*Current Funds—Restricted* — Account for resources received from donors or other outside agencies that are restricted by them for specific operating purposes.

*Loan Funds* — Account for resources available for loans to students, faculty or staff.

*Endowment and Similar Funds* — Consist of endowment funds, term endowment funds and quasi-endowment funds.

*Endowment Funds* — Account for resources which the donor has stipulated, as a condition of the gift instrument, that the principal amount would be maintained inviolate and in perpetuity for investment. Investment earnings may be added to the principal or expended for restricted or unrestricted purposes, based on the donor's request.

*Term Endowment Funds* — Account for resources, all or a part of the principal of which may be expended upon the passage of time or the happening of a particular event.

*Quasi-Endowment Funds* — Account for resources that the governing board of an institution, rather than an outside source, has determined will be retained and invested. Since this is an internal designation, the Board of Governors has the right to expend the principal of these funds at any time.

*Plant Funds* — Account for (a) resources available to acquire or repair institutional properties and to service debt incurred to acquire such properties and (b) the cost of fixed assets and the source from which the cost is funded.

*Agency Funds* — Account for resources held by the institution acting in the capacity of an agent for distribution to designated beneficiaries.

**Basis of Accounting:** Governmental, Expendable Trust and Agency Funds are reported on the modified accrual basis of accounting. Revenues of Governmental and Expendable Trust Funds are recognized in the year that they become both measurable and available within 60 days of fiscal year end to pay current fiscal year liabilities. The Commonwealth accrues the following major revenue sources that are both measurable and available:

Sales and use taxes, cigarette taxes, corporation taxes, personal income taxes, liquid fuels taxes, liquor taxes, grant revenues, investment income, institutional revenues, lottery receipts and sales of goods and services.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE B—Summary of Significant Accounting Policies (continued)

Revenues from other sources are recognized when received. Expenditures are generally recognized in the fiscal year the related fund liability is incurred. Principal and interest on general long-term obligations are recognized when due unless resources have been provided for payment early in the subsequent fiscal year. Prepaid items and inventory purchases are reported as current fiscal year expenditures, rather than allocating cost to the fiscal year when the items are used. Balances for these accounts were not material at June 30, 1986. Expenditures for claims, judgements, compensated absences and employer pension contributions are reported as the amount accrued during the fiscal year that normally would be liquidated with expendable available financial resources.

Proprietary and Pension Trust Funds are reported on the accrual basis. On this basis, revenues are recognized in the fiscal year in which they are earned and become measurable, and expenses are recognized in the fiscal year they are incurred.

College and University Funds are reported on the accrual basis of accounting.

**Budgetary Accounting:** The Commonwealth's Constitution requires that the Governor submit a budget annually to be adopted by the General Assembly for the ensuing fiscal year. The General Assembly may add, change or delete any items in the budget proposed by the Governor, but the Governor retains veto power over the appropriations passed by the legislature. A gubernatorial veto can be overridden only by a two-thirds majority of all members of each House of the General Assembly.

Total appropriations enacted by the General Assembly may not exceed the ensuing fiscal year's estimated revenues, as developed by the Governor, plus (less) the unappropriated fund balance (deficit) of the preceding fiscal year, except for constitutionally authorized debt service payments.

Budgetary control is exercised at the appropriation level (legislative spending authority level) for specific departmental programs and functions. Encumbrances and expenditures cannot exceed appropriated amounts. Appropriation transfers between departments and supplemental appropriations require both executive and legislative branch approval. Supplemental appropriations totalling \$100.7 million were approved for the fiscal year ended June 30, 1986. Unencumbered appropriations lapse at fiscal year end and are not available for appropriation until that time. The Commonwealth's *Status of Appropriations* for the fiscal year ended June 30, 1986 reports budgetary comparisons at the appropriation level for specific departmental programs and functions.

Budgets are legally adopted each fiscal year for the following funds:

- General
- Special Revenue Funds:
  - Motor License
  - State Lottery
  - State Public School Building Authority
  - Workmen's Compensation Administration

## NOTES TO FINANCIAL STATEMENTS

### NOTE B—Summary of Significant Accounting Policies (continued)

Controls over spending in Special Revenue Funds that are not subject to legal budgets are maintained by use of spending limits (executive authorizations) established by the Governor.

The Commonwealth also makes appropriations to authorize expenditures for various capital projects. Appropriations for capital projects normally remain in effect until the completion of each project unless modified or rescinded.

Actual amounts in the accompanying budgetary comparison statement are presented on the budgetary basis. Budgeted amounts are as originally adopted and as legally amended. Because the budgetary basis of accounting differs from GAAP, a reconciliation of the differences between the budgetary basis and the GAAP basis of reporting is presented in Note M.

**Pooled Cash:** Cash balances of most Commonwealth funds are pooled for receipt and disbursement purposes. Collateral, as required by law, is pledged by the various banks to guarantee the Commonwealth's cash on deposit.

**Investments:** Investments are maintained separately by fund. Temporary investments are stated at cost, which approximates market. Long-term investments (principally the Pension Trust Funds and State Workmen's Insurance Fund portfolios) are stated at the lower of cost or market for equity securities and at amortized cost for debt securities, except for investments of the State Employees' Retirement System, which are stated at market value.

The investment policies of the Commonwealth's Treasury Department are governed by sections 301.1 and 505 of the Pennsylvania Fiscal Code (Act of 1929, P.L. 343, No.176, amended November 16, 1985). State monies may be held in insured depositories approved by the Board of Finance and Revenue and must be fully collateralized. Permissible investments include direct obligations of the U.S. Treasury and U.S. agencies with maturities not exceeding two years; commercial paper rated "Prime One" by Moody's Credit Service or the equivalent by Standard and Poor's or Fitch's Rating Service; certificates of deposit issued by Pennsylvania banks, savings and loan associations or savings banks; repurchase agreements secured by U.S. Government obligations that are held for the Treasury Department at the Federal Reserve; banker's acceptances; and up to a maximum of 10% of the book value of a fund's assets in any investment other than common stock not otherwise specifically authorized. Investment policies of certain component units vary in certain respects from the policies of the Commonwealth's Treasury Department.

**Lease Rental Receivables:** The Pennsylvania Higher Educational Facilities Authority and State Public School Building Authority finance construction projects for educational institutions through the issuance of bonds and other obligations, the principal and interest of which are paid through the collection of lease rental payments related to the projects. 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 total minimum lease payments to be received are recorded in the debt service fund relating to these arrangements. The present value of the total minimum lease payments to be received was \$1,278.6 million at June 30, 1986. Minimum lease payments for each of the five fiscal years succeeding June 30, 1986 are as follows (expressed in millions):

Fiscal Year Ending June 30	
1987 . . . .	\$184
1988 . . . .	121
1989 . . . .	118
1990 . . . .	103
1991 . . . .	98

# NOTES TO FINANCIAL STATEMENTS

## NOTE B—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 grants are recorded as revenues when the related expenditures or expenses are incurred.

**Inventories:** Inventories of goods, materials and supplies are maintained by the Proprietary and College and University Funds. These inventories are valued at the lower of cost or market (First-In, First-Out) for Proprietary and weighted average for College and University Funds.

**Fixed Assets and Depreciation:** General fixed assets are reported at cost or estimated historical cost. Donated fixed assets are stated at fair market value at the time of donation. Public domain fixed assets (including highways, bridges, highway land and rights-of-way) are not capitalized. No depreciation is provided on general fixed assets. Land and buildings used by the State System of Higher Education (SSHE), which were acquired or constructed on or before June 30, 1983 or subsequent to that date without the use of university funds or incurrence of SSHE debt, are reported in the Commonwealth's General Fixed Assets Account Group.

Fixed assets related to Proprietary and Pension Trust Funds are reported in those funds at cost or estimated historical cost. Depreciation is reported on a straight-line basis over the fixed assets' estimated useful lives. The following lives are used:

Buildings . . . . .	10-50 years
Improvements other than buildings . . . . .	5-50 years
Furniture, machinery and equipment . . . . .	3-25 years

Fixed assets reported by SSHE are stated at cost. Depreciation is not recorded on SSHE fixed assets.

**Insurance Loss Liability:** The insurance loss liability represents an estimate of the ultimate net costs of unpaid claims relating to policyholders of the State Workmen's Insurance Fund, an Enterprise Fund. These loss reserves are discounted at a 4% rate.

**Self-Insurance:** The Commonwealth is uninsured for property losses and self-insured for workmen's compensation and tort liability claims. Reporting of self-insurance liabilities is described in Note O.

**Compensated Absences:** Employees accumulate annual leave based on 2% to 10% of regular hours paid to a maximum of 45 days. Employees are paid for accumulated annual leave upon termination or retirement.

Employees accumulate sick leave based on 5% of regular hours paid to a maximum of 200 days. Retiring employees that meet service, age or disability requirements are paid for 30% of their accumulated unused sick leave.

Accumulated annual and sick leave liability payable in subsequent fiscal years from Governmental Funds is reported in the General Long-Term Obligations Account Group. Proprietary, Pension Trust, and College and University Funds accrue annual and sick leave in the fiscal year earned.

**Pension Costs:** The Commonwealth's policy is to fund pension costs incurred and to amortize prior service costs over varying periods not exceeding 30 years.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE B—Summary of Significant Accounting Policies (continued)

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**Encumbrances:** Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditures are recorded as a reserve of the applicable appropriation, is employed as an extension of formal budgetary integration in the Commonwealth's accounting system. Encumbrances outstanding at fiscal year end are reported as reservations of fund balance for subsequent year expenditures.

**Reserves and Designations:** Reserves represent portions of fund balances that are legally segregated for a specific future use or are not appropriable for expenditure.

The amount reserved for advances in the General Fund is applicable to a demand loan to the State Stores Fund, an Enterprise Fund.

Reserves of retained earnings are provided principally for student loans and retirement of debt relating to the Pennsylvania Higher Education Assistance Agency and Pennsylvania Turnpike Commission, respectively, both Enterprise Funds.

Designations of unreserved fund balances reflect tentative plans for or restrictions on the future uses of financial resources. The General Fund "Designated-other" represents designations for self-insurance claims, group medical insurance, restricted revenue and continuing programs. The Special Revenue Funds "Designated-other" represents designations for loan programs and economic development.

Unreserved/undesigned fund balances are available for future appropriation.

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

**Interfund Transactions:** The Commonwealth has the following types of transactions among funds:

*Statutory Transfers (Operating Transfers)* — Legally required transfers that are reported when incurred as "Operating transfers in" by the recipient fund and as "Operating transfers out" by the disbursing fund.

*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.

*Residual Equity Transfers* — Nonroutine or nonrecurring transfers between funds that are reported as additions to or deductions from the fund equity balance.

*Interfund Payments (Quasi-external Transactions)* — Charges or collections for services rendered by one fund to another that are recorded as revenues of the recipient fund and expenditures or expenses of the disbursing fund.

The composition of the Commonwealth's interfund receivables and payables at June 30, 1986 is presented in Note H.

**Totals—Memorandum Only:** The "Totals (Memorandum Only)" columns represent an aggregation of the combined financial statement amounts of the fund types and account groups and are presented only for analytical purposes. These amounts are not comparable to a consolidation and do not represent the total resources available to or used by the Commonwealth.

## NOTES TO FINANCIAL STATEMENTS

### NOTE C—REPORTING ENTITY AND FUND CLASSIFICATION CHANGES

Prior years' combined financial statements by fund types and account groups had been presented in conformity with generally accepted accounting principles (GAAP) as applicable to governments, except for the omission of the State System of Higher Education (College and University Funds), the Pennsylvania Turnpike Commission (Enterprise Fund) and a General Fixed Assets Account Group due to the unavailability of certain financial data.

These departures from GAAP have been resolved and the appropriate financial data are included in these financial statements for the fiscal year ended June 30, 1986. The Nonexpendable Trust Fund has also been reclassified to an Expendable Trust Fund in these financial statements as a result of a fund classification review. Resultant restatements of beginning fund balances/retained earnings are summarized as follows (expressed in thousands):

	Balances (Deficits) At June 30, 1985, As Previously Reported	Fund Reclassification	Additions to Reporting Entity	Balances (Deficits) At July 1, 1985 As Restated
<b>Fund Balances</b>				
Expendable Trust .....	\$(828,698)	\$816	. . . .	\$(827,882)
Nonexpendable Trust .....	816	(816)	. . . .	. . . .
College and University .....	. . . .	. . . .	\$216,607	216,607
<b>Retained Earnings</b>				
Enterprise .....	469,542	. . . .	500,719	970,261

General fixed assets were recorded at June 30, 1986 since it was not practicable to develop balances at June 30, 1985.

# NOTES TO FINANCIAL STATEMENTS

## NOTE D—INVESTMENTS

The following table presents cost, which approximates market, for temporary investments at June 30, 1986, except for the State Workmen's Insurance Fund (SWIF) and State Employees' Retirement System (SERS), which are reported at December 31, 1985 (expressed in thousands):

Fund Type	U.S.		Commercial Paper	Deposits and Investment Funds	Other	Total
	Government Obligations	Repurchase Agreements				
General .....	\$ 169,226	\$ 544,815	\$ 165,187	\$ 10,000	\$ 49,235	\$ 938,463
Special Revenue .....	525,028	277,150	160,389	65,881	54,725	1,083,173
Debt Service .....	86,234	3,950	5,500	28,401	.....	124,085
Capital Projects .....	151,586	75,975	70,178	75,193	15,566	388,498
Enterprise .....	422,655	688,750	11,449	102,224	.....	1,225,078
Internal Service .....	2,398	2,975	950	.....	.....	6,323
Trust and Agency .....	1,015,318	634,361	729,746	111,235	99,764	2,590,424
College and University .....	71,517	.....	.....	.....	57,167	128,684
<b>TOTAL .....</b>	<b>\$2,443,962</b>	<b>\$2,227,976</b>	<b>\$1,143,399</b>	<b>\$ 392,934</b>	<b>\$ 276,457</b>	<b>\$6,484,728</b>

The following table presents cost (see Note B), market value and carrying amount for long-term investments at June 30, 1986, except for the SERS and the SWIF, which are reported at December 31, 1985 (expressed in thousands):

Fund Type	Common and Preferred Stocks	U.S.		Corporate Bonds and Notes	Mortgage Loans	Real Estate	Other	Total
		Government Obligations	.....					
<b>Special Revenue</b>								
Cost (Carrying Amount) .....	\$ .....	\$ 2,240	\$ .....	\$ .....	\$ .....	\$ .....	\$ .....	\$ 2,240
Market Value .....	.....	2,240	.....	.....	.....	.....	.....	2,240
<b>Debt Service</b>								
Cost (Carrying Amount) .....	.....	56,101	11,650	.....	.....	.....	.....	67,751
Market Value .....	.....	56,101	11,650	.....	.....	.....	.....	67,751
<b>Capital Projects</b>								
Cost (Carrying Amount) .....	.....	188,451	405	.....	.....	.....	.....	188,856
Market Value .....	.....	188,451	405	.....	.....	.....	.....	188,856
<b>Enterprise</b>								
State Workmen's Insurance Fund:								
Cost (Carrying Amount) .....	.....	402,265	297,473	95	.....	.....	.....	699,833
Market Value .....	.....	441,590	308,133	95	.....	.....	.....	749,818
Other Enterprise Funds:								
Cost (Carrying Amount) .....	.....	23,690	.....	.....	.....	.....	.....	23,690
Market Value .....	.....	23,500	.....	.....	.....	.....	.....	23,500
<b>Trust and Agency</b>								
State Employees' Retirement System:								
Cost .....	2,004,953	1,583,743	395,115	400,769	319,706	14,166	.....	4,718,452
Market Value (Carrying Amount) .....	2,287,496	1,707,373	439,948	386,973	353,007	14,139	.....	5,188,936
Public School Employees' Retirement System:								
Cost (Carrying Amount) .....	2,532,625	2,989,286	594,627	844,621	242,691	388,063	.....	7,591,913
Market .....	3,382,996	3,226,452	615,477	847,408	248,068	434,750	.....	8,755,151
Other Trust and Agency Funds:								
Cost (Carrying Amount) .....	.....	108,096	.....	89,976	.....	.....	.....	198,072
Market .....	.....	120,205	.....	95,962	.....	.....	.....	216,167
<b>College and University</b>								
Cost (Carrying Amount) .....	668	10,790	.....	.....	.....	4,025	.....	15,483
Market .....	1,104	11,220	.....	.....	.....	4,037	.....	16,361
<b>TOTAL LONG-TERM INVESTMENTS</b>								
Cost .....	\$ 4,538,246	\$ 5,364,662	\$ 1,299,270	\$ 1,335,461	\$ 562,397	\$ 406,254	.....	\$13,506,290
Market Value .....	\$ 5,671,596	\$ 5,777,132	\$ 1,375,613	\$ 1,330,438	\$ 601,075	\$ 452,926	.....	\$15,208,780
Carrying Amount .....	\$ 4,820,789	\$ 5,488,292	\$ 1,344,103	\$ 1,321,665	\$ 595,698	\$ 406,227	.....	\$13,976,774

## NOTES TO FINANCIAL STATEMENTS

### NOTE E—FIXED ASSETS

A summary of fixed assets by category is as follows (expressed in thousands):

	Enterprise	Internal Service	Pension Trust	General Fixed Assets Account Group	College and University
Land .....	\$ 29,646	\$ 6	\$ . . . .	\$ 193,097	\$ 733
Buildings .....	37,526	2,106	. . . .	1,638,353	15,037
Improvements other than buildings .....	861,948	168	. . . .	78,307	2,542
Furniture, machinery and equipment .....	53,886	6,244	2,888	354,366	183,754
Construction in progress .....	73,924	. . . .	. . . .	298,912	7,652
Total .....	\$1,056,930	\$ 8,524	\$ 2,888	\$ 2,563,035	\$ 209,718

Interest costs of \$1.4 million and \$31.9 million were capitalized for enterprise funds and general fixed assets, respectively, for the fiscal year ended June 30, 1986.

The Commonwealth's initial valuation of general fixed assets was made as of June 30, 1986 using appraisal (estimated historical cost of \$340 million) and historical cost reconstruction techniques (\$2,223 million). Accordingly, it was not practicable to determine the changes in general fixed assets for the year then ended.

Construction in progress included in the General Fixed Assets Account Group is composed of the following (expressed in thousands):

Project	Project Authorization	Expended Through June 30, 1986	Authorization Available
Capitol Building Addition .....	\$ 146,027	\$ 132,355	\$ 13,672
Department of Corrections Institutions .....	249,866	119,074	130,792
Department of Public Welfare Institutions .....	61,912	13,349	48,563
Pennsylvania Conservation Corps .....	11,033	8,975	2,058
Other Projects .....	123,826	25,159	98,667
Total .....	\$ 592,664	\$ 298,912	\$ 293,752

## **NOTES TO FINANCIAL STATEMENTS**

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### **NOTE F—DUE FROM OTHER GOVERNMENTS**

The majority of this receivable represents amounts due from the Federal Government for various departmental programs.

### **NOTE G—FUND BALANCE/RETAINED EARNINGS DEFICIT**

The Purchasing Fund, an Internal Service Fund, had a retained earnings deficit of \$1.6 million with a total fund equity deficit of \$659 thousand at June 30, 1986. Elimination of this deficit will result from increases in subsequent billings.

The Unemployment Compensation Fund, an Expendable Trust Fund, had a fund balance deficit of \$418.6 million at June 30, 1986, which is a reduction from \$1.1 billion at June 30, 1985. The deficit resulted from payment of unemployment benefit claims that significantly exceeded employer payroll taxes in previous fiscal years. In order to continue payment of these claims, the Commonwealth received advances from the Federal Unemployment Trust Fund resulting in a current balance of \$905.3 million at June 30, 1986, which is a reduction from \$1.5 billion at June 30, 1985. These advances are repayable only from future unemployment taxes and are not otherwise an obligation of the Commonwealth. The Commonwealth has incurred interest charges on advances received after April 1, 1982. At June 30, 1986, all interest bearing advances have been repaid. However, since payment of interest was deferred for a four-year period, the Commonwealth has \$145.4 million of interest unpaid at June 30, 1986 which is payable in future years. In July 1983, the Commonwealth Unemployment Compensation Law was amended to provide for employe contributions, an increase of employer contributions, and curtailment of certain benefits. These additional contributions and other changes are intended to eliminate the Unemployment Compensation Fund deficit and outstanding obligations.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE H—INTERFUND ACCOUNTS/OPERATING TRANSFERS/RESIDUAL EQUITY TRANSFERS

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The amounts shown as interfund accounts for the State Employees' Retirement System, a Pension Trust Fund, are as of its fiscal year end of December 31, 1985. The amounts shown for the State Workmen's Insurance Fund, State Stores Fund and Pennsylvania Turnpike Commission, which are Enterprise Funds, are as of their respective fiscal year ends of December 31, 1985, June 24, 1986 and May 31, 1986. The following presents a reconciliation of interfund accounts at June 30, 1986 (expressed in thousands):

<b>Due from other funds - combined balance sheet at June 30, 1986</b> .....	\$335,787
State Employees' Retirement System increase in receivables from January 1, 1986 through June 30, 1986 .....	7,152
	<hr/>
<b>DUE FROM OTHER FUNDS AT JUNE 30, 1986</b>	<b><u>\$342,939</u></b>
<b>Due to other funds - combined balance sheet at June 30, 1986</b> .....	\$345,262
State Employees' Retirement System increase in payables from January 1, 1986 through June 30, 1986 .....	85
State Workmen's Insurance Fund increase in payables from January 1, 1986 through June 30, 1986 .....	14
State Stores Fund decrease in payables from June 25, 1986 through June 30, 1986 .....	(2,488)
Pennsylvania Turnpike Commission increase in payables from June 1, 1986 through June 30, 1986 .....	66
	<hr/>
	<b>(2,323)</b>
<b>DUE TO OTHER FUNDS AT JUNE 30, 1986</b>	<b><u>\$342,939</u></b>

## NOTES TO FINANCIAL STATEMENTS

### NOTE H—Interfund Accounts/Operating Transfers/Residual Equity Transfers (continued)

A summary of interfund receivables and payables at June 30, 1986 is as follows (expressed in thousands):

FUND TYPE/FUND	DUE FROM	DUE TO
General .....	\$ 35,474	\$228,623
Special Revenue:		
Motor License Fund .....	1,644	18,173
Other Funds .....	<u>1,060</u>	<u>15,692</u>
	2,704	33,865
Debt Service .....	4,211	1
Capital Projects .....	.....	147
Enterprise:		
State Stores Fund .....	.....	18,117
Other Funds .....	<u>832</u>	<u>3,860</u>
	832	21,977
Internal Service:		
Purchasing Fund .....	6,918	11,322
Manufacturing Fund .....	<u>1,386</u>	<u>223</u>
	8,304	11,545
Expendable Trust .....	2,060	65
Pension Trust:		
State Employees' Retirement System .....	120,182	1,139
Public School Employees' Retirement System .....	<u>104,995</u>	<u>4,459</u>
	225,177	5,598
Agency:		
Social Security Contribution Fund .....	31,978	4
Other Funds .....	<u>316</u>	<u>189</u>
	32,294	193
College and University .....	<u>31,883</u>	<u>40,925</u>
TOTAL .....	<u>\$342,939</u>	<u>\$342,939</u>

The total of operating transfers are for the year ended June 30, 1986, except for the State Employees' Retirement System (SERS), a Pension Trust Fund, which transfers are for its year ended December 31, 1985. The reconciling amount of net transfers in for SERS during the period January 1, 1985 to June 30, 1985 and January 1, 1986 to June 30, 1986 amounted to \$1.8 million.

The enterprise funds received \$29 million in residual equity transfers that were reported as contributed capital for the fiscal year ended June 30, 1986.

## NOTES TO FINANCIAL STATEMENTS

### NOTE I—PENSION SYSTEMS AND OBLIGATIONS

The Commonwealth has contributory defined benefit pension plans covering substantially all state employes, public school employes and employes of certain other state-related organizations. State employes and employes of state-related organizations are members of the State Employees' Retirement System (SERS). Public school employes are members of the Public School Employees' Retirement System (PSERS).

Reporting and disclosure under generally accepted accounting principles (GAAP) for retirement systems in the public sector have been undergoing changes over the last several years. The Financial Accounting Standards Board (FASB) issued Statement 35 and the National Council on Governmental Accounting (NCGA) issued Statement 6. Both of these statements provide authoritative guidance on accounting and financial reporting for defined benefit public employe retirement systems. The effective dates of these statements were deferred indefinitely to allow the Governmental Accounting Standards Board (GASB) to formulate GAAP for public employe retirement systems. GASB Statement 1 recognized NCGA Statements 1 and 6 and FASB Statement 35 as acceptable GAAP alternatives for retirement systems until the GASB issues a subsequent pronouncement in this area. The SERS has elected to report in conformity with FASB Statement 35 and the PSERS reports in conformity with NCGA Statement 1. Accordingly, a statement of changes in financial position is not presented for the SERS.

**State Employees' Retirement System:** An actuary from Hay/Huggins Company, Inc. estimates the actuarial present value of accumulated plan benefits, which is the amount that results from applying actuarial assumptions to adjust the accumulated plan benefits earned by the participants to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal or retirement) between the valuation date and the expected date of payment. The following actuarial present value of accumulated plan benefits for the SERS was determined by the independent actuary as of December 31, 1985, the most recent available plan valuation date (expressed in thousands):

Vested benefits:	
Retirees and beneficiaries.....	\$2,577,430
Members .....	<u>2,696,005</u>
	5,273,435
Nonvested benefits .....	<u>124,737</u>
TOTAL .....	<u>\$5,398,172</u>
Net assets available for plan benefits (at market value) .....	<u>\$6,157,042</u>

The following significant actuarial assumptions were used in the actuarial computations:

Mortality .....	1971 Group Annuity Mortality Table
Turnover .....	Experience from 1981-1985
Interest .....	8.5%
Retirement age .....	60, 50 for law enforcement officers or 35 years of service

For 1985, disability, retirement and withdrawal assumptions were revised based on the experience from 1981-1985 and the interest assumption was changed from 9.5% to 8.5% resulting in an increase in accumulated plan benefits of \$382 million.

# NOTES TO FINANCIAL STATEMENTS

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## NOTE I—Pension Systems and Obligations (continued)

The Commonwealth contributions are based upon an actuarially determined percentage of gross pay that is necessary to provide the System with assets sufficient to meet the benefits to be paid to members, including amortization of the unfunded actuarial liability over 30 years. At December 31, 1985, the date of the most recent actuarial valuation, the unfunded actuarial liability totalled \$2.4 billion. Commonwealth contributions which totalled \$460.0 million for the plan year ended December 31, 1985 and \$450.3 million for the fiscal year ended June 30, 1986, are reflective of average contribution rates of 18.09% and 18.03% for the 1985 plan year and 1986 fiscal year.

**Public School Employees' Retirement System:** The following actuarial present value of accumulated plan benefits for the PSERS was determined by an actuary from George B. Buck Consulting Actuaries, Inc. as of June 30, 1985, the most recent available plan valuation date (expressed in thousands):

Vested benefits:	
Retirees and beneficiaries . . . . .	\$3,951,300
Members . . . . .	3,626,900
	7,578,200
Nonvested benefits . . . . .	128,300
TOTAL . . . . .	\$7,706,500
Net assets available for plan benefits (at market value) . . . . .	
	\$8,455,400

The following significant assumptions were used in the actuarial computations:

Mortality . . . . .	1979 George B. Buck Mortality Table
Turnover . . . . .	Experience from 1975-1980
Interest . . . . .	9%
Retirement age . . . . .	62, age 60 with 30 years of service or 35 years of service

For 1985, the interest assumption was changed from 9.5% to 9% resulting in an increase in accumulated plan benefits of \$315 million. The Commonwealth's contributions, as well as those paid by public school employers, are based upon an actuarially determined percentage of gross pay that is necessary to provide the System with assets sufficient to meet the benefits to be paid to members, including amortization of the unfunded actuarial liabilities over a period of 7 to 28 years. At June 30, 1985, the date of the most recent actuarial valuation, the unfunded actuarial liabilities totalled \$6.7 billion. Commonwealth contributions totalled \$416.3 million for the fiscal year ended June 30, 1986, representing a contribution rate of 10.02%.

The PSERS has committed to fund equity participation real estate investments which amounted to \$174 million at June 30, 1986. This amount represents loan commitments approved by the PSERS, for which funding has not yet been required.

**Postretirement Health Care Benefits:** In addition to providing pension benefits, the Commonwealth provides certain health care benefits for retired employes that meet specified length-of-service and age requirements. These benefits are provided through insurance companies whose premiums are based on the benefits paid during the fiscal year. The Commonwealth recognizes the cost of providing these benefits, which totalled \$55.7 million for the fiscal year ended June 30, 1986, as incurred.

## **NOTES TO FINANCIAL STATEMENTS**

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### **NOTE J—NOTES AND DEMAND REVENUE BONDS PAYABLE**

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The Pennsylvania Housing Finance Agency (PHFA), an Enterprise Fund, issued various notes for construction financing which are secured by the full faith and credit of the PHFA, the underlying construction mortgages, the undisbursed note proceeds and all funds received in repayment of construction advances. Principal payments are required at note maturity. Interest rates range from 6.25% to 7.5%. The scheduled principal payments for the notes outstanding at June 30, 1986 for the fiscal years ending June 30, 1987 and 1995 are \$8.3 million and \$3 million, respectively.

The State System of Higher Education, College and University Funds, has \$5.7 million of notes payable as of June 30, 1986 that are collateralized by an equivalent amount of equipment. The notes bear interest at rates ranging from 5% to 9.6% and mature in varying amounts through 1996. The scheduled principal payments for the notes outstanding at June 30, 1986, for the fiscal years ending June 30, 1987, 1988, 1989, 1990 and 1991 are \$1.2 million, \$1.3 million, \$1.4 million, \$1.3 million and \$.5 million, respectively.

Demand revenue bonds in the amount of \$100 million, issued by the Pennsylvania Higher Education Assistance Agency (PHEAA), an Enterprise Fund, were outstanding at June 30, 1986. The bonds bear interest at a fluctuating rate which is based on the remarketing rate of the J.J. Kenny Index and is reset weekly (4.07% at June 30, 1986). The bonds, which are due on December 1, 2000, are subject to purchase, at par plus accrued interest, by PHEAA on the demand of the bondholders upon seven days prior irrevocable written notice. PHEAA has an irrevocable letter of credit with the Student Loan Marketing Association (SLMA). The letter of credit may be used to pay principal and interest due on bonds tendered by the bondholders. PHEAA has agreed to reimburse SLMA within 180 days for any amount paid by SLMA under the letter of credit. This letter of credit has not been used as of June 30, 1986. The interest rate borne by the bonds is subject to conversion to a fixed interest rate at the option of PHEAA. In the event of such conversion, the bonds will cease to be subject to purchase on demand of the bondholders.

# NOTES TO FINANCIAL STATEMENTS

## NOTE K—LONG-TERM OBLIGATIONS

Long-term obligations of the Commonwealth at June 30, 1986 (May 31, 1986 for the Pennsylvania Turnpike Commission) and changes for the fiscal year then ended are as follows (expressed in thousands):

	Issue Dates	Interest Rates	Maturity Dates Through	Bonds Authorized But Unissued	Balance July 1, 1985	Additions	Reductions	Balance June 30, 1986
<b>ENTERPRISE FUNDS</b>								
Revenue Bonds Payable From User								
Charges:								
Pennsylvania Higher Education								
Assistance Agency .....	1985	7.00%	2000	\$ . . . .	\$ . . . .	\$ 202,000	\$ . . . .	\$ 202,000
Pennsylvania Housing Finance Agency ..	1976-85	4.80-14.50%	2028	. . . .	1,350,996	130,845	29,786	1,452,055
Pennsylvania Industrial Development								
Authority .....	1975-84	4.90-12.50%	2004	. . . .	138,852	. . . .	7,364	131,488
Pennsylvania Turnpike Commission .....	1954-78	3.10- 5.80%	2017	. . . .	69,750	. . . .	4,662	65,088
<b>TOTAL ENTERPRISE FUNDS .....</b>				<b>\$ . . . .</b>	<b>\$1,559,598</b>	<b>\$ 332,845</b>	<b>\$ 41,812</b>	<b>\$1,850,631</b>
<b>GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP</b>								
General Obligation Bonds Payable From								
Tax Revenues:								
Capital Facilities .....	1968-86	4.15-10.75%	2005	\$2,300,851	\$3,363,050	\$ 210,000	\$ 310,035	\$3,263,015
Disaster Relief .....	1973-85	4.91- 8.56%	2004	24,708	134,670	. . . .	5,710	128,960
Land and Water Development .....	1969-84	5.13-10.75%	2004	25,000	364,510	. . . .	32,885	331,625
Nursing Home Loan Development .....	1975-84	5.30- 8.89%	2004	34,000	51,400	. . . .	3,095	48,305
Project 70 Land Acquisition .....	1965-70	3.03- 6.26%	2000	. . . .	12,500	. . . .	3,700	8,800
Volunteer Companies Loan .....	1977-83	5.32-10.75%	2002	. . . .	21,350	. . . .	1,235	20,115
Vietnam Conflict Veterans								
Compensation .....	1969-74	5.36- 6.11%	2003	3,000	44,055	. . . .	1,975	42,080
Water Facilities Loan .....	1983-85	8.26- 9.83%	2005	190,000	69,475	40,000	10,255	99,220
Pennsylvania Economic Revitalization ...	1984-85	7.69- 8.86%	2004	117,000	71,965	. . . .	7,855	64,110
General State Authority .....	1949-67	1.10- 6.00%	1997	. . . .	267,543	. . . .	42,317	225,226
State Highway and Bridge Authority ....	1965-68	2.00- 4.60%	1991	. . . .	132,395	. . . .	24,875	107,520
State Public School Building Authority ..	1968	5.06%	1989	. . . .	2,095	. . . .	380	1,715
Refunding Bonds—Note L .....	1985-86	6.93- 7.85%	2004	. . . .	. . . .	188,702	. . . .	188,702
				<u>2,694,559</u>	<u>4,535,008</u>	<u>438,702</u>	<u>444,317</u>	<u>4,529,393</u>
Revenue Bonds Payable From Lease								
Rentals:								
Pennsylvania Higher Educational								
Facilities Authority .....	1969-85	5.00-14.00%	2020	. . . .	650,310	851,126	410,048	1,091,388
State Public School Building Authority ..	1986	5.25- 8.7%	2023	. . . .	310,360	304,964	332,254	283,070
				<u>. . . .</u>	<u>960,670</u>	<u>1,156,090</u>	<u>742,302</u>	<u>1,374,458</u>
Other General Long-Term Obligations								
Payable From Tax Revenues:								
Capital Lease and Installment								
Purchase Obligations .....				. . . .	178,756	69,493	28,427	219,822
Self-Insurance .....				. . . .	362,239	141,106	23,983	479,362
Compensated Absences .....				. . . .	192,150	168,340	164,389	196,101
Other .....				. . . .	110,695	164,603	111,248	164,050
				<u>. . . .</u>	<u>843,840</u>	<u>543,542</u>	<u>328,047</u>	<u>1,059,335</u>
<b>TOTAL GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP ...</b>				<b>\$2,694,559</b>	<b>\$6,339,518</b>	<b>\$2,138,334</b>	<b>\$1,514,666</b>	<b>\$6,963,186</b>

## **NOTES TO FINANCIAL STATEMENTS**

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### **NOTE K—Long-Term Obligations (continued)**

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The Pennsylvania Housing Finance Agency (PHFA), the Pennsylvania Higher Education Assistance Agency (PHEAA), the Pennsylvania Industrial Development Authority, and the Pennsylvania Turnpike Commission, Enterprise Funds, have pledged all of their revenues for the redemption of revenue bonds outstanding as of June 30, 1986. PHFA has bank letters of credit which expire in 1988, 1989, and 2000, securing certain bond issues totalling approximately \$32 million.

PHEAA Student Loan Adjustable Rate Tender Revenue Refunding Bonds, 1985 Series A, in the amount of \$202 million bear an initial interest rate of 7% through June 1, 1988. Thereafter, the bonds will bear an adjusted rate as determined by PHEAA and its remarketing agent, based upon prevailing market conditions. After June 1, 1988, the bonds are subject to purchase, at par plus accrued interest, by PHEAA on the demand of the bondholders upon seven days prior irrevocable written notice.

The Commonwealth has pledged its full faith and credit for the payment of principal and interest on the funds' and authorities' general obligation bonds accounted for in the General Long-Term Obligations Account Group.

The Pennsylvania Higher Educational Facilities Authority and the State Public School Building Authority have revenue bonds outstanding, reported as General Long-Term Obligations, as of June 30, 1986, which are payable from the lease rentals of the projects financed. The lease rentals are pledged as collateral for the revenue bonds outstanding.

The Commonwealth uses fiscal agents to process payments for the servicing of the majority of its bond issues. Additional cash with fiscal agents is held by the Federal Government for unemployment compensation claims. Matured debt principal and interest payable in excess of cash with fiscal agents in the Debt Service Fund represents the accrual of debt service expenditures applicable to resources which have been provided for debt service payments early in the subsequent fiscal year.

The 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 \$18.5 billion as of August 29, 1986, with net debt outstanding of \$3.7 billion.

# NOTES TO FINANCIAL STATEMENTS

## NOTE K — Long-Term Obligations (continued)

The following table presents annual principal and interest payments for long-term debt outstanding at June 30, 1986, (May 31, 1986 for the Pennsylvania Turnpike Commission) (expressed in thousands):

	1987	1988	1989	1990	1991	1992 Through Maturity	Total
<b>ENTERPRISE FUNDS</b>							
Revenue Bonds:							
Pennsylvania Higher Education Assistance Agency .....	\$ 14,140	\$ 14,140	\$ 14,140	\$ 14,140	\$ 14,140	\$ 319,951	\$ 390,651
Pennsylvania Housing Finance Agency ..	147,996	150,408	151,914	151,754	150,863	3,574,644	4,327,579
Pennsylvania Industrial Development Authority .....	20,570	20,171	19,515	19,222	18,117	158,712	256,307
Pennsylvania Turnpike Commission .....	5,520	5,519	5,518	5,519	5,519	93,253	120,848
Total Principal and Interest .....	188,226	190,238	191,087	190,635	188,639	4,146,560	5,095,385
Less: Interest Payments .....	166,098	164,250	162,042	159,584	156,369	2,436,411	3,244,754
<b>TOTAL ENTERPRISE FUNDS .....</b>	<b>\$ 22,128</b>	<b>\$ 25,988</b>	<b>\$ 29,045</b>	<b>\$ 31,051</b>	<b>\$ 32,270</b>	<b>\$1,710,149</b>	<b>\$1,850,631</b>
<b>GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP</b>							
General Obligation Bonds:							
Capital Facilities .....	\$ 396,161	\$ 401,604	\$ 395,254	\$ 390,461	\$ 377,913	\$2,959,784	\$4,921,177
Disaster Relief .....	13,874	13,734	13,590	13,450	13,296	129,702	197,646
Land and Water Development .....	39,037	38,779	38,527	38,277	36,021	311,414	502,055
Nursing Home Loan Development .....	6,302	6,253	6,195	6,144	6,087	38,594	69,575
Project 70 Land Acquisition .....	2,421	761	763	764	763	6,988	12,460
Volunteer Companies Loan .....	2,787	2,720	2,650	2,578	2,509	18,714	31,958
Vietnam Conflict Veterans Compensation .....	4,575	4,565	4,560	4,561	4,558	39,100	61,919
Water Facilities Loan .....	12,398	14,178	13,780	13,360	12,926	118,240	184,882
Pennsylvania Economic Revitalization ...	12,447	11,964	11,445	10,623	8,430	32,067	86,976
General State Authority .....	46,441	44,600	40,443	36,503	30,186	66,378	264,551
State Highway and Bridge Authority ....	28,101	26,395	24,609	18,513	12,630	7,062	117,310
State Public School Building Authority ..	533	530	533	401	.....	.....	1,997
Refunding Bonds—Note L .....	14,466	15,726	15,725	15,726	19,751	249,498	330,892
Total Principal and Interest .....	579,543	581,809	568,074	551,361	525,070	3,977,541	6,783,398
Less: Interest Payments .....	287,720	270,153	251,764	232,794	208,931	1,002,643	2,254,005
	291,823	311,656	316,310	318,567	316,139	2,974,898	4,529,393
Revenue Bonds:							
Pennsylvania Higher Educational Facilities Authority .....	135,766	75,271	74,843	62,309	59,757	1,290,735	1,698,681
State Public School Building Authority ..	48,702	45,475	43,427	41,116	37,958	195,996	412,674
Total Principal and Interest .....	184,468	120,746	118,270	103,425	97,715	1,486,731	2,111,355
Less: Interest Payments .....	65,748	59,693	55,787	52,613	49,284	453,772	736,897
	118,720	61,053	62,483	50,812	48,431	1,032,959	1,374,458
<b>TOTAL GENERAL OBLIGATION AND REVENUE BONDS .....</b>	<b>410,543</b>	<b>372,709</b>	<b>378,793</b>	<b>369,379</b>	<b>364,570</b>	<b>4,007,857</b>	<b>5,903,851</b>
Other General Long-Term Obligations .....	100,521	85,919	44,486	37,118	32,799	758,492	1,059,335
<b>TOTAL GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP ...</b>	<b>\$ 511,064</b>	<b>\$ 458,628</b>	<b>\$ 423,279</b>	<b>\$ 406,497</b>	<b>\$ 397,369</b>	<b>\$4,766,349</b>	<b>\$6,963,186</b>

## NOTES TO FINANCIAL STATEMENTS

### NOTE K—Long-Term Obligations (continued)

The Commonwealth has entered into agreements to lease various facilities and equipment. Such agreements are in substance lease-purchases (capital leases) and are reported as Other General Long-Term Obligations and Capital Lease Obligations for the College and University Funds.

The following is a schedule by fiscal year of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 1986 (expressed in thousands):

	<u>General Long-Term Obligations</u>	<u>College and University Funds</u>
Fiscal year ending June 30:		
1987.....	\$ 23,792	\$ 5,373
1988.....	20,498	9,733
1989.....	10,564	11,229
1990.....	8,849	10,640
1991.....	7,761	10,187
Later years.....	<u>180,193</u>	<u>31,327</u>
Total minimum lease payments.....	251,657	78,489
Less: amount representing estimated executory costs included in total minimum lease payments.....	<u>25,549</u>	.....
Net minimum lease payments.....	226,108	78,489
Less: amount representing interest.....	<u>109,278</u>	<u>21,499</u>
Present value of net minimum lease payments.....	116,830	56,990
Installment purchase obligations.....	<u>102,992</u>	.....
TOTAL CAPITAL LEASE AND INSTALLMENT PURCHASE OBLIGATIONS	<u>\$219,822</u>	<u>\$ 56,990</u>

At June 30, 1986 general fixed assets included \$95.8 million of buildings and \$77.3 million of equipment under capital lease.

Capital lease obligations outstanding as of June 30, 1986 for the College and University Funds 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. College and University Funds fixed assets include \$7.6 million of construction in progress related to capital leases at June 30, 1986.

# NOTES TO FINANCIAL STATEMENTS

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## NOTE L—REFUNDED DEBT

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During the fiscal year ended June 30, 1986, the Commonwealth issued bonds to advance refund \$568.8 million of previously issued bonds. Proceeds from the refunding bonds were used to purchase U.S. government securities which were deposited in irrevocable trusts to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the General Long-Term Obligations Account Group as follows (expressed in millions):

	Refunded Bonds Principal
General Obligation Bonds .....	\$ 162.5
Revenue Bonds:	
State Public School Building Authority .	293.6
Pennsylvania Higher Educational Facilities Authority .....	112.7
TOTAL .....	<u>\$ 568.8</u>

As of June 30, 1986, the Commonwealth had \$1.2 billion of bonds outstanding which have been defeased through advance refundings.

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE M—RECONCILIATION OF BUDGETARY AND GAAP BASIS AMOUNTS**

The Commonwealth adopts formal annual budgets for the General and three Special Revenue Funds (Motor License, State Lottery and Workmen’s Compensation Administration). In addition, the State Public School Building Authority approves a formal annual budget for its operations and is included as a budgeted Special Revenue Fund.

The Combined Statements of Revenues, Expenditures and Encumbrances, and Changes in Unreserved/Undesignated Fund Balances—Budget and Actual (Budgetary Basis)—present comparisons of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from GAAP primarily by the omission of certain revenue and expenditure accruals.

The following presents a reconciliation of the budgetary basis to the GAAP basis of reporting (expressed in thousands):

	<u>General Fund</u>	<u>Special Revenue Funds</u>
<b>BUDGETED FUNDS:</b>		
Budgetary basis — revenues and other sources under expenditures and other uses .....	\$ (97,696)	\$ (33,215)
Adjustments:		
To adjust revenues, other financing sources and related receivables and deferred revenue .....	182,065	60,368
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities .....	(688,682)	(333,844)
To adjust encumbrances .....	768,665	208,247
Net adjustments .....	262,048	(65,229)
<b>NONBUDGETED FUNDS:</b>		
GAAP basis — revenues and other sources under expenditures and other uses .....	.....	(3,464)
<b>TOTAL ALL FUNDS:</b>		
GAAP basis — revenues and other sources over (under) expenditures and other uses .....	\$ 164,352	\$ (101,908)

# NOTES TO FINANCIAL STATEMENTS

## NOTE N—SEGMENT INFORMATION—ENTERPRISE FUNDS

The Commonwealth has seven major Enterprise Funds which provide for a limited access highway system, industrial development loans, workmen's compensation insurance services, liquor sales, capital development loans, student loans and scholarships and low-cost housing.

Segment information for the fiscal year ended June 30, 1986, unless otherwise noted, was as follows (expressed in thousands):

	Pennsylvania Turnpike Commission (May 31, 1986)	Pennsylvania Industrial Development Authority	State Workmen's Insurance Fund (Dec. 31, 1985)	State Stores Fund (June 24, 1986)	Pennsylvania Higher Education Assistance Agency	Pennsylvania Housing Finance Agency	Capital Loan Fund	Other Enterprise Funds	Total Enterprise Funds
Operating revenues .....	\$ 149,161	\$ 13,799	\$ 41,835	\$ 612,288	\$ 39,288	\$ 124,869	\$ 433	\$ 14,003	\$ 995,676
Depreciation .....	28,817	.....	348	1,370	712	214	.....	428	31,889
Operating income (loss) .....	26,696	7,048	(12,797)	43,869	(124,513)	110,490	70	(547)	50,316
Operating transfers in .....	.....	.....	.....	.....	117,576	25,750	.....	.....	143,326
Operating transfers out .....	.....	.....	.....	33,000	.....	.....	226	.....	33,226
Net income .....	36,693	3,210	74,836	2,305	10,456	35,527	562	900	164,489
Current capital contributions .....	.....	12,000	.....	.....	.....	.....	5,094	12,109	29,203
Fixed asset additions .....	50,989	.....	17	3,003	1,936	192	.....	649	56,786
Net increase (decrease) in cash and temporary investments .....	20,918	(5,433)	11,734	12,813	(80,581)	(22,588)	2,399	10,842	(49,896)
Total assets .....	681,928	537,689	758,901	151,103	493,277	1,750,510	17,501	68,333	4,459,242
Bonds and other long-term liabilities payable from operating revenues ...	65,088	131,488	535,384	.....	202,000	1,452,055	.....	.....	2,386,015
Total fund equity .....	584,137	399,504	214,680	2,882	124,105	165,208	17,501	64,481	1,572,498

## NOTES TO FINANCIAL STATEMENTS

### NOTE O—SELF-INSURANCE

The Commonwealth is substantially uninsured for property losses.

Effective July 1, 1983, the Commonwealth became self-insured for future losses for all statutory workmen's compensation and medical payments to its employes injured on the job. A loss reserve analysis was prepared by an independent consulting actuarial firm using standard actuarial techniques to estimate required reserve liability levels. At June 30, 1986, \$14.5 million is reported as a General Fund liability representing the estimate of payments to be made from currently expendable available financial resources for accidents occurring on or before June 30, 1986. The remaining \$197.5 million self-insurance liability not payable from currently expendable available financial resources is reported in the General Long-Term Obligations Account Group. At June 30, 1986, \$45.5 million of the fund balance was designated in the General Fund for future loss payments.

The Commonwealth is self-insured for tort liability claims. Major tort self-insurance areas include automobile, general tort, employe and transportation-related liability claims. Tort liabilities were determined as of June 30, 1986 based on reserves computed from the Commonwealth's claim experience. At June 30, 1986, \$4 million is reported as a General Fund liability and \$22 million is reported as a Motor License Fund (a Special Revenue Fund) liability representing the estimate of payments to be made from currently expendable available financial resources for incidents occurring on or before June 30, 1986. The portion of these liabilities that will not be liquidated with currently expendable available financial resources at June 30, 1986 is reported in the General Long-Term Obligations Account Group as follows (expressed in thousands):

Automobile .....	\$ 3,869
General tort .....	28,663
Employe .....	32,907
Transportation-related .....	<u>216,408</u>
TOTAL .....	<u>\$281,847</u>

The following amounts are reported as designations in the General Fund at June 30, 1986 for future payments of self-insured tort losses (expressed in thousands):

Automobile .....	\$ 1,800
General tort .....	2,091
Employe .....	<u>6,115</u>
TOTAL .....	<u>\$ 10,006</u>

# NOTES TO FINANCIAL STATEMENTS

## NOTE P—COMMITMENTS AND CONTINGENCIES

**Construction and Other Commitments:** At June 30, 1986, the Department of Transportation had contractual commitments of approximately \$953.5 million for various highway construction and mass transit projects. Financing for these future expenditures will be primarily from approved federal grants and general obligation bond sales. In addition, the Commonwealth has certain contractual commitments for future purchases of various goods and services approximating \$1.6 billion at June 30, 1986. These commitments are contingent upon availability of financial resources.

At June 30, 1986, the Pennsylvania Industrial Development Authority had \$78.1 million in approved loans that had not been disbursed.

**Litigation:** The Commonwealth, its affiliates and employees are defendants 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 liabilities at June 30, 1986 with respect to torts as presented in Note O and as follows with respect to other matters of litigation (expressed in thousands):

General Fund .....	\$14,461
Motor License Fund (a Special Revenue Fund) .....	962
Other General Long-Term Obligations .....	32,169

Additionally, the Commonwealth has been involved over the past years in certain legal proceedings relating to banking and highway tax matters which continue into the present year. The Commonwealth is vigorously contesting in appeals certain Commonwealth Court decisions that if unsuccessful could require the Commonwealth to refund certain bank taxes and highway taxes and fees collected of approximately \$223 million (General Fund) and \$270 million (Motor License Fund, a Special Revenue Fund), respectively.

Based on the current status of all these legal proceedings, 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.

**Federal Grants:** Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. The Commonwealth is currently involved in administrative and legal proceedings with certain federal agencies in contesting various potential disallowances related to federal assistance programs. Commonwealth's management believes ultimate disallowances, if any, will be immaterial.

**Student Loan Guarantees:** The Pennsylvania Higher Education Assistance Agency (PHEAA), an Enterprise Fund, guarantees loans made by private lenders to certain resident students. Total outstanding guarantees issued by PHEAA approximated \$3.6 billion at June 30, 1986. The U.S. Department of Education reinsures losses under these guarantees up to 100% until losses are in excess of 5% or 9% of the total loans in repayment status, then the reinsurance rate decreases to 90% and 80%, respectively.

**Operating Lease Commitments:** The Commonwealth has commitments to lease certain buildings and equipment. Future minimum rental commitments for noncancelable operating leases as of June 30, 1986 were as follows (expressed in thousands):

Fiscal year ending June 30:	
1987.....	\$ 66,415
1988.....	52,520
1989.....	45,174
1990.....	37,207
1991.....	30,402
Later years.....	40,490
Total Minimum Lease Payments.....	<u>\$272,208</u>

Rental expenditures/expenses for all operating leases for the fiscal year ended June 30, 1986 amounted to \$73.8 million.

## **NOTES TO FINANCIAL STATEMENTS**

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### **NOTE Q—SUBSEQUENT EVENTS**

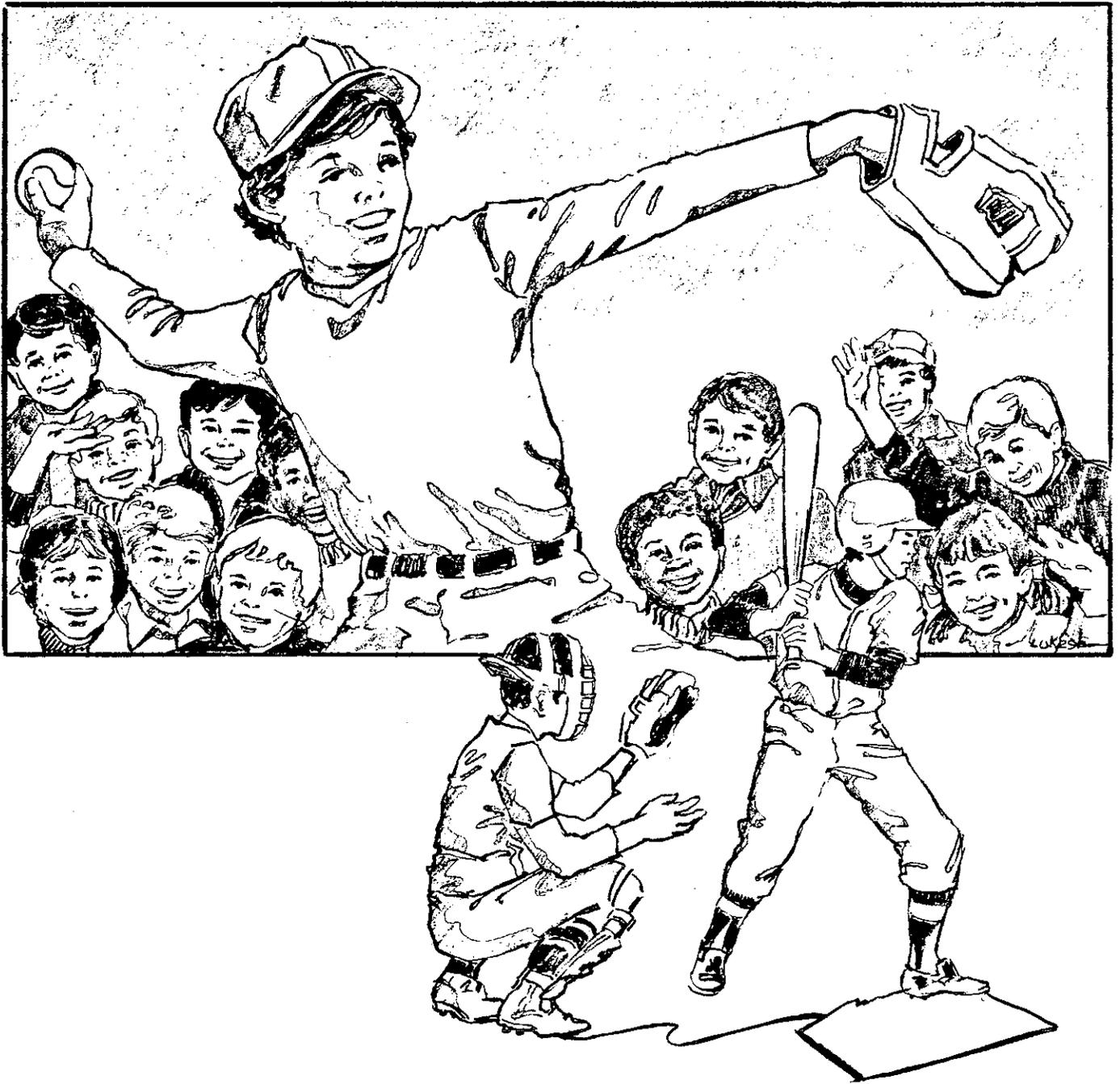
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Subsequent to June 30, 1986, the Commonwealth issued the following bonds (expressed in millions):

	<u>Interest Rates</u>	<u>Amount</u>
<b>ENTERPRISE FUNDS</b>		
Revenue Bonds:		
Pennsylvania Housing Finance Agency . .	7.20-8.10%	\$ 45
Pennsylvania Turnpike Commission . . . . .	4.40-7.87%	808
<b>GENERAL LONG-TERM OBLIGATIONS</b>		
<b>ACCOUNT GROUP</b>		
General Obligation Bonds . . . . .	5.00-6.75%	208

During August 1986, the Commonwealth issued \$250 million of Tax Anticipation Notes, First Series of 1986-87. This obligation is in the form of commercial paper issues, due and payable at various times but not later than June 30, 1987. On December 18, 1986, the Commonwealth issued \$240 million of Tax Anticipation Notes, Second Series of 1986-87. Both series of Tax Anticipation Notes are payable from and secured by the pledge of revenues to be received during the fiscal year ending June 30, 1987.

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**COMBINING FINANCIAL  
STATEMENTS  
AND  
SCHEDULES**

*FIRST LITTLE LEAGUE BASEBALL AND SOFTBALL*

The Little League was founded in 1939 in Williamsport as a three-team baseball league for eight-to-twelve-year-old boys. It has since expanded to become the world's largest baseball and softball competition for both boys and girls from eight to 18 years of age. Each August the Little League World Series in Williamsport brings together international competition.



**SPECIAL  
REVENUE  
FUNDS**

*FIRST GRADUATE SCHOOL FOR WOMEN*

Bryn Mawr College, established in 1880, became the first graduate school for women when classes began in 1885. Pennsylvania was an early leader in development of higher educational opportunities for women. In addition to development of a normal school system by the mid-1800s for the training of teachers, Pennsylvania established the first college for training female physicians in 1850, and in 1865 established the nation's first school for training of nurses.

## **SPECIAL REVENUE FUNDS DESCRIPTIONS**

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

**State Lottery Fund** — to account for the payment of prizes to winners in the state lottery, for property tax and rent assistance to the elderly, for mass transit fare subsidies, for inflation dividend program for the elderly and for a partial rebate of drug and medical costs incurred by the elderly.

**Motor License Fund** — to account for highway and bridge improvement, design and maintenance, for the purchase of Rights-of-Way, for aviation activities, for transportation licensing and safety activities, for payment of subsidies for construction and maintenance of roads, and for financing Pennsylvania State Police highway patrol operations.

**Workmen's Compensation Administration Fund** — to account for the administration of the Pennsylvania Workmen's Compensation Act and the Pennsylvania Occupational Disease Act.

**State Public School Building Authority** — to account for the administration of the State Public School Building Authority (SPSBA). The SPSBA acts as a financing authority for the construction and improvement of public school facilities. Excess funds, after payment of debt service and administrative costs, are returned to the public schools.

**Pharmaceutical Assistance Fund** — to account for a limited Pharmaceutical Assistance program for the Commonwealth's senior citizens who are 65 years of age or older.

**Water Facilities Loan Fund** — to account for the implementation of the water project loan referendum that authorizes the Commonwealth to approve loans to local water companies for the repair, construction, extension and improvement of water supply systems, dams and port facilities and water control systems. Repayments of principal and interest from loans are transferred to the General Fund.

**Pennsylvania Economic Revitalization Fund** — to account for the promotion of economic redevelopment throughout Pennsylvania, for grants and loans for industrial and small business development, for acquisition of equipment for vocational programs in secondary schools, and for agricultural and recreational programs.

**Nursing Home Loan Development Fund** — to account for loans made to private nursing homes for repairs, reconstruction and rehabilitation to nursing homes to meet safety code standards. Repayments of principal and interest from loans are transferred to the General Fund.

**Fish And Game Fund** — to account for the administration and enforcement of fish and game laws and for the protection and propagation of game and aquatic life.

**Pennsylvania Higher Educational Facilities Authority** — to account for the administration of the Pennsylvania Higher Educational Facilities Authority (PHEFA). The PHEFA acts as a financing authority for the construction and improvement of higher educational institutions. Excess funds, after payment of debt service and administrative costs, are returned to the higher educational institutions.

**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.

**COMBINING BALANCE SHEET  
SPECIAL REVENUE FUNDS**

June 30, 1986

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Budgeted Funds										Total	
	State Lottery	Motor License	Workmen's Compensation Administration	State Public School Building Authority	Pharmaceutical Assistance	Water Facilities Loan	Pennsylvania Economic Revitalization	Nursing Home Loan Development	Fish and Game	Pennsylvania Higher Educational Facilities Authority		Other
<b>ASSETS</b>												
Cash	\$ 2,957	\$ 70,914	\$ 20	\$ 108	\$ 205	\$ 26	\$ 49	\$ 227	\$ 1,307	\$ 18	\$ 3,442	\$ 79,273
Temporary investments	408,511	241,841	8,205	10,610	158,841	77,610	32,369	12,097	42,661	21,984	68,444	1,083,173
Long-term investments										2,240		2,240
Receivables, net:												
Taxes		80,622										80,622
Accounts	29,641		171								2,365	32,177
Accrued interest	4,568	1,548	31	108	794	280	364	355	239	207	495	8,989
Notes and loans						28,643	2,704	38,740				70,087
Other		5,671							48			5,719
Due from other funds		1,644	13						764		283	2,704
Due from other governments	3,298	96,941							1,220		4,938	106,397
Other assets											184	184
<b>TOTAL ASSETS</b>	<b>\$ 448,975</b>	<b>\$ 499,181</b>	<b>\$ 8,440</b>	<b>\$ 10,826</b>	<b>\$ 159,840</b>	<b>\$ 106,559</b>	<b>\$ 35,486</b>	<b>\$ 51,419</b>	<b>\$ 46,239</b>	<b>\$ 24,449</b>	<b>\$ 80,151</b>	<b>\$ 1,471,565</b>

**LIABILITIES AND FUND BALANCES**

<b>Liabilities:</b>												
Accounts payable and accrued liabilities	\$ 208,812	\$ 210,468	\$ 413	\$ 189	\$ 16,678	\$ 280	\$ 4,992	\$ 678	\$ 3,622	\$	\$ 12,590	\$ 457,764
Due to other funds	4,232	18,173	404	2	49		3,948		1,355		4,744	33,865
Due to other governments	5,457	10,567							20			16,044
Deferred revenue	2,420							12				3,592
Other liabilities		2,175										2,175
<b>TOTAL LIABILITIES</b>	<b>220,921</b>	<b>241,383</b>	<b>817</b>	<b>191</b>	<b>16,727</b>	<b>280</b>	<b>8,940</b>	<b>690</b>	<b>4,997</b>	<b></b>	<b>18,494</b>	<b>513,440</b>
<b>Fund Balance:</b>												
Reserved for:												
Encumbrances	16,616	109,188	4	1,095	6	27,699	14,647	2,444	8,664		26,267	206,630
Notes and loans						28,643	2,704	38,740				70,087
Unreserved:												
Designated for:												
Highways		125,666										125,666
Other	2,436					49,937	9,195			24,449	15,373	101,411
Undesignated	209,002	22,944	7,619	9,540	143,107			9,545	32,557		20,017	454,331
<b>TOTAL FUND BALANCES</b>	<b>228,054</b>	<b>257,798</b>	<b>7,623</b>	<b>10,635</b>	<b>143,113</b>	<b>106,279</b>	<b>26,546</b>	<b>50,729</b>	<b>41,242</b>	<b>24,449</b>	<b>61,657</b>	<b>958,125</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 448,975</b>	<b>\$ 499,181</b>	<b>\$ 8,440</b>	<b>\$ 10,826</b>	<b>\$ 159,840</b>	<b>\$ 106,559</b>	<b>\$ 35,486</b>	<b>\$ 51,419</b>	<b>\$ 46,239</b>	<b>\$ 24,449</b>	<b>\$ 80,151</b>	<b>\$ 1,471,565</b>

# COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES SPECIAL REVENUE FUNDS

*For the Fiscal Year Ended June 30, 1986*

## COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Budgeted Funds										Total	
	State Lottery	Motor License	Workmen's Compensation Administration	State Public School Building Authority	Pharmaceutical Assistance	Water Facilities Loan	Pennsylvania Economic Revitalization	Nursing Home Loan Development	Fish and Game	Pennsylvania Higher Educational Facilities Authority		Other
<b>REVENUES:</b>												
Taxes, penalties and interest	\$ 100	\$ 944,222	\$ 1,657	\$ 1,657	\$ 8,992	\$ 5,933	\$ 3,607	\$ 51	\$ 14,321	\$ 3,850	\$ 10,814	\$ 938,594
Licenses and fees	53,619	424,665	10,971	1,657				37,201	61,519	155	3,850	467,628
Intergovernmental	2,824	783,038	62,145	62,145		505		7,497	12,355	23,703	5,548	906,178
Charges for goods and services	35,322	17,744	585	1,357	8,992	5,811	2,644	9,836	12,355	1,973	88,842	142,283
Investment income	557,481	21,350	55	1,357			963	3,394	5,548			88,842
Lottery receipts, net of prizes	857	51,909	55	50		122		907	10,814	6		577,481
Other												64,722
<b>TOTAL REVENUES</b>	650,203	2,242,928	11,611	65,209	8,992	5,933	3,607	58,886	108,407	25,837	108,407	3,185,728
<b>EXPENDITURES:</b>												
Current:												
General government	41,997	79,587	11,416	1,611					23,401	828	75,195	158,882
Public health and welfare	554,561				127,398							757,154
Public education												14,596
Conservation of natural resources						367		55,534	11,450		84,680	145,664
Economic development and assistance							258		1,664			10,727
Transportation		1,860,361										1,860,361
<b>TOTAL EXPENDITURES</b>	596,558	1,939,948	11,416	1,611	127,398	367	258	55,534	111,710	828	111,710	2,886,400
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	53,645	302,980	195	63,598	(118,406)	5,566	3,349	3,352	(3,303)	25,009	(3,303)	299,328
<b>OTHER FINANCING SOURCES (USES):</b>												
Bond proceeds												39,281
Operating transfers in	(117,075)	4,434		1,233	100,000			1,129	20,275	5,587	(1,825)	132,884
Operating transfers out		(344,635)		(62,819)		(6,759)	(5,468)	(64)	(1,825)	(32,464)	(316)	(572,902)
Other								(14)		(169)		(499)
<b>NET OTHER FINANCING SOURCES (USES)</b>	(117,075)	(340,201)		(61,586)	100,000	32,522	(5,468)	1,051	18,134	(27,046)	18,134	(401,236)
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	(63,430)	(37,221)	195	2,012	(18,406)	38,088	(2,119)	4,403	14,831	(2,037)	14,831	(101,908)
<b>FUND BALANCES, JULY 1, 1985</b>	291,484	295,019	7,428	8,623	161,519	68,191	52,848	36,839	46,826	7,710	46,826	1,046,257
<b>RESIDUAL EQUITY TRANSFERS</b>										18,776		13,776
<b>FUND BALANCES, JUNE 30, 1986</b>	\$ 228,054	\$ 257,798	\$ 7,623	\$ 10,635	\$ 143,113	\$ 106,279	\$ 50,729	\$ 41,242	\$ 61,657	\$ 24,449	\$ 61,657	\$ 938,125

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND ENCUMBRANCES AND CHANGES IN UNRESERVED/UNDESIGNATED FUND BALANCES — BUDGET AND ACTUAL (BUDGETARY BASIS) BUDGETED SPECIAL REVENUE FUNDS**

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

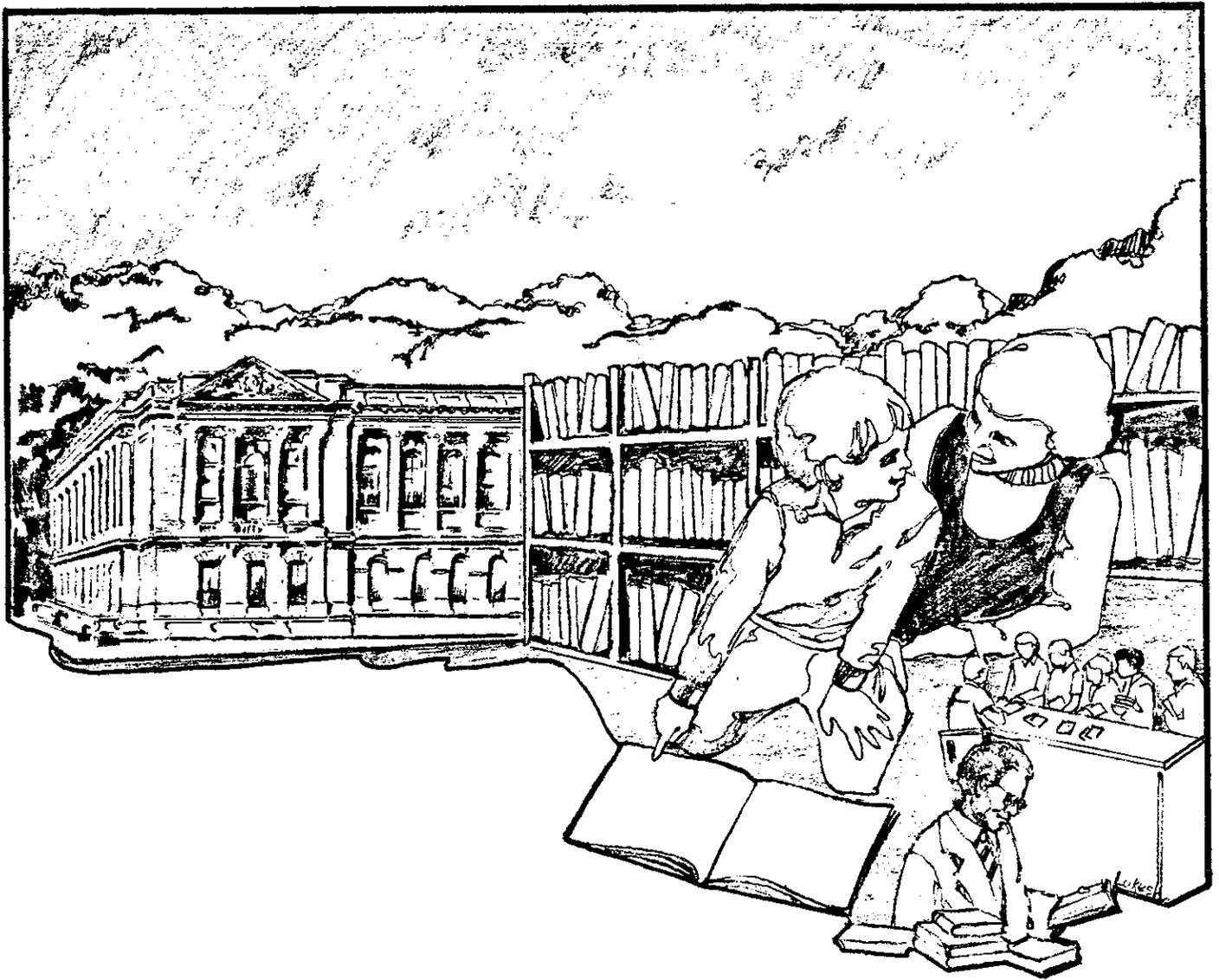
	State Lottery			Motor License		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>SOURCES OF FINANCIAL RESOURCES:</b>						
<b>UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JULY 1, 1985</b> .....	\$ 385,379	\$ 385,379	\$ . . . .	\$ 88,108	\$ 88,108	\$ . . . .
<b>REVENUES:</b>						
<b>State Programs:</b>						
Taxes, net of refunds.....	. . . .	. . . .	. . . .	885,200	873,782	(11,418)
Lottery receipts, net of prizes.....	765,520	719,957	(45,563)	. . . .	. . . .	. . . .
Licenses and fees.....	. . . .	. . . .	. . . .	384,500	421,347	36,847
Departmental services.....	2,924	2,924	. . . .	16,293	16,293	. . . .
Other.....	39,308	37,917	(1,391)	61,400	73,124	11,724
<b>TOTAL STATE PROGRAMS</b> .....	<u>807,752</u>	<u>760,798</u>	<u>(46,954)</u>	<u>1,347,393</u>	<u>1,384,546</u>	<u>37,153</u>
<b>Federal Programs</b> .....	57,310	56,163	(1,147)	708,349	673,767	(34,582)
<b>TOTAL REVENUES</b> .....	<u>865,062</u>	<u>816,961</u>	<u>(48,101)</u>	<u>2,055,742</u>	<u>2,058,313</u>	<u>2,571</u>
<b>Other Financing Resources:</b>						
Prior year lapses.....	17,173	17,173	. . . .	7,543	7,543	. . . .
<b>TOTAL OTHER FINANCING RESOURCES</b> .....	<u>17,173</u>	<u>17,173</u>	<u>. . . .</u>	<u>7,543</u>	<u>7,543</u>	<u>. . . .</u>
<b>TOTAL SOURCES OF FINANCIAL RESOURCES</b> .....	<u>1,267,614</u>	<u>1,219,513</u>	<u>(48,101)</u>	<u>2,151,393</u>	<u>2,153,964</u>	<u>2,571</u>
<b>USES OF FINANCIAL RESOURCES:</b>						
<b>EXPENDITURES AND ENCUMBRANCES:</b>						
<b>State Programs:</b>						
General government.....	424,563	351,371	73,192	217,402	214,118	3,284
Protection of persons and property.....	. . . .	. . . .	. . . .	148,112	148,112	. . . .
Public health and welfare.....	350,371	348,503	1,868	. . . .	. . . .	. . . .
Public education.....	. . . .	. . . .	. . . .	2,552	2,069	483
Transportation.....	108,332	107,526	806	1,036,832	1,034,266	2,566
<b>TOTAL STATE PROGRAMS</b> .....	<u>883,266</u>	<u>807,400</u>	<u>75,866</u>	<u>1,404,898</u>	<u>1,398,565</u>	<u>6,333</u>
<b>Federal Programs</b> .....	57,310	56,163	1,147	708,349	673,767	34,582
<b>TOTAL USES OF FINANCIAL RESOURCES</b> ...	<u>940,576</u>	<u>863,563</u>	<u>77,013</u>	<u>2,113,247</u>	<u>2,072,332</u>	<u>40,915</u>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 1986</b> .....	<u>\$ 327,038</u>	<u>\$ 355,950</u>	<u>\$ 28,912</u>	<u>\$ 38,146</u>	<u>\$ 81,632</u>	<u>\$ 43,486</u>

*For the Fiscal Year Ended June 30, 1986*

(Expressed in Thousands)

Workmen's Compensation Administration			State Public School Building Authority			Total		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 6,340	\$ 6,340	\$ . . . .	\$ 6,879	\$ 6,879	\$ . . . .	\$ 486,706	\$ 486,706	\$ . . . .
10,900	10,869	(31)	. . . .	. . . .	. . . .	896,100	884,651	(11,449)
. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	765,520	719,957	(45,563)
. . . .	. . . .	. . . .	2,090	1,657	(433)	386,590	423,004	36,414
. . . .	. . . .	. . . .	1,225	1,225	. . . .	20,442	20,442	. . . .
1,765	608	(1,157)	510	677	167	102,983	112,326	9,343
12,665	11,477	(1,188)	3,825	3,559	(266)	2,171,635	2,160,380	(11,255)
. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	765,659	729,930	(35,729)
12,665	11,477	(1,188)	3,825	3,559	(266)	2,937,294	2,890,310	(46,984)
224	224	. . . .	. . . .	. . . .	. . . .	24,940	24,940	. . . .
224	224	. . . .	. . . .	. . . .	. . . .	24,940	24,940	. . . .
19,229	18,041	(1,188)	10,704	10,438	(266)	3,448,940	3,401,956	(46,984)
11,683	10,959	724	1,641	1,611	30	655,289	578,059	77,230
. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	148,112	148,112	. . . .
. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	350,371	348,503	1,868
. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	2,552	2,069	483
. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	1,145,164	1,141,792	3,372
11,683	10,959	724	1,641	1,611	30	2,301,488	2,218,535	82,953
. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	765,659	729,930	35,729
11,683	10,959	724	1,641	1,611	30	3,067,147	2,948,465	118,682
<u>\$ 7,546</u>	<u>\$ 7,082</u>	<u>\$ (464)</u>	<u>\$ 9,063</u>	<u>\$ 8,827</u>	<u>\$ (236)</u>	<u>\$ 381,793</u>	<u>\$ 453,491</u>	<u>\$ 71,698</u>

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# ENTERPRISE FUNDS

*FIRST LENDING LIBRARY*

The nation's first lending library was founded in Philadelphia by Benjamin Franklin. The Library Company of Philadelphia was established in 1731, becoming the first lending library in America. In 1745 Franklin ordered the first set of books for the Pennsylvania Assembly's library which would eventually become the State Library of Pennsylvania.

Access to many early libraries was limited to those who paid for a membership. In the early years of the 20th Century, Pittsburgh industrialist Andrew Carnegie advanced the "free" public library movement by financing the construction of 58 public library buildings in Pennsylvania and nearly 2,000 in the United States.

Today another "Pennsylvania First" ultimately will make the resources of all the state's 4,000 libraries accessible to all of the state's citizens. ACCESS PENNSYLVANIA will enable all Pennsylvanians to use any of the publicly supported libraries in the state through a statewide card system. This system includes a plan to compensate libraries for use by individuals outside the community for which the library was established. Providing walk-in access, including borrowing privileges, to all libraries for all Pennsylvanians is part of the process of ensuring that citizens can obtain the information they want when they need it.

## **ENTERPRISE FUNDS DESCRIPTIONS**

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.

**Pennsylvania Turnpike Commission (PTC)** — to account for the construction, operation and maintenance of the Pennsylvania Turnpike System. The PTC was created as an instrumentality of the Commonwealth with powers to issue revenue bonds payable from tolls and other revenues collected.

**Pennsylvania Industrial Development Authority** — to account for loans to local industrial development agencies to stimulate economic activity in areas of high unemployment. Earnings of the Authority and repayments of loans receivable are reinvested in additional loans.

**State Workmen's Insurance Fund** — to account for and provide workmen's compensation insurance to employers, including those refused policies by private insurance firms.

**State Stores Fund** — to account for the general operation 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.

**Pennsylvania Higher Education Assistance Agency** — to account for a variety of programs, such as scholarships and student loans, designed to provide financial assistance to students and institutions of higher learning. Earnings of the Agency and repayments of loans receivable are retained for additional loans and programmatic purposes.

**Pennsylvania Housing Finance Agency** — to account for financing the construction and rehabilitation of housing units for sale or rent to low and moderate income persons and families or the elderly, and to make or purchase loans to finance the purchase, construction, improvement or rehabilitation of owner-occupied single-family residences. Earnings of the Agency and repayments of notes and loans receivable are reinvested for financing of additional projects.

**Capital Loan Fund** — to account for low interest loans to manufacturing, industrial and export service businesses for the purchase of land, buildings, and equipment and working capital. Earnings of the Fund and repayments of loans are reinvested in additional loans.

**Other** — to account for enterprise operations including activities associated with minority business loans, vocational rehabilitation services, loans to the blind for business enterprises, and loans to volunteer fire, ambulance and rescue companies.

**COMBINING BALANCE SHEET  
ENTERPRISE FUNDS**

June 30, 1986

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Pennsylvania Turnpike Commission (May 31, 1986)	Pennsylvania Industrial Development Authority	State Workmen's Insurance (Dec. 31, 1985)	State Saves (June 24, 1986)	Pennsylvania Higher Education Assistance Agency	Pennsylvania Housing Finance Agency	Capital Loan	Other	Total
<b>ASSETS</b>									
Cash	\$ 1,294	\$ 849	\$ 1,008	\$ 8,675	\$ 1,570	\$ 3,152	\$ 128	\$ 319	\$ 16,995
Temporary investments	190,602	132,328	26,665	51,292	280,468	510,810	8,497	24,416	1,225,078
Long-term investments			699,833		23,500			190	723,523
Receivables, net:									
Accounts	2,156		3,941	627	2,955			33	9,712
Accrued interest	1,170		19,703	37	7,789			142	30,596
Notes and loans		1,005							
Due from other funds		399,283			142,019	1,222,402	8,734	39,958	1,812,396
Due from other governments			4					828	832
Inventory					7,625				7,625
Fixed assets	4,743							434	86,119
Less: accumulated depreciation	1,009,894		2,563	18,999	18,476	1,946		5,052	1,056,930
Other assets	(527,931)	4,224	(1,355)	(9,884)	(3,366)	(679)		(3,647)	(546,862)
<b>TOTAL ASSETS</b>	<b>\$ 681,928</b>	<b>\$ 537,689</b>	<b>\$ 758,901</b>	<b>\$ 151,103</b>	<b>\$ 493,277</b>	<b>\$ 1,750,510</b>	<b>\$ 17,501</b>	<b>\$ 68,333</b>	<b>\$ 4,459,242</b>
<b>LIABILITIES AND FUND EQUITY</b>									
<b>Liabilities:</b>									
Accounts payable and accrued liabilities	\$ 30,665	\$ 333	\$ 1,355	\$ 61,027	\$ 7,386	\$ 47,691	\$	\$ 2,266	\$ 150,723
Due to other funds	2,038	1	391	20,605	942	20		388	24,385
Due to other governments					2,512				2,512
Deferred revenue		53	4,575		23,477	431		1,175	29,711
Notes payable						11,335			11,335
Demand revenue bonds payable					100,000				100,000
Advances from other fund				66,000					66,000
Other liabilities		6,310	2,516	589	32,855	73,770		23	116,063
Insurance loss liability			535,384						535,384
Revenue bonds payable	65,088	131,488			202,000	1,452,055			1,850,631
<b>TOTAL LIABILITIES</b>	<b>97,791</b>	<b>138,185</b>	<b>544,221</b>	<b>148,221</b>	<b>369,172</b>	<b>1,585,302</b>		<b>3,852</b>	<b>2,886,744</b>
<b>Fund Equity:</b>									
Contributed capital	46,725	312,990				1,960	16,453	59,620	437,748
Retained earnings:									
Reserved	537,412		801		10,983			1,348	550,544
Unreserved		86,514	213,879	2,882	113,122	163,248	1,048	3,513	584,206
<b>TOTAL FUND EQUITY</b>	<b>584,137</b>	<b>399,504</b>	<b>214,680</b>	<b>2,882</b>	<b>124,105</b>	<b>165,208</b>	<b>17,501</b>	<b>64,481</b>	<b>1,572,498</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 681,928</b>	<b>\$ 537,689</b>	<b>\$ 758,901</b>	<b>\$ 151,103</b>	<b>\$ 493,277</b>	<b>\$ 1,750,510</b>	<b>\$ 17,501</b>	<b>\$ 68,333</b>	<b>\$ 4,459,242</b>

# COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS ENTERPRISE FUNDS

*For the Fiscal Year Ended June 30, 1986*

## COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Pennsylvania Turnpike Commission (May 31, 1986)	Pennsylvania Industrial Development Authority	State Workmen's Insurance (Dec. 31, 1985)	State Stores (June 24, 1986)	Pennsylvania Higher Education Assistance Agency	Pennsylvania Housing Finance Agency	Capital Loan	Other	Total
<b>OPERATING REVENUES:</b>									
Goods and services	\$ 144,779	\$ 13,246	\$ 41,790	\$ 612,288	\$ 39,288	\$ 124,869	\$ 433	\$ 13,977	\$ 990,670
Other	4,382	553	45					26	5,006
<b>TOTAL OPERATING REVENUES</b>	<b>149,161</b>	<b>13,799</b>	<b>41,835</b>	<b>612,288</b>	<b>39,288</b>	<b>124,869</b>	<b>433</b>	<b>14,003</b>	<b>995,676</b>
<b>OPERATING EXPENSES:</b>									
Goods and services	93,617	1,897	54,284	566,464	163,089	7,866	15	12,526	899,758
Depreciation	28,817		348	1,370	712	214		428	31,889
Bad debts		4,854		585		5,727	348	1,596	13,110
Other	31					572			603
<b>TOTAL OPERATING EXPENSES</b>	<b>122,465</b>	<b>6,751</b>	<b>54,632</b>	<b>568,419</b>	<b>163,801</b>	<b>14,379</b>	<b>363</b>	<b>14,550</b>	<b>945,360</b>
<b>OPERATING INCOME (LOSS)</b>	<b>26,696</b>	<b>7,048</b>	<b>(12,797)</b>	<b>43,869</b>	<b>(124,513)</b>	<b>110,490</b>	<b>70</b>	<b>(547)</b>	<b>50,316</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>									
Investment income	13,273	9,521	89,911	2,515	37,213	43,572	718	1,447	198,170
Interest expense	(3,381)	(13,359)			(19,820)	(144,285)			(180,845)
Other	105		(2,278)	(11,079)					(13,252)
<b>NONOPERATING REVENUES (EXPENSES)</b>	<b>9,997</b>	<b>(3,838)</b>	<b>87,633</b>	<b>(8,564)</b>	<b>17,393</b>	<b>(100,713)</b>	<b>718</b>	<b>1,447</b>	<b>4,073</b>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS</b>	<b>36,693</b>	<b>3,210</b>	<b>74,836</b>	<b>35,305</b>	<b>(107,120)</b>	<b>9,777</b>	<b>788</b>	<b>900</b>	<b>54,389</b>
<b>OPERATING TRANSFERS:</b>									
Operating transfers in					117,576	25,750			143,326
Operating transfers out				(33,000)			(226)		(33,226)
<b>TOTAL OPERATING TRANSFERS</b>				<b>(33,000)</b>	<b>117,576</b>	<b>25,750</b>	<b>(226)</b>		<b>110,100</b>
<b>NET INCOME</b>	<b>36,693</b>	<b>3,210</b>	<b>74,836</b>	<b>2,305</b>	<b>10,456</b>	<b>35,527</b>	<b>562</b>	<b>900</b>	<b>164,489</b>
<b>RETAINED EARNINGS, JULY 1, 1985</b>	<b>500,719</b>	<b>83,304</b>	<b>139,844</b>	<b>577</b>	<b>113,649</b>	<b>127,721</b>	<b>486</b>	<b>3,961</b>	<b>970,261</b>
<b>RETAINED EARNINGS, JUNE 30, 1986</b>	<b>\$ 537,412</b>	<b>\$ 86,514</b>	<b>\$ 214,680</b>	<b>\$ 2,882</b>	<b>\$ 124,105</b>	<b>\$ 163,248</b>	<b>\$ 1,048</b>	<b>\$ 4,861</b>	<b>\$ 1,134,750</b>

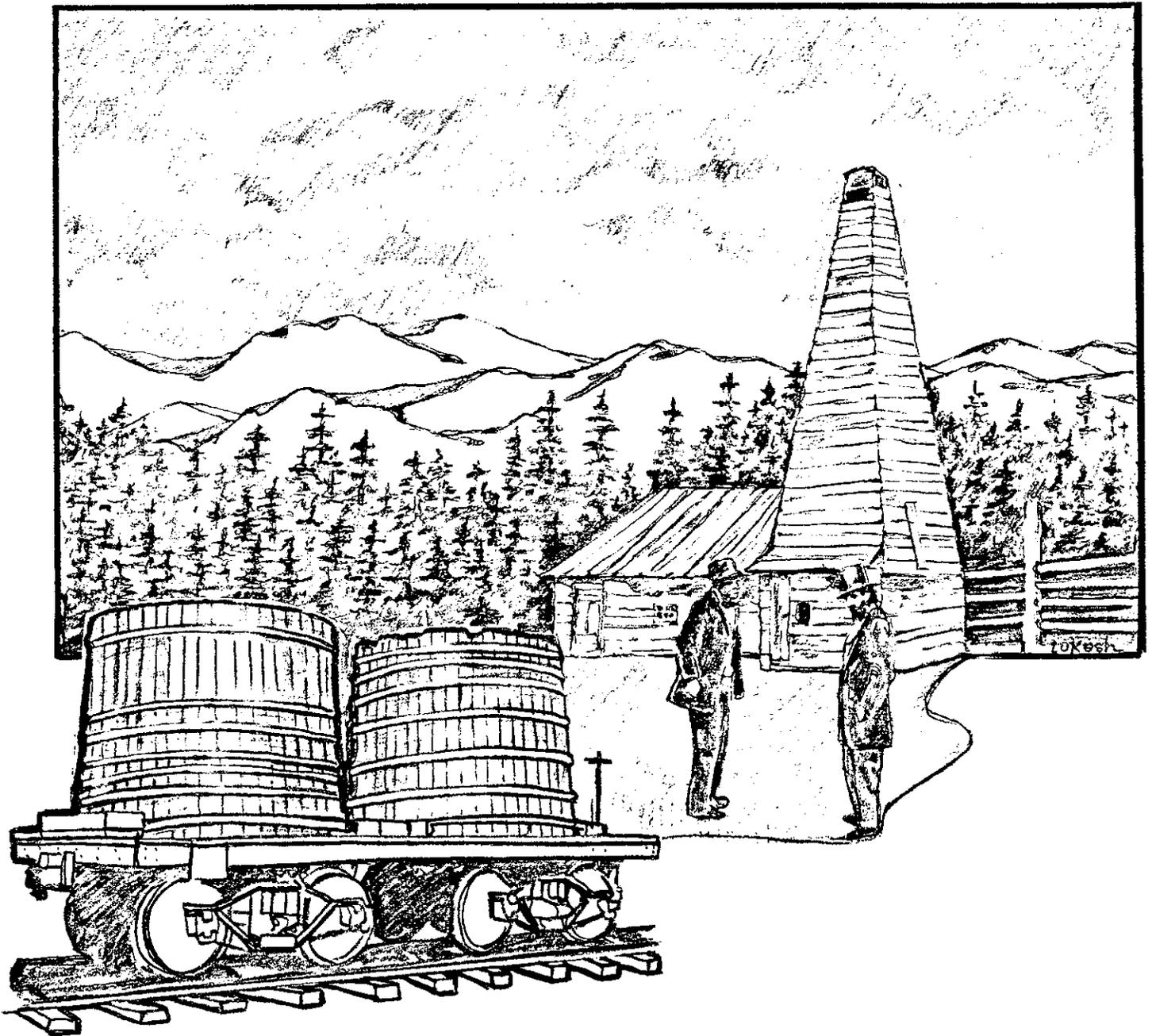
**COMBINING STATEMENT OF CHANGES IN FINANCIAL POSITION  
ENTERPRISE FUNDS**

*For the Fiscal Year Ended June 30, 1986*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Pennsylvania Turnpike Commission (May 31, 1986)	Pennsylvania Industrial Development Authority	State Workmen's Insurance (Dec. 31, 1985)	State Stores (June 24, 1986)	Pennsylvania Helter Education Assistance Agency	Pennsylvania Housing Finance Agency	Capital Loan	Other	Total
<b>CASH PROVIDED FROM (USED FOR) OPERATIONS:</b>									
Net income	\$ 36,693	\$ 3,210	\$ 74,836	\$ 2,305	\$ 10,456	\$ 35,527	\$ 562	\$ 900	\$ 164,489
Items not using (providing) cash:									
Depreciation	28,817		348	1,370	712	214		428	31,889
	65,510	3,210	75,184	3,675	11,168	35,741	562	1,328	196,378
Decrease (increase) in receivables	132	(9,322)	(5,727)	647	(83,376)	(157,041)	(3,249)	(2,006)	(259,942)
Decrease (increase) in due from other funds			2					(702)	(700)
Increase in due from other governments									(767)
Decrease (increase) in inventory	(239)			4,657					4,634
Increase (decrease) in accounts payable and accrued liabilities								216	
Increase (decrease) in due to other funds	11,109	(109)	766	2,119	(1,866)	4,176		652	16,847
Increase in due to other governments	57	(12)	(50)	(61,710)	371	(22)	(8)	62	(61,312)
Increase (decrease) in deferred revenue		8	958		1,001				1,001
Increase in insurance loss liability			4,379		726	431		(139)	1,984
									4,379
<b>TOTAL CASH PROVIDED FROM (USED FOR) OPERATIONS</b>	<b>76,569</b>	<b>(6,225)</b>	<b>75,512</b>	<b>(50,612)</b>	<b>(72,743)</b>	<b>(116,715)</b>	<b>(2,695)</b>	<b>(589)</b>	<b>(97,498)</b>
<b>CASH PROVIDED FROM (USED FOR) INVESTMENT ACTIVITIES:</b>									
Decrease (increase) in other current assets		(3,564)	1,687	(161)	(12,111)	(590)			(14,739)
Proceeds from sale of long-term investments			219,420		2,013				221,433
Purchase of long-term investments			(284,797)		(2,015)			(26)	(286,838)
Increase (decrease) in other current liabilities		(280)	(71)	66,589	4,211	17,832		(3)	88,278
Additions to fixed assets	(50,989)		(17)	(3,003)	(1,936)	(192)		(649)	(56,786)
<b>NET CASH PROVIDED FROM (USED FOR) INVESTMENT ACTIVITIES</b>	<b>(50,989)</b>	<b>(3,844)</b>	<b>(63,778)</b>	<b>63,425</b>	<b>(9,838)</b>	<b>17,050</b>		<b>(678)</b>	<b>(48,652)</b>
<b>CASH PROVIDED FROM (USED FOR) FINANCING ACTIVITIES:</b>									
Issuance of revenue bonds					202,000	130,845			332,845
Increase in contributed capital		12,000					5,094	12,109	29,203
Decrease in notes payable						(23,982)			(23,982)
Decrease in demand revenue bonds payable					(200,000)				(200,000)
Redemption of long-term obligations	(4,662)	(7,364)				(29,786)			(41,812)
<b>NET CASH PROVIDED FROM (USED FOR) FINANCING ACTIVITIES</b>	<b>(4,662)</b>	<b>4,636</b>			<b>2,000</b>	<b>77,077</b>	<b>5,094</b>	<b>12,109</b>	<b>96,254</b>
<b>INCREASE (DECREASE) IN CASH AND TEMPORARY INVESTMENTS</b>	<b>20,918</b>	<b>(5,433)</b>	<b>11,734</b>	<b>12,813</b>	<b>(80,581)</b>	<b>(22,588)</b>	<b>2,399</b>	<b>10,842</b>	<b>(49,896)</b>
<b>CASH AND TEMPORARY INVESTMENTS, JULY 1, 1985</b>	<b>170,978</b>	<b>138,610</b>	<b>15,939</b>	<b>47,154</b>	<b>362,619</b>	<b>536,550</b>	<b>6,226</b>	<b>13,893</b>	<b>1,291,969</b>
<b>CASH AND TEMPORARY INVESTMENTS, JUNE 30, 1986</b>	<b>\$ 191,896</b>	<b>\$ 133,177</b>	<b>\$ 27,673</b>	<b>\$ 59,967</b>	<b>\$ 282,038</b>	<b>\$ 513,962</b>	<b>\$ 8,625</b>	<b>\$ 24,735</b>	<b>\$ 1,242,073</b>



**INTERNAL  
SERVICE  
FUNDS**

*THE NATION'S FIRST OIL WELL*

The drilling of the first successful oil well at Titusville in northwestern Pennsylvania by Edwin Z. Drake in August 1859 began a period during which Pennsylvania was the nation's leading oil producer. Although its output today is far exceeded by other regions of the country, the quality of Pennsylvania crude oil is still supreme, especially for lubricants.

## **INTERNAL SERVICE FUNDS DESCRIPTIONS**

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, and equipment by the Department of General Services for the use of other Commonwealth departments, boards and commissions.

**Manufacturing Fund** — to account for the manufacture and sale of goods by inmates in the institutions of the Department of Corrections.

**COMBINING BALANCE SHEET  
INTERNAL SERVICE FUNDS**

*June 30, 1986*

**COMMONWEALTH OF PENNSYLVANIA**

	(Expressed in Thousands)		
	Purchasing	Manufacturing	Total
<b>ASSETS</b>			
Cash .....	\$ 48	\$ 508	\$ 556
Temporary investments .....	5,134	1,189	6,323
Receivables, net:			
Accounts .....	21	.	21
Accrued interest .....	21	8	29
Other .....	.	33	33
Due from other funds .....	6,918	1,386	8,304
Due from other governments .....	1,168	36	1,204
Inventory .....	1,496	7,011	8,507
Fixed assets .....	.	8,524	8,524
Less: accumulated depreciation .....	.	(5,943)	(5,943)
Other assets .....	.	10	10
<b>TOTAL ASSETS</b> .....	<u>\$ 14,806</u>	<u>\$ 12,762</u>	<u>\$ 27,568</u>
<b>LIABILITIES AND FUND EQUITY</b>			
Liabilities:			
Accounts payable and accrued liabilities .....	\$ 4,143	\$ 1,630	\$ 5,773
Due to other funds .....	11,322	223	11,545
<b>TOTAL LIABILITIES</b> .....	<u>15,465</u>	<u>1,853</u>	<u>17,318</u>
Fund Equity:			
Contributed capital .....	964	.	964
Retained earnings:			
Unreserved (Deficit) .....	(1,623)	10,909	9,286
<b>TOTAL FUND EQUITY (DEFICIT)</b> .....	<u>(659)</u>	<u>10,909</u>	<u>10,250</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b> .....	<u>\$ 14,806</u>	<u>\$ 12,762</u>	<u>\$ 27,568</u>

**COMBINING STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN RETAINED EARNINGS  
INTERNAL SERVICE FUNDS**

*For the Fiscal Year Ended June 30, 1986*

**COMMONWEALTH OF PENNSYLVANIA**

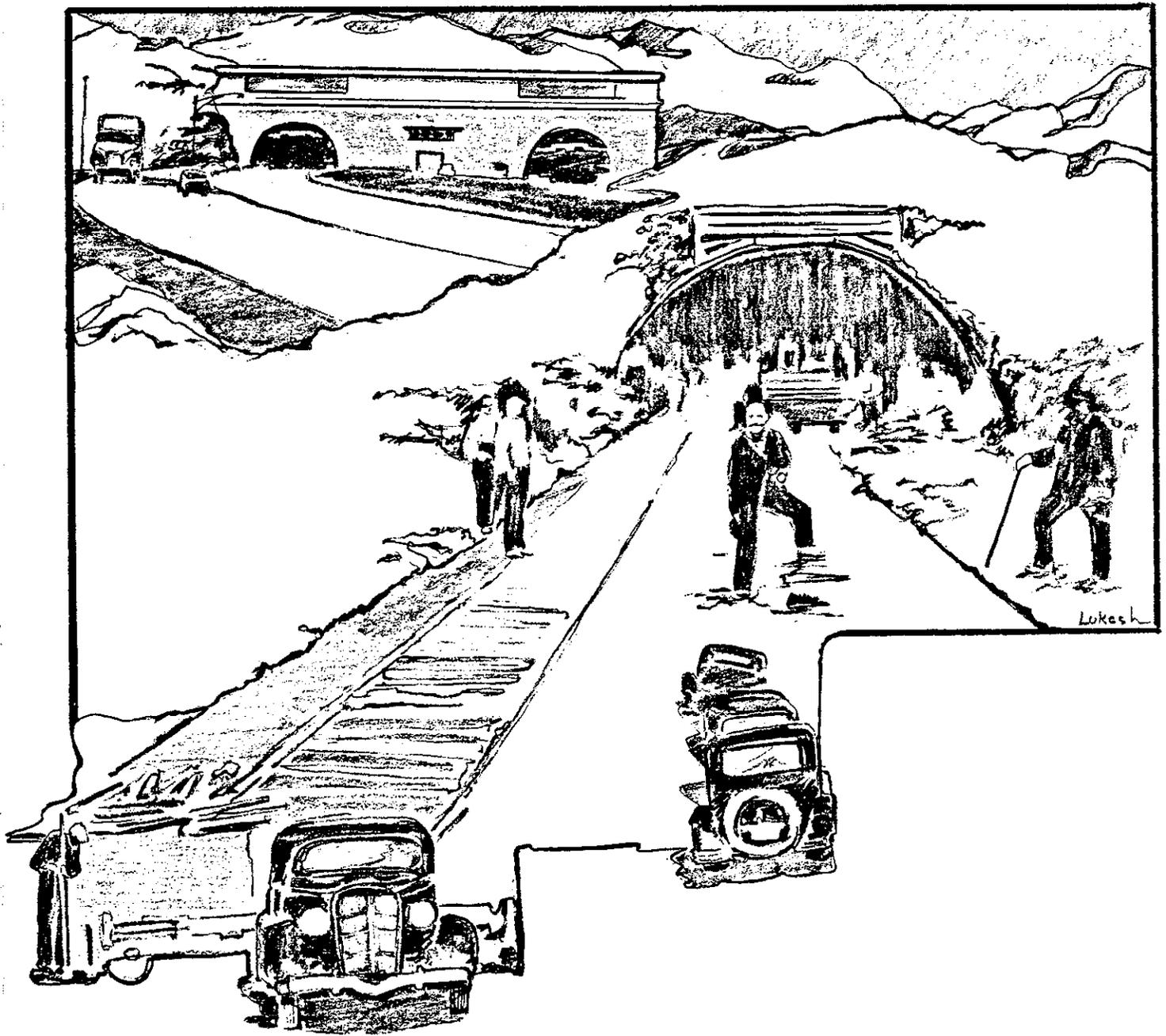
	(Expressed in Thousands)		
	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>			
Goods and services .....	\$ 32,060	\$ 16,012	\$ 48,072
Other .....	. . . .	9	9
<b>TOTAL OPERATING REVENUES .....</b>	<u>32,060</u>	<u>16,021</u>	<u>48,081</u>
<b>OPERATING EXPENSES:</b>			
Goods and services .....	33,062	14,796	47,858
Depreciation .....	. . . .	311	311
<b>TOTAL OPERATING EXPENSES .....</b>	<u>33,062</u>	<u>15,107</u>	<u>48,169</u>
<b>OPERATING INCOME (LOSS) .....</b>	<u>(1,002)</u>	<u>914</u>	<u>(88)</u>
<b>NONOPERATING REVENUES:</b>			
Investment income .....	<u>349</u>	<u>104</u>	<u>453</u>
<b>NET INCOME (LOSS) .....</b>	<u>(653)</u>	<u>1,018</u>	<u>365</u>
RETAINED EARNINGS (DEFICIT), JULY 1, 1985 ...	(970)	9,891	8,921
<b>RETAINED EARNINGS (DEFICIT), JUNE 30, 1986 ..</b>	<u>\$ (1,623)</u>	<u>\$ 10,909</u>	<u>\$ 9,286</u>

**COMBINING STATEMENT OF CHANGES IN FINANCIAL POSITION  
INTERNAL SERVICE FUNDS**

*For the Fiscal Year Ended June 30, 1986*

**COMMONWEALTH OF PENNSYLVANIA**

	(Expressed in Thousands)		
	Purchasing	Manufacturing	Total
<b>CASH PROVIDED (USED FOR) FROM OPERATIONS:</b>			
Net income (loss) .....	\$ (653)	\$ 1,018	\$ 365
Items not using cash:			
Depreciation .....	.....	311	311
	<u>(653)</u>	<u>1,329</u>	<u>676</u>
Increase in receivables .....	(10)	(41)	(51)
Decrease in due from other funds .....	4,608	515	5,123
Decrease in due from other governments .....	1,580	203	1,783
Decrease (increase) in inventory .....	212	(504)	(292)
Decrease in accounts payable and accrued liabilities .....	(1,615)	(132)	(1,747)
Increase (decrease) in due to other funds .....	(3,986)	30	(3,956)
Decrease in due to other governments .....	.....	(64)	(64)
Decrease in deferred revenue .....	.....	(8)	(8)
<b>TOTAL CASH PROVIDED FROM OPERATIONS</b>	<u>136</u>	<u>1,328</u>	<u>1,464</u>
<b>CASH PROVIDED FROM (USED FOR) INVESTMENT ACTIVITIES:</b>			
Decrease in other current assets .....	.....	23	23
Additions to fixed assets .....	.....	(617)	(617)
<b>NET CASH USED FOR INVESTMENT ACTIVITIES .....</b>	<u>.....</u>	<u>(594)</u>	<u>(594)</u>
<b>INCREASE IN CASH AND TEMPORARY INVESTMENTS .....</b>	<u>136</u>	<u>734</u>	<u>870</u>
<b>CASH AND TEMPORARY INVESTMENTS, JULY 1, 1985 .....</b>	<u>5,046</u>	<u>963</u>	<u>6,009</u>
<b>CASH AND TEMPORARY INVESTMENTS, JUNE 30, 1986 .....</b>	<u>\$ 5,182</u>	<u>\$ 1,697</u>	<u>\$ 6,879</u>



## TRUST AND AGENCY FUNDS

*FIRST MODERN SUPERHIGHWAY*

In 1940 Pennsylvania opened the first high-speed, multi-lane highway in the country, the Pennsylvania Turnpike, which set the pattern for modern superhighways throughout the nation. Initially connecting Harrisburg and Pittsburgh, the turnpike later was expanded from the western boundary of the state to the Delaware River.

Pennsylvania's tradition as a transportation center began early, leading the nation by 1832 with its more than 3,000 miles of improved roads. The Commonwealth's state-run highway system has grown to more than 43,000 miles of improved roads, one of the largest in the nation.

## **TRUST AND AGENCY FUNDS DESCRIPTIONS**

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 Expendable Trust Funds, Pension Trust Funds and Agency Funds.

### **EXPENDABLE TRUST FUNDS**

**Unemployment Compensation Fund** — to account for the receipt of employer and employe contributions under the unemployment compensation law, for the payment of unemployment compensation benefits to eligible individuals, to transfer and receive monies from the Federal Unemployment Trust Fund and to pay the interest due on the Federal Unemployment Compensation Title XII Advances.

**Workmen's Compensation Security Trust Fund** — to account for the payment of claims for compensation provided by the Workmen's Compensation Law to individuals who are insured by an insolvent stock insurance company and for the administrative costs to administer the program.

**Medical Professional Liability Catastrophe Loss Fund** — to account for annual surcharges levied on health care providers to make available professional liability insurance at a reasonable cost to health care providers and to establish a system through which injured parties can obtain a prompt determination and adjudication of their claims.

**Catastrophic Loss Trust Fund** — to account for the payment of medical and rehabilitative expenditures in excess of \$100,000 to residents of Pennsylvania injured in a motor vehicle accident.

**Other** — to account for financial assistance to public schools or State Universities for repairs or alterations to buildings needed to satisfy the standards of the Department of Labor and Industry and for reimbursement to aggrieved individuals upon judgements against any person licensed by the Real Estate Commission.

### **PENSION TRUST FUNDS**

**State Employes' Retirement System** — to account for the payment of retirement, disability and death benefits to members of the State Employes' Retirement System and their beneficiaries.

**Public School Employes' Retirement System** — to account for the payment of retirement, disability and death benefits to members of the Public School Employes' Retirement System and their beneficiaries.

## **TRUST AND AGENCY FUNDS DESCRIPTIONS**

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### **AGENCY FUNDS**

**Social Security Contribution Fund** — to hold the employers' and employees' social security deductions of Commonwealth and local governments or other instrumentality employes and to remit such collections to the Federal Government.

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

**Fire Insurance Tax Fund** — to collect a two-percent tax paid on premiums received from foreign (out-of-state) fire insurance companies conducting business in the Commonwealth and to distribute monies to local governments based on the amount of foreign fire insurance sold in their municipality. The municipalities must pay these monies to the relief, pension or retirement fund of their recognized firefighting organization.

**Municipal Pension Aid Fund** — to collect a portion of the revenues from the Foreign Casualty Insurance Premium Tax and the Foreign Fire Insurance Premium Tax for distribution to municipalities for their distribution to the various municipal, police and fire pension funds.

**Other** — to collect and administer funds from various sources for distribution to other governments and for the personal needs of patients and inmates at State institutions.

**COMBINING BALANCE SHEET  
TRUST AND AGENCY FUNDS**

*June 30, 1986*

**COMMONWEALTH OF PENNSYLVANIA**

	(Expressed in Thousands)			
	Expendable Trust Funds	Pension Trust Funds	Agency Funds	Total
<b>ASSETS</b>				
Cash .....	\$ 754	\$ 87	\$ 6,364	\$ 7,205
Cash with fiscal agents .....	28,393	.....	.....	28,393
Temporary investments .....	292,679	2,124,003	173,742	2,590,424
Long-term investments .....	179,923	12,780,849	18,149	12,978,921
Receivables, net:				
Taxes .....	359,599	.....	2,261	361,860
Accounts .....	4,298	.....	3,227	7,525
Accrued interest .....	7,607	200,515	1,441	209,563
Pension contributions .....	.....	176,362	.....	176,362
Other .....	.....	152,173	.....	152,173
Due from other funds .....	2,060	218,025	32,294	252,379
Due from other governments .....	8,079	15,783	24,918	48,780
Fixed assets .....	.....	2,888	.....	2,888
Less: accumulated depreciation .....	.....	(1,086)	.....	(1,086)
Other assets .....	.....	.....	1,470	1,470
<b>TOTAL ASSETS</b> .....	<u>\$ 883,392</u>	<u>\$15,669,599</u>	<u>\$ 263,866</u>	<u>\$16,816,857</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and accrued liabilities .....	\$ 71,972	\$ 12,414	\$ 1,114	\$ 85,500
Unsettled investment purchases .....	.....	145,934	.....	145,934
Due to other funds .....	65	5,513	193	5,771
Due to other governments .....	2,180	.....	198,632	200,812
Other liabilities .....	.....	.....	63,927	63,927
Federal advances for unemployment compensation benefits .....	905,332	.....	.....	905,332
<b>TOTAL LIABILITIES</b> .....	<u>979,549</u>	<u>163,861</u>	<u>263,866</u>	<u>1,407,276</u>
Fund Balance:				
Reserved for:				
Encumbrances .....	799	.....	.....	799
Pension benefits .....	.....	15,505,738	.....	15,505,738
Unreserved:				
Undesignated (Deficit) .....	(96,956)	.....	.....	(96,956)
<b>TOTAL FUND BALANCES (DEFICIT)</b> .....	<u>(96,157)</u>	<u>15,505,738</u>	<u>.....</u>	<u>15,409,581</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b> ...	<u>\$ 883,392</u>	<u>\$15,669,599</u>	<u>\$ 263,866</u>	<u>\$16,816,857</u>

**COMBINING BALANCE SHEET  
EXPENDABLE TRUST FUNDS**

*June 30, 1986*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Unemployment Compensation	Workmen's Compensation Security Trust	Medical Professional Liability Catastrophe Loss	Catastrophic Loss Trust	Other	Total
<b>ASSETS</b>						
Cash .....	\$ . . . .	\$ 106	\$ 40	\$ 503	\$ 105	\$ 754
Cash with fiscal agents .....	28,393	. . . .	. . . .	. . . .	. . . .	28,393
Temporary investments .....	136,435	17,299	78,872	58,320	1,753	292,679
Long-term investments .....	. . . .	179,344	. . . .	. . . .	579	179,923
Receivables, net:						
Taxes .....	359,599	. . . .	. . . .	. . . .	. . . .	359,599
Accounts .....	. . . .	. . . .	786	3,512	. . . .	4,298
Accrued interest .....	475	5,525	1,134	467	6	7,607
Due from other funds .....	2,059	. . . .	. . . .	. . . .	1	2,060
Due from other governments .....	8,079	. . . .	. . . .	. . . .	. . . .	8,079
<b>TOTAL ASSETS</b> .....	<u>\$ 535,040</u>	<u>\$ 202,274</u>	<u>\$ 80,832</u>	<u>\$ 62,802</u>	<u>\$ 2,444</u>	<u>\$ 883,392</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable and accrued liabilities .....	\$ 46,102	\$ 1,609	\$ 625	\$ 23,619	\$ 17	\$ 71,972
Due to other funds .....	6	. . . .	54	5	. . . .	65
Due to other governments .....	2,180	. . . .	. . . .	. . . .	. . . .	2,180
Federal advances for unemployment compensation benefits .....	905,332	. . . .	. . . .	. . . .	. . . .	905,332
<b>TOTAL LIABILITIES</b> .....	<u>953,620</u>	<u>1,609</u>	<u>679</u>	<u>23,624</u>	<u>17</u>	<u>979,549</u>
Fund Balance:						
Reserved for:						
Encumbrances .....	. . . .	. . . .	. . . .	789	10	799
Unreserved:						
Undesignated (Deficit) .....	(418,580)	200,665	80,153	38,389	2,417	(96,956)
<b>TOTAL FUND BALANCES (DEFICIT)</b> .....	<u>(418,580)</u>	<u>200,665</u>	<u>80,153</u>	<u>39,178</u>	<u>2,427</u>	<u>(96,157)</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b> ...	<u>\$ 535,040</u>	<u>\$ 202,274</u>	<u>\$ 80,832</u>	<u>\$ 62,802</u>	<u>\$ 2,444</u>	<u>\$ 883,392</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
EXPENDABLE TRUST FUNDS**

*For the Fiscal Year Ended June 30, 1986*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Unemployment Compensation	Workmen's Compensation Security Trust	Medical Professional Liability Catastrophe Loss	Catastrophic Loss Trust	Other	Total
<b>REVENUES:</b>						
Taxes, penalties and interest .....	\$ 495	\$ . . . .	\$ . . . .	\$ . . . .	\$ 90	\$ 585
Unemployment taxes .....	1,889,831	. . . .	. . . .	. . . .	. . . .	1,889,831
Charges for goods and services .....	. . . .	. . . .	123,335	36,364	. . . .	159,699
Investment income .....	7,428	20,914	4,936	3,184	172	36,634
Other .....	483	. . . .	334	. . . .	. . . .	817
<b>TOTAL REVENUES</b> .....	<u>1,898,237</u>	<u>20,914</u>	<u>128,605</u>	<u>39,548</u>	<u>262</u>	<u>2,087,566</u>
<b>EXPENDITURES:</b>						
Current:						
General government .....	. . . .	1,764	2,822	5,665	100	10,351
Protection of persons and property .....	. . . .	1,469	97,710	27,008	50	126,237
Public health and welfare .....	1,219,256	. . . .	. . . .	. . . .	. . . .	1,219,256
<b>TOTAL EXPENDITURES</b> .....	<u>1,219,256</u>	<u>3,233</u>	<u>100,532</u>	<u>32,673</u>	<u>150</u>	<u>1,355,844</u>
<b>REVENUES OVER EXPENDITURES</b> .....	<u>678,981</u>	<u>17,681</u>	<u>28,073</u>	<u>6,875</u>	<u>112</u>	<u>731,722</u>
<b>OTHER FINANCING SOURCES:</b>						
Operating transfers in .....	. . . .	. . . .	. . . .	. . . .	3	3
<b>NET OTHER FINANCING SOURCES</b> .....	. . . .	. . . .	. . . .	. . . .	3	3
<b>REVENUES AND OTHER SOURCES OVER EXPENDITURES</b> .....	<u>678,981</u>	<u>17,681</u>	<u>28,073</u>	<u>6,875</u>	<u>115</u>	<u>731,725</u>
<b>FUND BALANCES (DEFICIT), JULY 1, 1985</b> .....	<u>(1,097,561)</u>	<u>182,984</u>	<u>52,080</u>	<u>32,303</u>	<u>2,312</u>	<u>(827,882)</u>
<b>FUND BALANCES (DEFICIT) JUNE 30, 1986</b> .....	<u>\$ (418,580)</u>	<u>\$ 200,665</u>	<u>\$ 80,153</u>	<u>\$ 39,178</u>	<u>\$ 2,427</u>	<u>\$ (96,157)</u>

**COMBINING BALANCE SHEET  
PENSION TRUST FUNDS**

*June 30, 1986*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	State Employees' Retirement System (December 31, 1985)	Public School Employees' Retirement System	Total
<b>ASSETS</b>			
Cash .....	\$ 12	\$ 75	\$ 87
Temporary investments .....	776,222	1,347,781	2,124,003
Long-term investments .....	5,188,936	7,591,913	12,780,849
Receivables, net:			
Accrued interest .....	62,615	137,900	200,515
Pension contributions .....	. . . .	176,362	176,362
Other .....	4,890	147,283	152,173
Due from other funds .....	113,030	104,995	218,025
Due from other governments .....	15,764	19	15,783
Fixed assets .....	51	2,837	2,888
Less: accumulated depreciation .....	(5)	(1,081)	(1,086)
<b>TOTAL ASSETS</b> .....	<u>\$ 6,161,515</u>	<u>\$ 9,508,084</u>	<u>\$15,669,599</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and accrued liabilities .....	\$ 3,373	\$ 9,041	\$ 12,414
Unsettled investment purchases .....	. . . .	145,934	145,934
Due to other funds .....	1,054	4,459	5,513
<b>TOTAL LIABILITIES</b> .....	<u>4,427</u>	<u>159,434</u>	<u>163,861</u>
Fund Balance:			
Reserved for:			
Pension benefits .....	6,157,088	9,348,650	15,505,738
<b>TOTAL FUND BALANCES</b> .....	<u>6,157,088</u>	<u>9,348,650</u>	<u>15,505,738</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 6,161,515</u>	<u>\$ 9,508,084</u>	<u>\$15,669,599</u>

**COMBINING STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND BALANCES  
PENSION TRUST FUNDS**

*For the Fiscal Year Ended June 30, 1986*

**COMMONWEALTH OF PENNSYLVANIA**

	(Expressed in Thousands)		
	State Employees' Retirement System (December 31, 1985)	Public School Employees' Retirement System	Total
<b>OPERATING REVENUES:</b>			
Investment income .....	\$ 1,105,778	\$ 1,119,487	\$ 2,225,265
Pension contributions .....	584,671	1,060,766	1,645,437
<b>TOTAL OPERATING REVENUES .....</b>	<u>1,690,449</u>	<u>2,180,253</u>	<u>3,870,702</u>
<b>OPERATING EXPENSES:</b>			
Goods and services .....	5,421	8,170	13,591
Depreciation .....	5	336	341
Benefit payments and refunds .....	456,878	697,220	1,154,098
<b>TOTAL OPERATING EXPENSES .....</b>	<u>462,304</u>	<u>705,726</u>	<u>1,168,030</u>
<b>OPERATING INCOME .....</b>	<u>1,228,145</u>	<u>1,474,527</u>	<u>2,702,672</u>
<b>OPERATING TRANSFERS:</b>			
Operating transfers in .....	8,459	1,458	9,917
Operating transfers out .....	(1,358)	(10,321)	(11,679)
<b>TOTAL OPERATING TRANSFERS .....</b>	<u>7,101</u>	<u>(8,863)</u>	<u>(1,762)</u>
<b>NET INCOME .....</b>	<u>1,235,246</u>	<u>1,465,664</u>	<u>2,700,910</u>
<b>FUND BALANCES, JULY 1, 1985 .....</b>	4,921,842	7,882,986	12,804,828
<b>FUND BALANCES, JUNE 30, 1986 .....</b>	<u>\$ 6,157,088</u>	<u>\$ 9,348,650</u>	<u>\$15,505,738</u>

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUNDS**

*For the Fiscal Year Ended June 30, 1986*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Balance July 1, 1985	Additions	Deductions	Balance June 30, 1986
<b>SOCIAL SECURITY CONTRIBUTION FUND</b>				
<b>ASSETS</b>				
Cash .....	\$ 1,824	\$3,314,942	\$3,315,686	\$ 1,080
Temporary investments .....	48,825	1,971,007	1,999,882	19,950
Receivables, net:				
Accounts .....	3,839	1,160,612	1,161,912	2,539
Accrued interest .....	77	3,962	4,035	4
Due from other funds .....	49,018	149,113	166,153	31,978
Due from other governments .....	2	24,918	2	24,918
<b>TOTAL ASSETS .....</b>	<b>\$ 103,585</b>	<b>\$6,624,554</b>	<b>\$6,647,670</b>	<b>\$ 80,469</b>
<b>LIABILITIES</b>				
Due to other funds .....	\$ 3,000	\$ 25	\$ 3,021	\$ 4
Due to other governments .....	100,585	1,323,813	1,343,933	80,465
<b>TOTAL LIABILITIES .....</b>	<b>\$ 103,585</b>	<b>\$1,323,838</b>	<b>\$1,346,954</b>	<b>\$ 80,469</b>
 <b>STATUTORY LIQUIDATOR FUND</b>				
<b>ASSETS</b>				
Cash .....	\$ 3	\$ 2,743	\$ 2,738	\$ 8
Temporary investments .....	25,427	109,839	108,624	26,642
Long-term investments .....	14,976	16,213	13,389	17,800
Receivables, net:				
Accounts .....	1,234	. . . .	958	276
Accrued interest .....	1,071	976	1,071	976
Other assets .....	678	54	499	233
<b>TOTAL ASSETS .....</b>	<b>\$ 43,389</b>	<b>\$ 129,825</b>	<b>\$ 127,279</b>	<b>\$ 45,935</b>
<b>LIABILITIES</b>				
Other liabilities .....	\$ 43,389	\$ 5,242	\$ 2,696	\$ 45,935
<b>TOTAL LIABILITIES .....</b>	<b>\$ 43,389</b>	<b>\$ 5,242</b>	<b>\$ 2,696</b>	<b>\$ 45,935</b>

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUNDS — (continued)**

*For the Fiscal Year Ended June 30, 1986*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Balance July 1, 1985	Additions	Deductions	Balance June 30, 1986
<b>FIRE INSURANCE TAX FUND</b>				
<b>ASSETS</b>				
Cash .....	\$ 8	\$ 200,227	\$ 200,214	\$ 21
Temporary investments .....	24,835	175,448	167,479	32,804
Receivables, net:				
Accrued interest .....	323	198	364	157
<b>TOTAL ASSETS</b> .....	<u>\$ 25,166</u>	<u>\$ 375,873</u>	<u>\$ 368,057</u>	<u>\$ 32,982</u>
<b>LIABILITIES</b>				
Due to other funds .....	\$ 323	\$ 198	\$ 364	\$ 157
Due to other governments .....	24,843	32,747	24,765	32,825
<b>TOTAL LIABILITIES</b> .....	<u>\$ 25,166</u>	<u>\$ 32,945</u>	<u>\$ 25,129</u>	<u>\$ 32,982</u>
 <b>MUNICIPAL PENSION AID FUND</b>				
<b>ASSETS</b>				
Cash .....	\$ . . . .	\$ 12	\$ . . . .	\$ 12
Temporary investments .....	. . . .	75,949	. . . .	75,949
Receivables, net:				
Accrued interest .....	. . . .	287	. . . .	287
Due from other funds .....	. . . .	316	. . . .	316
<b>TOTAL ASSETS</b> .....	<u>\$ . . . .</u>	<u>\$ 76,564</u>	<u>\$ . . . .</u>	<u>\$ 76,564</u>
<b>LIABILITIES</b>				
Due to other governments .....	\$ . . . .	\$ 76,564	\$ . . . .	\$ 76,564
<b>TOTAL LIABILITIES</b> .....	<u>\$ . . . .</u>	<u>\$ 76,564</u>	<u>\$ . . . .</u>	<u>\$ 76,564</u>

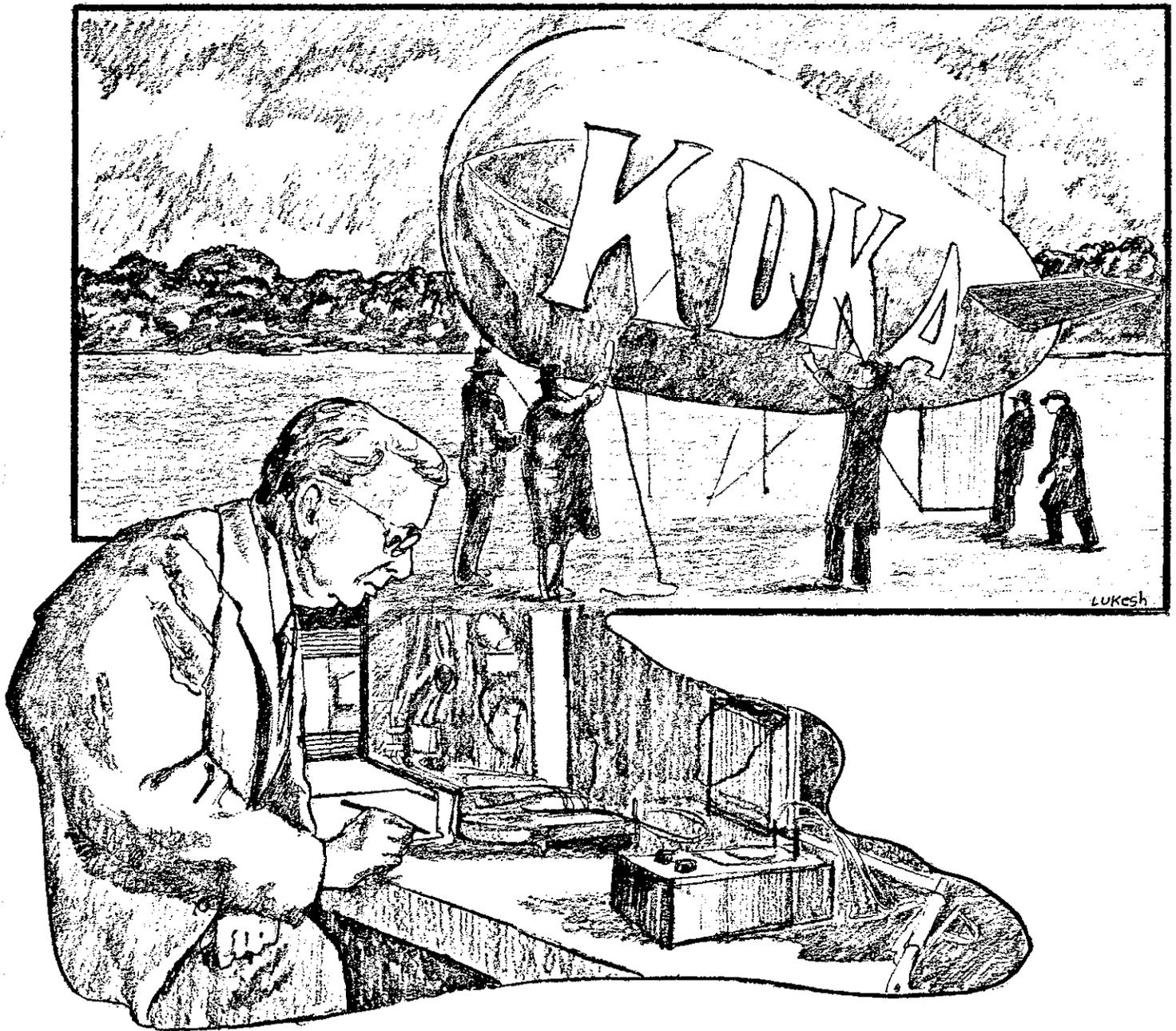
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUNDS — (continued)**

*For the Fiscal Year Ended June 30, 1986*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Balance July 1, 1985	Additions	Deductions	Balance June 30, 1986
<b>OTHER FUNDS</b>				
<b>ASSETS</b>				
Cash .....	\$ 375	\$ 184,846	\$ 179,978	\$ 5,243
Temporary investments .....	3,670	163,843	149,116	18,397
Long-term investments .....	.....	349	.....	349
Receivables, net:				
Taxes .....	.....	2,261	.....	2,261
Accounts .....	3,722	412	3,722	412
Accrued interest .....	29	142	154	17
Other assets .....	.....	1,237	.....	1,237
<b>TOTAL ASSETS</b> .....	<u>\$ 7,796</u>	<u>\$ 353,090</u>	<u>\$ 332,970</u>	<u>\$ 27,916</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities ...	\$ .....	\$ 1,114	\$ .....	\$ 1,114
Due to other funds .....	164	1,325	1,457	32
Due to other governments .....	7,632	29,472	28,326	8,778
Other liabilities .....	.....	17,992	.....	17,992
<b>TOTAL LIABILITIES</b> .....	<u>\$ 7,796</u>	<u>\$ 49,903</u>	<u>\$ 29,783</u>	<u>\$ 27,916</u>
<b>TOTAL — ALL FUNDS</b>				
<b>ASSETS</b>				
Cash .....	\$ 2,210	\$3,702,770	\$3,698,616	\$ 6,364
Temporary investments .....	102,757	2,496,086	2,425,101	173,742
Long-term investments .....	14,976	16,562	13,389	18,149
Receivables, net:				
Taxes .....	.....	2,261	.....	2,261
Accounts .....	8,795	1,161,024	1,166,592	3,227
Accrued interest .....	1,500	5,565	5,624	1,441
Due from other funds .....	49,018	149,429	166,153	32,294
Due from other governments .....	2	24,918	2	24,918
Other assets .....	678	1,291	499	1,470
<b>TOTAL ASSETS</b> .....	<u>\$ 179,936</u>	<u>\$7,559,906</u>	<u>\$7,475,976</u>	<u>\$ 263,866</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities ...	\$ .....	\$ 1,114	\$ .....	\$ 1,114
Due to other funds .....	3,487	1,548	4,842	193
Due to other governments .....	133,060	1,462,596	1,397,024	198,632
Other liabilities .....	43,389	23,234	2,696	63,927
<b>TOTAL LIABILITIES</b> .....	<u>\$ 179,936</u>	<u>\$1,488,492</u>	<u>\$1,404,562</u>	<u>\$ 263,866</u>



**GENERAL FIXED  
ASSETS ACCOUNT  
GROUP**

*FIRST RADIO STATION*

KDKA, Pittsburgh, became the world's first radio station to broadcast commercially on November 2, 1920, when it carried the Harding-Cox Presidential election.

In more recent years Pennsylvania established an early leadership in the noncommercial public broadcasting area. In April 1954, when WQED, Pittsburgh, went on the air it was the first public television station in Pennsylvania and the first community owned station in the country. This station continues to produce considerable noncommercial programming for national consumption.

## GENERAL FIXED ASSETS ACCOUNT GROUP DESCRIPTION

The General Fixed Assets Account Group is maintained to account for fixed assets acquired or constructed for general government purposes. These include all fixed assets except those accounted for in Proprietary and Fiduciary Fund Types and College and University Funds.

### SCHEDULE OF GENERAL FIXED ASSETS BY SOURCE

*June 30, 1986*

#### COMMONWEALTH OF PENNSYLVANIA

GENERAL FIXED ASSETS	(Expressed in Thousands)
Land .....	\$ 193,097
Buildings .....	1,638,353
Improvements other than buildings .....	78,307
Furniture, machinery and equipment .....	354,366
Construction in progress .....	298,912
TOTAL GENERAL FIXED ASSETS ...	<u>\$2,563,035</u>
INVESTMENT IN GENERAL FIXED ASSETS	
Acquired on or before June 30, 1986 .....	<u>\$2,563,035</u>

Sources of General Fixed Assets acquired on or before June 30, 1986 are not available.

**SCHEDULE OF GENERAL FIXED ASSETS BY FUNCTION**

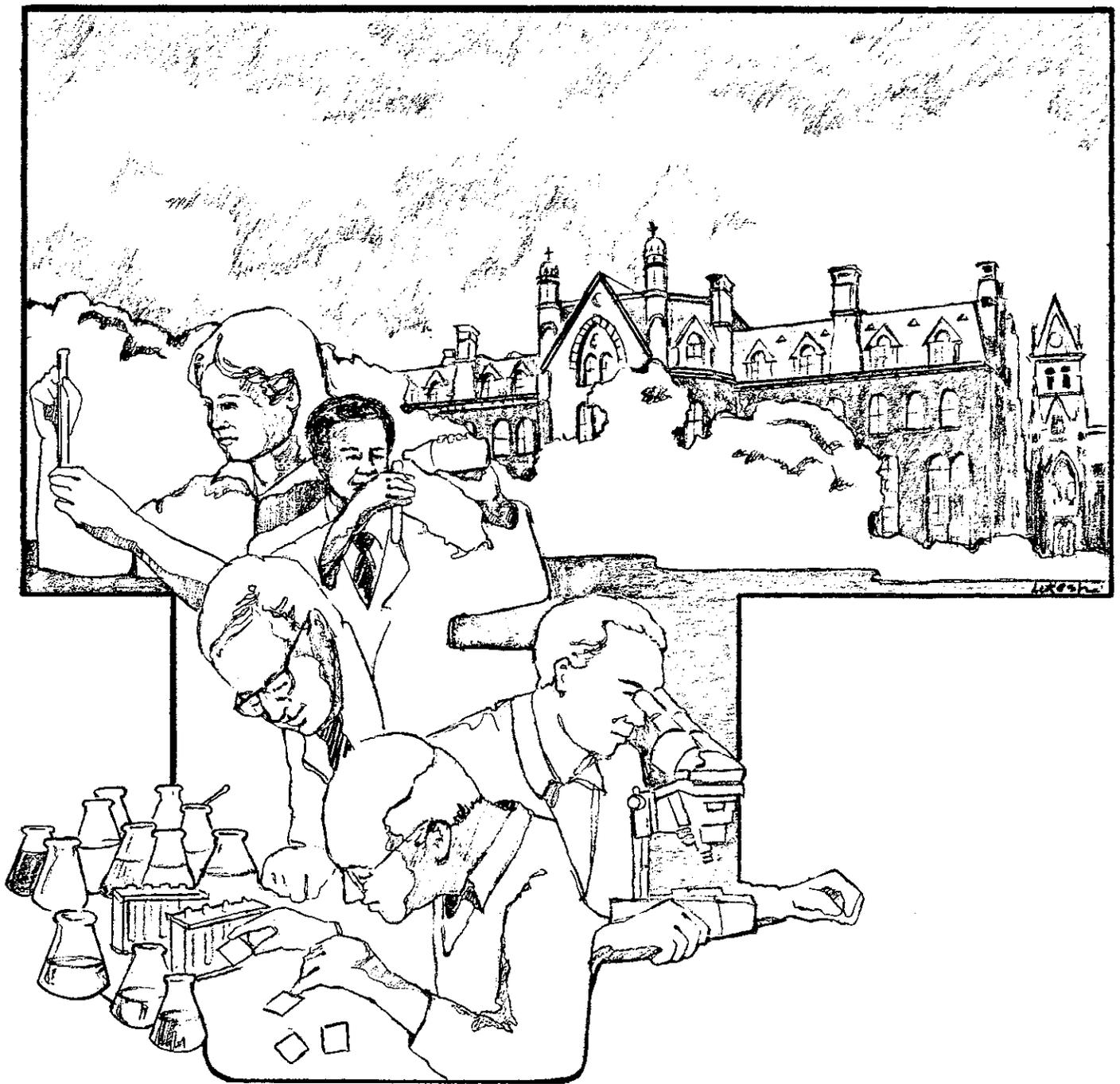
*June 30, 1986*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

Function	Land	Buildings	Improvements Other than Buildings	Furniture, Machinery and Equipment	Total
General government .....	\$ 6,182	\$ 264,644	\$ 474	\$ 36,069	\$ 307,369
Protection of persons and property ....	6,436	194,144	10,014	37,659	248,253
Public health and welfare .....	3,197	573,575	16,443	75,939	669,154
Public education .....	17,453	537,026	37,187	6,379	598,045
Conservation of natural resources .....	157,154	37,542	10,280	14,070	219,046
Economic development and assistance ..	.....	.....	.....	116	116
Transportation .....	2,675	31,422	3,909	184,134	222,140
<b>TOTALS ALLOCATED TO FUNCTIONS .....</b>	<b>\$ 193,097</b>	<b>\$1,638,353</b>	<b>\$ 78,307</b>	<b>\$ 354,366</b>	<b>\$2,264,123</b>
Construction in progress .....					298,912
<b>TOTAL GENERAL FIXED ASSETS ..</b>					<b>\$2,563,035</b>

Changes in General Fixed Assets by function are not available for the fiscal year ended June 30, 1986.



**COLLEGE AND  
UNIVERSITY FUNDS**

*FIRST MEDICAL COLLEGE*

The first medical college in North America was inaugurated in 1765 as the medical department of the College of Philadelphia, graduating its first class in 1768. It later became the School of Medicine of the University of Pennsylvania.

Philadelphia was an early medical center. In addition to having the first medical college, it had the first continuing hospital in America, the Pennsylvania Hospital, which was chartered in 1751. Pennsylvania Hospital also was the first hospital to start free outpatient treatments for the poor in 1752.

Philadelphia later became the site of the first college for training female physicians when the Female Medical College of Pennsylvania was incorporated in 1850. It was renamed the Women's Medical College in 1865 and later began using the name Medical College of Pennsylvania.

Philadelphia continues as a major medical center. It has six medical schools, more than any city in the country.

## **COLLEGE AND UNIVERSITY FUNDS DESCRIPTION**

The College and University Funds, which comprise the State System of Higher Education, are used to account for the transactions relating to the Office of the Chancellor and the state-owned universities of the Commonwealth.

The state-owned universities of the Commonwealth are as follows:

Bloomsburg University  
California University  
Cheyney University  
Clarion University  
East Stroudsburg University  
Edinboro University  
Indiana University of Pennsylvania  
Kutztown University  
Lock Haven University  
Mansfield University  
Millersville University  
Shippensburg University  
Slippery Rock University  
West Chester University

**COMBINING BALANCE SHEET**  
**College and University Funds**

June 30, 1986

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds				Agency	Totals	
	Unrestricted	Restricted			Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant			Totals
<b>ASSETS</b>											
Cash	\$ 3,976	\$	\$	\$	\$ 490	\$	\$ 33	\$	\$	\$ 4,499	
Temporary investments	92,885				35,799					128,684	
Long-term investments	13	288	485	2,336	3,787		8,549		25	15,483	
Receivables, net:											
Accounts	3,447	3,136				529			103	7,215	
Accrued interest				11	848					859	
Notes and loans			15,718							15,718	
Other	1,359									1,359	
Due from other funds		3,338	2,001	817	13,283	10,615			1,829	31,883	
Inventory	3,778				7,652					3,778	
Fixed assets					417					209,718	
Other assets	7,368					221				8,006	
<b>TOTAL ASSETS</b>	<b>\$ 112,826</b>	<b>\$ 6,762</b>	<b>\$ 18,204</b>	<b>\$ 3,164</b>	<b>\$ 62,276</b>	<b>\$ 11,365</b>	<b>\$ 8,582</b>	<b>\$ 202,066</b>	<b>\$ 1,957</b>	<b>\$ 427,202</b>	

**LIABILITIES AND FUND EQUITY**

<b>Liabilities:</b>										
Accounts payable and accrued liabilities	\$ 27,706	\$ 1,009	\$	\$	\$ 1,301	\$ 531	\$	\$ 5,163	\$ 35	\$ 35,745
Due to other funds	32,343						8,582			40,925
Deferred revenues	16,797									16,797
Notes payable								5,680		5,680
Other liabilities	13,216	601	4		154			86	1,922	15,983
Capital lease obligations					54,460			2,530		56,990
<b>TOTAL LIABILITIES</b>	<b>90,062</b>	<b>1,610</b>	<b>4</b>		<b>55,915</b>	<b>531</b>	<b>8,582</b>	<b>13,459</b>	<b>1,957</b>	<b>172,120</b>
<b>Fund Equity:</b>										
Investment in fixed assets								188,607		188,607
Fund Balance:										
Reserved for:										
Encumbrances	7,858	377								8,235
Notes and loans			18,200							18,200
Endowment and similar funds	2,546			3,164						5,710
Restricted fund balance		4,775			5,025	8,301				18,101
Other	975									975
Unreserved:										
Undesignated	11,385				1,336	2,533				15,254
<b>TOTAL FUND EQUITY</b>	<b>22,764</b>	<b>5,152</b>	<b>18,200</b>	<b>3,164</b>	<b>6,361</b>	<b>10,834</b>		<b>188,607</b>		<b>255,082</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 112,826</b>	<b>\$ 6,762</b>	<b>\$ 18,204</b>	<b>\$ 3,164</b>	<b>\$ 62,276</b>	<b>\$ 11,365</b>	<b>\$ 8,582</b>	<b>\$ 202,066</b>	<b>\$ 1,957</b>	<b>\$ 427,202</b>

**STATISTICAL  
SECTION**

**TABLE 1**  
**REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION**  
**ALL GOVERNMENTAL FUND TYPES<sup>(1)</sup>**  
**For the Last Ten Fiscal Years Ended June 30<sup>(2)</sup>**

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
(Expressed in Thousands)										
<b>REVENUES BY SOURCE</b>										
Taxes, penalties and interest.....	\$ 5,184,494	\$ 5,818,646	\$ 6,321,208	\$ 6,780,404	\$ 7,084,529	\$ 7,584,306	\$ 7,854,895	\$ 9,122,306	\$ 9,551,576	\$ 9,970,214
Licenses and fees.....	348,942	376,071	388,316	391,929	436,152	507,829	477,592	504,439	524,927	540,234
Intergovernmental.....	1,687,259	1,820,587	1,971,400	2,121,994	2,370,695	2,739,962	2,895,041	3,071,788	3,490,865	3,745,396
Charges for goods and services.....	639,524	564,953	426,245	493,535	535,380	486,248	597,431	343,062	480,759	530,519
Investment income.....	44,934	59,346	84,668	146,873	139,928	139,723	99,689	134,141	203,872	195,207
Lottery receipts, net of prizes.....	68,095	124,892	155,612	173,330	188,509	240,727	394,697	540,017	593,115	557,481
Other.....	163,614	184,958	251,544	229,729	299,741	124,218	135,678	129,727	122,191	231,346
<b>TOTAL REVENUES.....</b>	<b>\$ 8,136,862</b>	<b>\$ 8,949,453</b>	<b>\$ 9,598,993</b>	<b>\$ 10,337,794</b>	<b>\$ 11,054,934</b>	<b>\$ 11,823,013</b>	<b>\$ 12,455,023</b>	<b>\$ 13,845,480</b>	<b>\$ 14,967,305</b>	<b>\$ 15,770,397</b>
<b>EXPENDITURES BY FUNCTION</b>										
General government.....	\$ 614,108	\$ 649,796	\$ 711,389	\$ 963,915	\$ 858,193	\$ 692,970	\$ 798,991	\$ 906,842	\$ 829,609	\$ 803,909
Protection of persons and property.....	468,574	520,015	616,507	659,468	680,383	499,306	627,369	693,043	778,897	911,957
Public health and welfare.....	2,959,140	3,258,944	3,570,060	3,953,183	4,248,058	4,954,202	5,228,634	5,295,688	5,686,873	6,231,705
Public education.....	2,695,790	2,879,486	2,990,594	3,067,323	3,357,128	3,456,007	3,632,541	3,720,818	4,063,157	4,122,935
Conservation of natural resources.....	125,755	121,891	134,623	139,899	143,215	164,196	179,201	179,604	257,112	299,010
Economic development and assistance.....	78,844	61,537	74,565	70,565	98,099	94,021	113,304	164,791	158,107	187,614
Transportation.....	1,160,851	1,039,578	895,423	908,364	1,263,048	1,427,393	1,501,886	1,474,704	1,843,703	2,053,335
Capital outlay.....	327,105	180,791	137,717	78,595	104,102	173,074	175,401	157,946	345,881	463,671
Debt Service.....	285,379	314,595	.....	.....	.....	.....	.....	.....	.....	.....
Principal retirement <sup>(3)</sup> .....	.....	.....	106,510	115,505	123,745	317,397	490,096	386,310	759,471	1,186,619
Interest and fiscal charges <sup>(3)</sup> .....	.....	.....	227,228	245,862	244,209	350,224	178,987	346,924	358,358	407,066
<b>TOTAL EXPENDITURES.....</b>	<b>\$ 8,715,546</b>	<b>\$ 9,026,633</b>	<b>\$ 9,464,616</b>	<b>\$ 10,202,679</b>	<b>\$ 11,120,180</b>	<b>\$ 12,128,790</b>	<b>\$ 12,926,410</b>	<b>\$ 13,326,670</b>	<b>\$ 15,081,168</b>	<b>\$ 16,667,821</b>

(1) Includes General, Special Revenue, Debt Service and Capital Projects Funds  
(2)(a) 1977 - 1981 data is on non-GAAP budgetary basis  
(b) 1982 - 1986 data is on GAAP basis  
(3) Breakdown of principal, interest and fiscal charges not available for 1977 - 1978

**NET BONDED DEBT PER CAPITA**

TABLE 2

*For the Last Ten Fiscal Years***COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands Except Per Capita Debt)

<b>For The Fiscal Year Ended June 30</b>	<b>Net Bonded Debt</b>	<b>Population</b>	<b>Per Capita Debt</b>
1976	\$4,475,825	11,887	\$377
1977	4,667,600	11,882	393
1978	4,808,295	11,865	405
1979	4,721,474	11,874	398
1980	4,623,848	11,864	390
1981	4,578,163	11,878	385
1982	4,450,236	11,879	374
1983	4,487,011	11,889	377
1984	4,483,573	11,901	378
1985	4,535,008	11,853	382

SOURCE: Population Information — "Pennsylvania Abstract" prepared by the Pennsylvania Department of Commerce from reports of the U.S. Bureau of Census

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

TABLE 3

*For the Last Ten Fiscal Years*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands Except Percentage)

<b>For The Fiscal Year Ended June 30</b>	<b>Debt Service Requirements Funded by General Fund</b>	<b>Budgetary Basis General Fund Expenditures</b>	<b>%</b>
1977	\$208,929	\$ 6,371,451	3.28
1978	213,001	6,950,186	3.07
1979	243,483	7,439,007	3.27
1980	264,145	8,005,039	3.30
1981	275,056	8,595,628	3.20
1982	303,713	9,361,800	3.24
1983	301,727	10,038,371	3.00
1984	341,413	10,436,777	3.27
1985	359,200	11,223,622	3.20
1986	350,195	11,781,951	2.97

**COMPUTATION OF LEGAL DEBT MARGIN**

TABLE 4

*August 29, 1986*

**COMMONWEALTH OF PENNSYLVANIA**

Average annual tax revenues deposited in the previous five fiscal years .....	\$10,569,445,463
Constitutional factor .....	x 1.75
<hr/>	
Constitutional debt limit for debt incurred without the approval of the electors .....	18,496,529,560
Less outstanding net debt (non electorate approved) ....	3,735,720,278
<hr/>	
Legal debt margin .....	<u>\$14,760,809,282</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 approved 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 29, 1986 contained in the Official Statement for \$105,000,000 Commonwealth of Pennsylvania General Obligation Bonds issued October 15, 1986.

**SCHEDULE OF REVENUE BOND COVERAGE**

**TABLE 5**

*For the Last Ten Fiscal Years*

**COMMONWEALTH OF PENNSYLVANIA**

**Pennsylvania Industrial Development Authority**

(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	
1977	\$ 9,062	\$ 410	\$ 8,652	\$ 2,000	\$ 3,836	\$ 5,836	1.48
1978	7,717	564	7,153	3,750	4,679	8,429	.85
1979	10,057	666	9,391	4,500	5,448	9,948	.94
1980	13,981	515	13,466	5,500	5,464	10,964	1.23
1981	15,872	884	14,988	5,755	5,119	10,874	1.38
1982	16,064	1,009	15,055	5,800	4,756	10,556	1.43
1983	19,058	1,211	17,847	5,655	8,933	14,588	1.22
1984	21,775	1,662	20,113	5,630	9,537	15,167	1.33
1985	24,658	1,783	22,875	6,735	13,167	19,902	1.15
1986	23,320	1,897	21,423	7,910	13,359	21,269	1.01

**Pennsylvania Turnpike Commission**

(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	
1977	\$ 84,104	\$ 42,164	\$ 41,940	\$ 12,969	\$ 4,015	\$ 16,984	2.47
1978	90,333	47,657	42,676	18,434	3,542	21,976	1.94
1979	110,927	52,457	58,470	19,570	5,450	25,020	2.34
1980	115,427	54,469	60,958	22,948	5,450	28,398	2.15
1981	121,622	60,898	60,724	5,978	4,627	10,605	5.73
1982	132,046	67,625	64,421	9,680	4,381	14,061	4.58
1983	131,083	72,985	58,098	7,349	4,120	11,469	5.07
1984	144,815	78,287	66,528	5,352	3,812	9,164	7.26
1985	154,542	82,230	72,312	6,451	3,604	10,055	7.19
1986	162,539	93,648	68,891	4,662	3,381	8,043	8.57

**Pennsylvania Housing Finance Agency**

(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 <sup>(d)</sup>	Total	
1977	\$ 22,905	\$ 6,771	\$ 16,134	\$ . . . .	\$ 11,501	\$ 11,501	1.40
1978	28,686	7,190	21,496	. . . .	16,497	16,497	1.30
1979	41,330	8,610	32,720	814	25,468	26,282	1.25
1980	57,839	10,998	46,841	1,237	31,341	32,578	1.44
1981	68,427	15,223	53,204	1,951	37,785	39,736	1.34
1982	77,773	18,068	59,705	3,522	42,347	45,869	1.30
1983	109,023	18,793	90,230	32,540 <sup>(c)</sup>	77,010	109,550	.82
1984	119,389	12,160	107,229	8,293	94,305	102,598	1.05
1985	146,205	10,686	135,519	22,680 <sup>(b)</sup>	119,420	142,100	.95
1986	168,441	10,391	158,050	29,786 <sup>(a)</sup>	142,332	172,118	.92

(a) The Authority redeemed \$16.2 million of principal with bond proceeds not used to purchase mortgage loans (early extinguishments).  
 (b) The Authority redeemed \$14.5 million of principal with bond proceeds not used to purchase mortgage loans (early extinguishments).  
 (c) The Authority redeemed \$29.1 million of principal with bond proceeds not used to purchase mortgage loans (early extinguishments).  
 (d) Excludes interest on notes payable.

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

TABLE 6

*For the Last Ten Calendar Years*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands Except For Percentage)

<u>Calendar Year</u>	<u>United States</u>	<u>Pennsylvania</u>	<u>%</u>
1976	214,669	11,887	5.5
1977	216,332	11,882	5.5
1978	218,228	11,865	5.4
1979	220,099	11,874	5.4
1980	226,505	11,864	5.3
1981	229,307	11,878	5.2
1982	231,786	11,879	5.1
1983	234,023	11,889	5.1
1984	236,158	11,901	5.1
1985	238,740	11,853	5.0

SOURCE: "Pennsylvania Abstract" prepared by the Pennsylvania Department of Commerce from reports of the U.S. Bureau of Census

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

TABLE 7

*For the Last Ten Calendar Years*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

<u>Calendar Year</u>	<u>Demand Deposits</u>	<u>Time and Savings Deposits</u>
1976	\$5,382,197	\$20,724,815
1977	5,939,237	23,201,743
1978	6,071,285	25,246,714
1979	6,387,518	27,374,973
1980	7,734,878	32,192,294
1981	6,673,295	34,871,097
1982	6,489,537	38,144,921
1983	6,606,723	42,982,476
1984	5,263,282	39,356,857
1985	5,728,297	42,322,007

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*

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
(Expressed in Thousands)										
<b>COMMONWEALTH OF PENNSYLVANIA</b>										
<b>PENNSYLVANIA</b>										
Civilian labor force .....	5,129	5,207	5,306	5,360	5,435	5,484	5,489	5,505	5,479	5,519
Employment .....	4,723	4,806	4,938	4,990	5,010	5,026	4,889	4,855	4,981	5,077
Unemployment .....	406	401	368	370	425	458	600	650	498	442
Rate % .....	7.9	7.7	6.9	6.9	7.8	8.4	10.9	11.8	9.1	8.0
<b>UNITED STATES</b>										
Civilian labor force .....	96,158	99,009	102,251	104,962	106,940	108,670	110,204	111,550	113,544	115,461
Employment .....	88,752	92,017	96,048	98,824	99,303	100,397	99,526	100,834	105,005	107,150
Unemployment .....	7,406	6,992	6,203	6,138	7,637	8,273	10,678	10,716	8,539	8,311
Rate % .....	7.7	7.1	6.1	5.8	7.1	7.6	9.7	9.6	7.5	7.2

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

**TOTAL PERSONAL INCOME AND PER CAPITA PERSONAL INCOME—** TABLE 9  
**PENNSYLVANIA COMPARED TO THE UNITED STATES**

*For the Last Ten Calendar Years*

**COMMONWEALTH OF PENNSYLVANIA**

Calendar Year	TOTAL PERSONAL INCOME (Millions of Dollars)			PER CAPITA PERSONAL INCOME (Dollars)		
	United States	Pennsylvania	%	United States	Pennsylvania	%
1976	1,385,201	75,838	5.5	6,374	6,380	100.0
1977	1,534,708	82,808	5.4	6,979	6,969	99.9
1978	1,726,185	90,982	5.3	7,772	7,668	98.7
1979	1,942,650	101,081	5.2	8,651	8,513	98.5
1980	2,156,710	111,095	5.2	9,494	9,352	98.5
1981	2,420,091	122,621	5.1	10,544	10,323	98.0
1982	2,575,847	129,944	5.1	11,113	10,939	98.4
1983	2,734,464	136,409	5.0	11,681	11,415	97.7
1984	3,020,259	146,545	4.9	12,754	12,306	96.5
1985	3,206,597	153,791	4.8	13,451	12,959	96.3

SOURCE: U.S. Department of Commerce, Office of Business Economics, *Survey of Current Business*.

**PENNSYLVANIA ESTIMATED GROSS STATE PRODUCT  
IN CURRENT DOLLARS BY MAJOR INDUSTRY GROUPS**

TABLE 10

*For the Last Ten Calendar Years*

**COMMONWEALTH OF PENNSYLVANIA**

	Dollars in Millions																				
	1975		1976		1977		1978		1979		1980		1981		1982		1983		1984		
	Dollars	%	Dollars	%	Dollars	%	Dollars	%	Dollars	%	Dollars	%	Dollars	%	Dollars	%	Dollars	%	Dollars	%	
Agriculture																					
Farms .....	929	1.1	1,077	1.2	1,119	1.1	1,227	1.1	1,541	1.3	1,423	1.1	1,749	1.2	1,637	1.2	1,501	1.0	2,179	1.3	
Agricultural services .....	140	0.2	168	0.2	184	0.2	197	0.2	220	.1	246	.2	272	.2	313	.2	336	.2	345	.2	
Mining .....	1,874	2.3	1,879	2.1	2,030	2.1	1,963	1.8	2,454	2.1	2,535	2.0	2,892	2.1	2,979	2.1	2,599	1.7	2,938	1.8	
Construction .....	3,708	4.5	3,877	4.3	4,348	4.4	4,808	4.4	5,290	4.4	5,380	4.3	5,383	3.9	5,524	3.9	5,842	3.9	6,162	3.8	
Manufacturing																					
Durables .....	16,499	20.1	17,573	19.5	19,494	19.9	22,519	20.6	24,710	20.7	25,328	20.0	27,412	19.7	23,572	16.6	23,425	15.6	25,445	15.5	
Nondurables .....	9,050	11.0	10,211	11.4	10,931	11.1	12,267	11.3	13,148	11.0	13,600	10.7	14,957	10.7	15,485	10.9	16,893	11.2	17,897	10.9	
Transportation, communication and public utilities .....	7,412	9.0	8,396	9.3	9,167	9.3	10,237	9.4	10,887	9.1	11,594	9.1	12,769	9.2	13,252	9.3	14,437	9.6	15,478	9.5	
Wholesale and retail trade																					
Wholesale .....	5,752	7.0	6,266	7.0	6,547	6.7	7,076	6.5	7,804	6.5	8,497	6.7	9,299	6.7	9,183	6.5	10,028	6.7	10,750	6.6	
Retail .....	7,999	9.7	8,748	9.7	9,624	9.8	10,246	9.4	10,850	9.1	11,302	8.9	12,211	8.8	12,765	9.0	13,965	9.3	14,814	9.1	
Finance, insurance and real estate .....	10,174	12.4	11,185	12.4	12,270	12.5	14,203	13.0	15,864	13.3	17,445	13.7	19,528	14.0	21,165	15.0	22,669	15.0	25,296	15.5	
Services .....	9,999	12.2	11,211	12.5	12,516	12.8	13,444	12.3	15,162	12.7	17,189	13.5	19,027	13.7	21,371	15.1	23,562	15.6	25,877	15.8	
Government .....	8,671	10.5	9,338	10.4	9,863	10.1	10,945	10.0	11,573	9.7	12,481	9.8	13,604	9.8	14,412	10.2	15,447	10.2	16,471	10.0	
<b>GROSS STATE PRODUCT .....</b>	<b>82,207</b>	<b>100.0</b>	<b>89,929</b>	<b>100.0</b>	<b>98,093</b>	<b>100.0</b>	<b>109,132</b>	<b>100.0</b>	<b>119,503</b>	<b>100.0</b>	<b>127,020</b>	<b>100.0</b>	<b>139,103</b>	<b>100.0</b>	<b>141,658</b>	<b>100.0</b>	<b>150,704</b>	<b>100.0</b>	<b>163,652</b>	<b>100.0</b>	

SOURCE: "Pennsylvania Abstract" prepared by Pennsylvania Department of Commerce; 1985 calendar year data not yet available.

**THIRTY LARGEST NONGOVERNMENTAL EMPLOYERS**

**TABLE 11**

*For the Calendar Year 1985*

**COMMONWEALTH OF PENNSYLVANIA**

COMPANY	RANK
Westinghouse Electric Corporation .....	1
Sears Roebuck and Company .....	2
The Bell Telephone Co. of Pennsylvania .....	3
General Electric Company .....	4
United States Steel Corporation .....	5
K Mart Corporation .....	6
Bethlehem Steel Corporation .....	7
Acme Markets, Inc. ....	8
AT & T Technologies, Inc. ....	9
Trustees of the University of Pennsylvania .....	10
J.C. Penney Co., Inc. ....	11
Philadelphia Electric Co. ....	12
University of Pittsburgh .....	13
The Prudential Insurance Co. of America .....	14
AMP Incorporated .....	15
Mellon Bank, N.A. ....	16
Weis Markets Incorporated .....	17
Pennsylvania Power & Light Co. ....	18
Temple University .....	19
Strawbridge & Clothier .....	20
Mack Trucks, Inc. ....	21
PPG Industries, Inc. ....	22
Sperry Rand Corporation .....	23
United Parcel Service, Inc. ....	24
SCOA Industries, Inc. ....	25
Giant Eagle, Inc. ....	26
Hershey Foods Corporation .....	27
Armstrong World Industries .....	28
G.C. Murphy Co. ....	29
John Wanamaker .....	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 12

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COMMONWEALTH OF PENNSYLVANIA

AMP Incorporated	Joy Manufacturing Company
Air Products and Chemicals, Inc.	Koppers Company, Inc.
Alco Standard	Mack Truck, Inc.
Allegheny International	Meridian Bancorp, Inc.
Aluminum Company of America	Mobay Chemical
Ampco — Pittsburgh	National Intergroup
Armstrong World Industries	PPG Industries, Inc.
Bell Atlantic Corporation	Pennsylvania Power & Light Company
Bethlehem Steel Corporation	Pennwalt Corporation
Carpenter Technology Corporation	Philadelphia Electric Company
CertainTeed Corporation	PNC Financial Corporation
Cigna Corporation	Quaker State Oil Refining Corporation
Colonial Penn Group	Rite Aid Corporation
Consolidated Natural Gas	Rockwell International Corporation
CoreStates Financial Corporation	Rohm and Haas Company
Crown Cork and Seal Company, Inc.	Rorer Group
Cyclops Corporation	Scott Paper Company
Dauphin Deposit Corporation	Shared Medical Systems Incorporated
Duquesne Light Company	SmithKline Beckman
Equimark	Sun Company, Inc.
Equitable Resources	United States Steel Corporation
Fidelcor	VF Corporation
First Pennsylvania	Weis Markets, Inc.
H.J. Heinz Company	Westinghouse Electric Corporation
H.H. Robertson Company	Westmoreland Coal
Hammermill Paper Company	Wheeling-Pittsburgh Steel Corporation
Harsco Corporation	
Hershey Foods Corporation	

SOURCE: The *Fortune 500* and the *Forbes 500* listings, published April 28, 1986.

JUNE 30, 1986

COMMONWEALTH OF PENNSYLVANIA

Date of Ratification of U.S. Constitution	December 12, 1787
Form of Government	Legislative-Executive-Judicial
Miles of State Highway	43,333
Land Area - in square miles	44,888
State Police Protection:	
Number of Stations	105
Number of State Police	3,935
Higher Education (Universities, Colleges and Community Colleges):	
Number of campuses in state	229
Number of educators	21,105
Number of students	539,850
Recreation:	
Number of State Parks	113
Area of State Parks	282,160 Acres
Area of State Forests	2,068,077 Acres

SOURCE:

Pennsylvania Department of Transportation, Bureau of Strategic Planning  
 Pennsylvania Department of Education, Division of Data Services  
 Pennsylvania Department of Environmental Resources, Bureau of Forestry  
 Pennsylvania State Police, Bureau of Research and Development