

**COMPREHENSIVE ANNUAL FINANCIAL
REPORT**

For Fiscal Year Ended June 30, 1999



**Commonwealth of Pennsylvania
Tom Ridge
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, 1999**

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Title Page	i
Table of Contents	ii
Budget Secretary's Letter of Transmittal	v
Deputy Secretary's Letter of Transmittal	viii
Certificate of Achievement	xvii
Organization and Officials Chart	xviii
Office of the Budget - Comptroller Operations.....	xix
FINANCIAL SECTION	
Independent Auditors' Report	2
General Purpose Financial Statements:	
Combined Balance Sheet—All Fund Types, Account Groups and Discretely Presented Component Units	6
Combined Statement of Revenues, Expenditures and Changes in Fund Balances— All Governmental Fund Types, Expendable Trust Funds and Discretely Presented Component Units	8
Combined Statement of Revenues, Expenditures and Changes in Unreserved/ Undesignated Fund Balances—Budget and Actual (Budgetary Basis)— General and Budgeted Special Revenue Funds.....	9
Combined Statement of Revenues, Expenses and Changes in Retained Earnings/ Fund Balances—All Proprietary Fund Types and Discretely Presented Component Units	10
Combined Statement of Cash Flows—All Proprietary Fund Types and Discretely Presented Component Units	11
Statement of Changes in Plan Net Assets—Pension Trust Fund	12
Statement of Changes in Plan Net Assets—Investment Trust Fund	13
Combined Balance Sheet—Discretely Presented Component Units.....	14
Combining Balance Sheet—Governmental Funds—Discretely Presented Component Units.....	15
Combining Statement of Revenues, Expenditures and Changes in Fund Balances— Governmental Funds—Discretely Presented Component Units	16
Combining Balance Sheet—Proprietary Funds—Discretely Presented Component Units.....	17
Combining Statement of Revenues, Expenses and Changes in Retained Earnings — Proprietary Funds —Discretely Presented Component Units	18
Combining Statement of Cash Flows—Proprietary Funds—Discretely Presented Component Units	19
Combining Statement of Changes in Plan Net Assets — Pension Trust Fund — Discretely Presented Component Unit.....	20
Combining Balance Sheet—College and University Funds—Discretely Presented Component Unit.....	21
Combined Statement of Changes in Fund Balances—College and University Funds— Discretely Presented Component Unit	22
Combined Statement of Current Funds Revenues, Expenditures and Changes in Fund Balances—College and University Funds—Discretely Presented Component Unit	23
Notes to Financial Statements	24
Required Supplementary Information:	
Year 2000 Compliance.....	72
Combining Financial Statements and Schedules:	
Special Revenue Funds	
Special Revenue Funds—Description.....	75
Combining Balance Sheet—Special Revenue Funds.....	76
Combining Statement of Revenues, Expenditures and Changes in Fund Balances— Special Revenue Funds	77
Combining Schedule of Revenues, Expenditures and Changes in Unreserved/ Undesignated Fund Balances—Budget and Actual (Budgetary Basis)— Budgeted Special Revenue Funds	78

	<u>Page</u>
Debt Service Funds	
Debt Service Funds—Description.....	82
Combining Balance Sheet—Debt Service Funds.....	83
Combining Statement of Revenues, Expenditures and Changes in Fund Balances— Debt Service Funds.....	84
Capital Projects Funds	
Capital Projects Funds—Description.....	86
Combining Balance Sheet—Capital Projects Funds.....	87
Combining Statement of Revenues, Expenditures and Changes in Fund Balances— Capital Projects Funds.....	88
Enterprise Funds	
Enterprise Funds—Description.....	90
Combining Balance Sheet—Enterprise Funds.....	91
Combining Statement of Revenues, Expenses and Changes in Retained Earnings— Enterprise Funds.....	92
Combining Statement of Cash Flows—Enterprise Funds.....	93
Internal Service Funds	
Internal Service Funds—Description.....	96
Combining Balance Sheet—Internal Service Funds.....	97
Combining Statement of Revenues, Expenses and Changes in Retained Earnings— Internal Service Funds.....	98
Combining Statement of Cash Flows—Internal Service Funds.....	99
Trust and Agency Funds	
Trust and Agency Funds—Description.....	102
Combining Balance Sheet—Trust and Agency Funds.....	103
Combining Balance Sheet—Expendable Trust Funds.....	104
Combining Statement of Revenues, Expenditures and Changes in Fund Balances— Expendable Trust Funds.....	105
Combining Statement of Changes in Assets and Liabilities—Agency Funds.....	106
General Fixed Assets Account Group	
General Fixed Assets Account Group—Description.....	110
Schedule of Changes in General Fixed Assets.....	110
Schedule of General Fixed Assets by Function.....	111
Schedule of Changes in General Fixed Assets by Function.....	111

STATISTICAL SECTION

	<u>Table</u>	<u>Page</u>
Revenues by Source and Expenditures by Function—All Governmental Fund Types.....	1	114
Net Bonded Debt Per Capita.....	2	115
Ratio of Annual Debt Service Requirements for General Obligation Bonded Debt to Total General Fund Expenditures.....	3	115
Computation of Legal Debt Margin.....	4	116
Schedule of Revenue Bond Coverage.....	5	117
Annual Estimates of the Resident Population—Pennsylvania Compared to the United States.....	6	118
State Banking Institutions Demand Deposits and Time and Savings Deposits.....	7	118
Resident Employment, Unemployment and Unemployment Rate—Pennsylvania Compared to the United States.....	8	119
Total Personal Income and Per Capita Personal Income—Pennsylvania Compared to the United States.....	9	120
Thirty Largest Nongovernmental Employers.....	10	121
List of Major Corporations that Maintain their Corporate Headquarters in the Commonwealth.....	11	122
Miscellaneous Statistics.....	12	123

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COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

December 3, 1999

ROBERT A. BITTENBENDER
SECRETARY
OFFICE OF THE BUDGET

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

This Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Pennsylvania displays our continued commitment to sound and effective fiscal management and to financial reporting based on generally accepted accounting principles (GAAP). This CAFR includes the Commonwealth's independently audited general purpose financial statements as of and for the fiscal year ended June 30, 1999. It will provide you and the financial community with all the information required to assess the Commonwealth's financial position, results of operations and the management of its financial resources.

Pennsylvania continues to share in the benefits of a long period of uninterrupted national economic growth. In May 1999, Pennsylvania's unemployment rate was 3.8 percent, the lowest rate in nearly thirty years. Gains in employment have helped contribute to the increase in personal income in Pennsylvania. Seasonally adjusted personal income in Pennsylvania is estimated to have increased by 4.6 percent between the first calendar quarters of 1998 and 1999. While not as large as the 5.5 percent increase for the nation, the gain and a strong stock market helped push up Pennsylvania personal income tax collections by 7.2 percent for fiscal year 1998-99 over the previous fiscal year. Strong revenue growth and responsible fiscal management have combined to greatly improve the financial condition of the Commonwealth. The Commonwealth has used its recent strong fiscal performance to increase its reserves and to fund modest tax cuts targeted to economic development and consumer savings. The result of these policies will be a stronger Commonwealth and an improved competitive standing for new jobs.

On the budgetary basis, the Commonwealth's General Fund at June 30, 1999 ended the fiscal year with a \$703 million unreserved/undesignated fund balance, prior to reserving \$255.5 million for transfer to the Tax Stabilization Reserve (Rainy Day) Fund. The unreserved/undesignated fund balances, after the transfer, on the budgetary basis was \$447.5. With the transfer for the 1998-99 fiscal year, the balance in the Tax Stabilization Reserve Fund increased to \$941 million. The increased balance in the Tax Stabilization Reserve Fund and the improved balance in the General Fund convinced a national bond rating agency to increase the Commonwealth's general obligation bond rating during the 1998-1999 fiscal year. This is the second consecutive year in which the Commonwealth's bond rating improved.

In addition to the significant contribution to the Tax Stabilization Reserve Fund, the following are some of the financial, programmatic and legislative accomplishments of the 1998-99 fiscal year:

Economic development continues to be a long-term commitment of the Commonwealth as evidenced by the significant amount of funds appropriated for loans and grants to employers. Among these loans and grants was \$40 million transferred from the General Fund to the Ben Franklin/Industrial Resource Centers Partnership Fund to create jobs through the development and application of technology and advanced production techniques. Also, \$33 million of loans and grants for infrastructure development of industrial sites were made from the General Fund. The Machinery and Equipment Loan Fund provided \$14 million in low interest loans and the Pennsylvania Industrial Development Authority provided \$65 million in loans to local industrial development agencies to stimulate economic activity. The Opportunity Grants Program, funded by the General Fund, provided \$35 million for grants to attract and retain businesses. Team PA, a program within the General Fund, in conjunction with the Business Resource Center and the Business Retention Program, provided \$9 million along with additional funds from private sector partners to work with businesses to resolve issues and create and retain jobs in Pennsylvania. This \$9 million includes a \$3.5 million contribution to the Catalyst Stage Program which will receive \$10 million over three years to provide venture capital financing to new businesses. The Small Business First Fund, which is supported by the General Fund, streamlined loans for small businesses and disbursed more than \$15 million in low interest loans.

General Fund tax cuts, authorized by passage of Act 1999-4, saved Pennsylvania taxpayers an estimated \$241.0 million. Savings occurred in a number of areas. There was an expansion of the personal income tax exemption for low-income taxpayers and elimination of the income tax on gains realized from the sale of a home. In addition, there was a reduction in the capital stock & franchise tax, extension of the net operating loss recovery period for the corporate net income tax, a jobs tax credit and minor tax changes including selected exemptions from the state sales tax.

Pennsylvania is also working to create jobs in other ways. Recognizing that success begins with a well-trained work force, the Commonwealth provided funding from the General Fund for customized job training and supported the opportunity to capitalize on the global marketplace to operate and expand Pennsylvania's international trade in the amounts of \$29 million and \$5.6 million, respectively. Marketing Pennsylvania as a tourist destination and business place was funded at \$20 million.

The Commonwealth continued its commitment to its communities by providing \$16 million from the General Fund for the Housing and Redevelopment Program to rebuild neighborhoods and to rehabilitate low-income housing. Additional funds were provided to expand local efforts to promote tourism. The Community Development Bank received \$2 million from the General Fund and is expected to receive over \$30 million in private funds. It provides capital for community development lending to support the needs of small businesses and nonprofit organizations.

Education is essential to Pennsylvania's future. The General Fund provided nearly \$3.6 billion to our public schools through the Basic Education Funding. Total funding for basic education was over \$6.1 billion, including funding for special education, pupil transportation, teacher retirement and social security, and special programs to address the needs of economically and educationally challenged students. In addition, over \$1.6 billion was provided for higher education institutions and students.

The Commonwealth continued the technology initiative known as Project Link to Learn. This initiative is helping to bring global computer resources into Pennsylvania's classrooms and enabling schools to participate in advances in computing and communications. Over \$48 million in third-year funding was provided for the acquisition of computers and network connections in our schools. This brings the three-year total investment to \$132 million. This initiative will provide for the development of the community-based Pennsylvania Education Network.

In addition, \$13.4 million was provided for the second year of a new program in which schools that improve their academic performance are rewarded with additional funding. This builds upon the \$10.4 million that was provided in 1997-98 for the initial year of the program.

The Department of Corrections increased its institutional capacity by 1,491 beds with the opening of a correctional facility in southeastern Pennsylvania and the addition of cellblocks at several other correctional institutions.

The Commonwealth continued its comprehensive welfare reform program based on individual and family self-sufficiency. The program incorporates the changes made by Congress in passage of the Personal Responsibility and Work Opportunity Reconciliation Act and those changes authorized by the General Assembly in Act 35 of 1996. The program provides time limited cash assistance for families and other support to enable individuals to get and keep a job. Federal support includes two block grants: Temporary Assistance to Needy Families and Child Care Development. State and Federal expenditures for these programs and Medical Assistance amounted to \$8.2 billion in the 1998-99 fiscal year. Approximately 38.5 percent of the total cost of assistance to the economically needy is funded by the General Fund, with the balance provided by the Federal government. A Medical Assistance Intergovernmental Transfer provided additional funds totaling \$721 million during the 1998-99 fiscal year.

During the 1998-99 fiscal year several major laws were enacted that created new programs and/or modified existing programs. The following summarizes some of these changes:

- Act 1998-92 enacted the Keystone Opportunity Zone Act which authorized the Department of Community and Economic Development to establish up to 12 Keystone Opportunity Zones (KOZ). The KOZs will be virtually free of State and local taxes for a period of 12 years in an attempt to stimulate local economies within the zones. The act and all tax benefits associated with it will expire on December 31, 2010.

- Act 1998-100 made changes to the Job Enhancement Act to increase the Job Creation Tax credits by \$5 million, from \$15 million to \$20 million, along with other minor changes to the act effective for the 1998-99 fiscal year.
- Acts 1998-126 and 1998-127 amended Title 42 (Judiciary) and Title 23 (Domestic Relations) respectively to bring the Commonwealth into compliance with the Federal Adoption and Safe Families Act (ASFA).
- Act 1998-129 enacted a program to provide higher education to children of firefighters and police officers who have been killed in the line of duty. The cost of this program will be absorbed by the State-related and State-owned institutions, which these children may attend without paying tuition and housing costs.
- Act 1999-1 reenacted the Capital Facilities Debt Enabling Act as a free-standing act and increased the cap on the amount of Redevelopment Assistance Capital projects from \$850 million in bonds issued to \$1.2 billion in outstanding bonds. The act also added a chapter on Sports Facilities Financing. Several minor changes in match requirements and eligibility for Redevelopment Assistance Capital projects were also made.
- Act 1999-12 transferred certain judicial employees from county to State employment to establish a unified judicial system. A total of 165 employees were transferred to the Commonwealth payroll.
- Act 1999-21 provided for the deregulation of the natural gas industry in Pennsylvania and completes the repeal of the gross receipts tax on natural gas effective January 1, 2000.
- Act 1999-22 enacted the SciTech and GI Bill Scholarship Program. This provides grants to individuals entering into the field of science and technology. The SciTech scholarship is \$3,000 per year for the second through fourth year of study and the GI Bill scholarship is \$1,000 per year for community college or two-year technical institute.

In summary, the general purpose financial statements show that commitment to fiscal discipline has resulted in continued financial improvements, allowed the Commonwealth to lower taxes and to continue funding programs that enhance economic development, provide equity in education and meet critical human service needs.

Sincerely,



Robert A. Bittenbender
Secretary
Office of the Budget

COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

December 1, 1999

HARVEY C. ECKERT
DEPUTY SECRETARY FOR COMPTROLLER OPERATIONS
OFFICE OF THE BUDGET

Dear Secretary Bittenbender:

I am pleased to present this Comprehensive Annual Financial Report (CAFR) on the financial position and operations of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 1999. This report, which includes the General Purpose Financial Statements (GPFS), was prepared by the Office of the Budget, Comptroller Operations, pursuant to the power vested in the Governor under Section 701 of the Administrative Code and delegated to the Secretary of the Budget by Executive Order No. 1984-3, October 11, 1984.

The GPFS contained in this CAFR were prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). They were jointly audited by the elected Auditor General of the Commonwealth of Pennsylvania and Ernst & Young LLP, a nationally recognized public accounting firm. Their Independent Auditors' Report is included in this financial report.

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

In addition to the GPFS, which provide an overview of the Commonwealth's financial position and operating results by fund type, this CAFR includes: combining financial statements presenting information by fund; supporting schedules; certain narrative information describing individual funds; and statistical tables presenting financial, economic 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 (GFOA) and will be submitted to the GFOA to determine its eligibility for a Certificate of Achievement for Excellence in Financial Reporting.

THE FINANCIAL REPORTING ENTITY

For financial reporting purposes, the Commonwealth is a primary government. The primary government, or PG, includes all publicly elected members of the executive, legislative and judicial branches of the Commonwealth. The PG also includes all Commonwealth departments, agencies, boards and organizations that are not legally separate. In addition to the PG, the financial reporting entity includes blended and discretely presented component units. Component units include all legally separate organizations for which the PG is financially accountable, and other organizations for which the nature and significance of their relationship with the PG are such that exclusion would cause the financial statements to be misleading or incomplete. The criteria used to define financial accountability include appointment of a voting majority of an organization's governing body and (1) the ability of the PG to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the PG. Fiscal dependency is also considered.

Based upon the financial accountability criteria, all of the following organizations, as discussed in Note A of the Notes to Financial Statements, are included in the financial reporting entity as discretely presented component units, except the State Employees' Retirement System, which is included in the Commonwealth's primary government as a blended component unit:

Ben Franklin/IRC Partnership —Governmental Fund
Insurance Fraud Prevention Authority—Governmental Fund
Pennsylvania Higher Educational Facilities Authority—Governmental Fund
Pennsylvania Higher Education Assistance Agency—Proprietary Fund
Pennsylvania Housing Finance Agency—Proprietary Fund
Pennsylvania Industrial Development Authority—Proprietary Fund
Pennsylvania Infrastructure Investment Authority—Proprietary Fund
Pennsylvania Turnpike Commission—Proprietary Fund
Public School Employees' Retirement System—Fiduciary Fund
State Employees' Retirement System—Pension Trust Fund
State Public School Building Authority—Governmental Fund
State System of Higher Education—College and University Funds

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, operational expenses, fixed assets, subsidies and grants, debt service and fixed charges. An encumbrance system is used to provide 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 part of an appropriation until the actual liabilities are incurred and to ensure that funds committed (encumbered) and expended do not exceed the total amounts appropriated and/or allocated. Section 621 of the Administrative Code provides that unencumbered appropriated funds shall automatically lapse at fiscal year end and become available for appropriation in the new fiscal year. Encumbered appropriations are carried forward into the new fiscal year. They are reported 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 the end 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 Legislature and Judiciary, likewise, maintain 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 fiscal year end, both revenues and expenditures are adjusted to reflect appropriate accruals and deferrals 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 also prepares 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 information 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 accordance with the accounting guidance and reporting practices applicable to governmental colleges and universities, as outlined in the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities*, and pronouncements issued by the GASB.

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 that 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 has been incurred as of the fiscal year end.

ECONOMIC CONDITION AND OUTLOOK

Six consecutive years of national economic growth have helped propel job growth in Pennsylvania. The seasonally adjusted unemployment rate for the Commonwealth in the first six months of 1999 averaged 4.3 percent, equal to the national unemployment rate for the United States. In 1998, jobs in Pennsylvania increased by 7.0 percent over the previous year with many job gains occurring in the high technology and pharmaceutical industries. The gains in employment in Pennsylvania and a strong stock market contributed to a 4.5 percent growth in personal income. While not equal to the national growth rate of 5.7 percent, personal income growth did surpass the average of the Mid-Atlantic States (NY, NJ, PA). Slow population growth, particularly in the 25 to 44 year cohort, will make job gains difficult for the state in the coming years. State-funded programs have been implemented to encourage young adults, especially those working in the high-tech industries, to come and remain in the state.

For the past several fiscal years, the national gross domestic product (adjusted for inflation) has increased by more than 3 percent per year. Gains of this magnitude were above the increases assumed in revenue expectations included in the Commonwealth budget. Faster economic growth than anticipated generated tax revenues above budget estimates. Most economic forecasts for the national economy anticipate a slowing of economic growth. A more modest rate of consumer spending increase, rising interest rates due to actions by the Federal Reserve, impending shortages of labor, and sluggish foreign trade will be the principal causes of the expected slower growth. Slower economic growth had been expected in prior years but the national economy continued to record strong gains. One distinct difference the current period has from previous years is that the Federal Reserve's current policy is aimed at restraining the economy. This policy change will reinforce other trends that will produce slower economic growth. It is expected that Pennsylvania's economy will continue to mirror national economic trends.

THE GENERAL FUND

The General Fund, the Commonwealth's largest fund, is the focal point of any assessment of Pennsylvania's financial position. It accounts for all revenues and receipts which are not required by law to be accounted for or deposited elsewhere and for the major portion of Commonwealth expenditures. Tax receipts, principally personal and corporate income and sales and use taxes, constitute approximately 61.6 percent of the General Fund budgetary basis revenues. Major fund expenditures are for general government, protection of persons and property, public health and welfare, public education, conservation of natural resources, economic development, transportation and transfers to debt service funds 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 Changes in Unreserved/Undesignated Fund Balances—Budget and Actual (Budgetary Basis)," included in the GPFS.

Budgetary Basis: At June 30, 1999, the Commonwealth reported an unreserved/undesignated fund balance (budgetary basis) of \$447.5 million in the General Fund. This compares to a budgetary basis fund balance of \$265.3 million, as restated, at June 30, 1998. The budgetary basis fund balance for the fiscal year ended June 30, 1999 was the result of revenue collections totaling \$29,541.1 million less appropriation authorizations totaling \$29,221.8 million, less other net financing uses totaling \$137.1 million. Included in the \$29,221.8 million appropriation authorizations are \$357.0 million of state supplemental appropriations and \$350.0 million in Federal supplemental appropriations authorized during the fiscal year.

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</u>	<u>Increase (Decrease)</u>
1995 (Restated)	\$ 437.0	\$ 134.8
1996 (Restated)	158.5	(278.5)
1997 (Restated)	402.3	245.1
1998 (Restated)	265.3	(137.0)
1999	447.5	182.2

Modified Accrual Basis: At June 30, 1999 the Commonwealth's General Fund reported a fund balance of \$2,863.4 million, an increase of \$904.5 million from the \$1,958.9 million fund balance at June 30, 1998. Total assets increased by \$1,024 million to \$5,997.6 million. Liabilities increased \$119.5 million to \$3,134.2 million. These changes and others are reflected in the General Fund summary comparative balance sheet that follows.

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

	<u>June 30, 1999</u>	<u>June 30, 1998</u>	<u>Increase (Decrease)</u>
Assets			
Cash and temporary investments	\$ 3,774.7	\$ 2,693.0	\$ 1,081.7
Receivables, net	983.0	970.5	12.5
Due from other funds/component units/governments.....	1,239.9	1,072.0	167.9
Food stamp coupons	-	238.0	(238.0)
Other assets	-	.1	(.1)
Total Assets.....	<u>\$ 5,997.6</u>	<u>\$ 4,973.6</u>	<u>\$ 1,024.0</u>
Liabilities			
Accounts payable and other accrued liabilities.....	\$ 2,393.2	\$ 1,973.8	\$ 419.4
Due to other funds/component units/governments	696.7	774.4	(77.7)
Deferred revenue	44.3	266.5	(222.2)
Total Liabilities.....	<u>3,134.2</u>	<u>3,014.7</u>	<u>119.5</u>
Fund Balance			
Reserved	1,627.7	317.3	1,310.4
Unreserved:			
Designated	180.5	1,144.0	(963.5)
Undesignated	<u>1,055.2</u>	<u>497.6</u>	<u>557.6</u>
Total Fund Balance	<u>2,863.4</u>	<u>1,958.9</u>	<u>904.5</u>
Total Liabilities and Fund Balance	<u>\$ 5,997.6</u>	<u>\$ 4,973.6</u>	<u>\$ 1,024.0</u>

**GENERAL GOVERNMENTAL FUNCTIONS — MODIFIED ACCRUAL BASIS
PRIMARY GOVERNMENT**

The Commonwealth's governmental fund types include the General Fund, the Special Revenue Funds, which includes the Motor License Fund, the Debt Service Funds and the Capital Projects Funds. These funds account for most general operating revenues and expenditures. Their combined fund balances at June 30, 1999 increased by \$1,360 million to \$5,151.8 million from a \$3,791.8 million balance, as restated, at the beginning of the fiscal year. Unreserved/undesignated fund balances at June 30, 1999 amount to \$1,639.1 million as compared to a \$659.0 million unreserved/undesignated fund balance a year ago. Comparative summaries of general governmental revenues by source and expenditures by function (amounts in millions) follow.

General Governmental Revenues by Source. Revenues of the Commonwealth's General, Special Revenue, Debt Service and Capital Projects Funds totaled \$35,877 million. This represents a 7.1 percent increase over the previous year. Taxes constituted 56.0 percent of general governmental revenues; intergovernmental revenues, primarily Federal funds, constituted 29.4 percent.

<u>Revenue Source</u>	<u>Fiscal Years Ended</u>		<u>Increase (Decrease)</u>
	<u>June 30, 1999</u>	<u>June 30, 1998</u>	
Taxes.....	\$ 20,105	\$ 19,044	\$ 1,061
Licenses and fees	1,019	1,004	15
Intergovernmental.....	10,564	9,669	895
Charges for sales and services	2,057	1,698	359
Investment income.....	259	226	33
Lottery receipts	1,659	1,684	(25)
Lease rental principal and interest	2	2	-
Other	212	176	36
Total Revenues	<u>\$ 35,877</u>	<u>\$ 33,503</u>	<u>\$ 2,374</u>

Intergovernmental revenues increased \$895 million primarily because of an increase in the authorized Federal reimbursement amounts for medical assistance and long-term care programs.

Tax revenue increased \$1,061 million due primarily to an increase in employment and an improvement in the economic condition of the Commonwealth.

<u>Taxes by Type</u>	<u>Fiscal Years Ended</u>		<u>Increase (Decrease)</u>
	<u>June 30, 1999</u>	<u>June 30, 1998</u>	
Personal income.....	\$ 6,418	\$ 6,017	\$ 401
Sales and use.....	6,699	6,228	471
Corporation.....	3,803	3,725	78
Liquid fuels.....	753	784	(31)
Other	2,432	2,290	142
Total Tax Revenue.....	<u>\$ 20,105</u>	<u>\$ 19,044</u>	<u>\$ 1,061</u>

General Governmental Expenditures by Function. Expenditures of the Commonwealth's General, Special Revenue, Debt Service and Capital Projects Funds totaled \$34,520 million, an increase of \$2,227 million over the previous year. Of the total amount expended, public health and welfare accounted for 44.4 percent, public education for 22.7 percent and transportation for 10.6 percent.

<u>Expenditure Function</u>	<u>Fiscal Years Ended</u>		<u>Increase (Decrease)</u>
	<u>June 30, 1999</u>	<u>June 30, 1998</u>	
General government.....	\$ 2,723	\$ 2,587	\$ 136
Protection of persons and property	2,785	2,613	172
Public health and welfare.....	15,320	14,342	978
Public education.....	7,843	7,715	128
Conservation of natural resources.....	436	396	40
Economic development and assistance	469	339	130
Transportation.....	3,654	3,243	411
Capital outlay.....	583	360	223
Debt service:			
Principal retirement.....	444	435	9
Interest and fiscal charges.....	<u>263</u>	<u>263</u>	-
Total expenditures.....	<u>\$ 34,520</u>	<u>\$ 32,293</u>	<u>\$ 2,227</u>

Expenditures for public health and welfare increased by \$978 million or 6.8 percent over the previous fiscal year. Increases in financial support to the economically needy, aid to families with dependent children, and medical assistance comprise a major portion of the public health and welfare expenditure increase.

Expenditures for transportation increased by \$411 million or 12.7 percent over the previous fiscal year, due mainly to an increased effort to repair and maintain a greater number of road miles during this fiscal year.

DISCRETELY PRESENTED COMPONENT UNITS— GOVERNMENTAL FUNDS

The discretely presented component unit governmental fund type includes the Pennsylvania Higher Educational Facilities Authority, the Ben Franklin/IRC Partnership, the Insurance Fraud Prevention Authority and the State Public School Building Authority. Their combined fund balances at June 30, 1999 increased \$7 million to \$633 million from a \$626 million balance at the beginning of the fiscal year.

Revenues of the component unit governmental funds totaled \$369.8 million at June 30, 1999. Lease rental principal and interest revenue of \$321.4 million represents 86.9 percent of total revenues.

Expenditures of the component unit governmental funds totaled \$904.1 million at June 30, 1999. Of the total amount expended, capital outlay was \$479.7 million or 53.1 percent of total expenditures and debt service principal and interest expenditures were \$367.5 million or 40.6 percent.

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 certified constitutional debt limit at September 1, 1999 was \$37.2 billion. Outstanding capital project debt at September 1, 1999 amounted to \$3.9 billion.

In addition to constitutionally authorized capital project debt, the Commonwealth may incur debt for electorate approved programs, such as economic revitalization, land and water development, and water facilities restoration; and for special purposes approved by the General Assembly, such as disaster relief.

The total general obligation bond indebtedness outstanding at June 30, 1999 was \$5,254 million. Total debt service transfers paid from General Fund and Motor License Fund appropriations during the fiscal year ended June 30, 1999 amounted to \$903 million.

During the fiscal year ending June 30, 2000 the Office of the Budget projects general obligation bond issuances amounting to \$969 million, an increase of \$116 million as compared to actual bond issuances of \$853 million during the fiscal year ended June 30, 1999. This forecast reflects the need to make investments in the Commonwealth's capital infrastructure, particularly prisons, highways, bridges, mass transportation and water supply systems. Debt principal retirements of \$479.3 million are forecast during fiscal 2000. The table that follows shows total outstanding long-term indebtedness for general obligation bonds (expressed in millions) at the end of the seven most recent fiscal years.

<u>At June 30</u>	<u>Outstanding Bond Indebtedness</u>
1993	\$ 5,041
1994	5,100
1995	5,041
1996	5,062
1997	4,842
1998	4,841
1999	5,254

In addition to general obligation bonds, the Commonwealth issues tax anticipation notes to meet operating cash needs during certain months of the fiscal year. Tax anticipation notes may be issued only for the General Fund and the Motor License Fund. They may not exceed 20 percent of the funds' estimated revenues for the year, and must mature during the fiscal year in which they are issued. Cash shortages occur during the fiscal year because tax receipts, unlike cash disbursements, are concentrated in the last four months of the fiscal year.

During the fiscal year ending June 30, 2000, total General Fund revenues and budgeted expenditures, including Federal funds, are expected to increase by 2.8 percent and 3.8 percent, respectively. Although the 1999-00 fiscal year executive budget includes the issuance of \$560 million of tax anticipation notes, the Commonwealth currently has no plans to issue any notes for this fiscal year. General Fund tax anticipation notes or commercial paper issuances (expressed in millions) during the five most recent fiscal years are shown below. Motor License Fund tax anticipation notes were not issued for the periods shown and are not expected to be issued in the future.

<u>Fiscal Year Issue Ended June 30</u>	<u>For the Account of the General Fund</u>	<u>Amount Issued as a Percent of General Fund Tax Revenues</u>
1996	\$ 500	3
1997	550	3
1998	225	1
1999	-	-
2000 (Estimated)	560	3

CASH MANAGEMENT

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

In addition, the Treasury Department is empowered to invest Commonwealth monies that are in excess of daily needs of the various Commonwealth Funds. Virtually all excess amounts are invested in the Treasury Short-Term Investment Pool (STIP). The STIP includes the following types of investments, with related weighted average maturity and percent of total STIP investments, at June 30, 1999:

<u>Investment Type</u>	<u>Weighted Average Maturity (days)</u>	<u>Percent</u>
Commercial Paper (Moody's Prime One Rating or Equivalent)	14	13.1
United States Treasury and Agency Obligations	285	15.2
Repurchase Agreements.....	4	68.5
Certificates of Deposit	56	1.4
Corporate Bonds and Notes	1,365	0.3
Other	77	<u>1.5</u>
		<u>100.0</u>

Total STIP investments amounted to over \$7.6 billion at June 30, 1999. All STIP investments are reported as temporary investments by participating Funds. The STIP earned \$318 million during the fiscal year, at an average yield of 4.94 percent.

RISK MANAGEMENT

The Commonwealth maintains ongoing training and information programs to reduce risks associated with employee injury and negligence, contract compliance, tort liabilities and property losses. As more fully described at Note O to the financial statements, the Commonwealth became self-insured for employee disability and medical claims on July 1, 1983. The Commonwealth is also self-insured for annuitant medical/hospital benefits and tort liabilities, including automobile, employee and transportation-related claims. Reserves have been established to fund self-insured claims. Third-party coverage is obtained for property losses in excess of \$1 million per occurrence, to a limit of \$100 million per occurrence. Coverage for property losses less than \$1 million or more than \$100 million is maintained through the Commonwealth's self-insurance program.

CAPITAL PROJECTS FUNDS

Proceeds of general obligation bonds are generally accounted for in the capital projects funds. 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. Construction in progress at June 30, 1999 amounted to \$654 million. Authorized but unissued general obligation bonds at June 30, 1999 totaled \$27.9 billion.

PROPRIETARY, FIDUCIARY AND COLLEGE AND UNIVERSITY FUNDS

Primary Government

The Commonwealth's enterprise funds, Proprietary Fund Types, are used to account for revolving loan programs for economic development, for sales of alcoholic beverages and to provide for workers' compensation. Commonwealth enterprise funds reported total retained earnings at June 30, 1999 of \$325.8 million, which represents an increase of \$81.3 million from the \$244.5 million of retained earnings reported the previous year.

Fiduciary type funds, including expendable trust funds, a pension trust fund and an investment trust fund, reported total fund balance of \$29,088 million, compared to \$25,047 million in the previous year. Total fund balances of the expendable trust funds increased by \$389 million over the previous fiscal year, for total fund balances of \$4,131 million at June 30, 1999. The State Employees' Retirement System, the pension trust fund, reported a fund balance of \$24,123 million, an increase of \$2,812 million from the previous year. The fund balance is completely reserved for pension benefits. The INVEST Program for Local Governments, the investment trust fund, reported a fund balance of \$834 million at December 31, 1998 it's fiscal year ended, as compared to \$537 million in the previous year.

Discretely Presented Component Units

The discretely presented proprietary fund component units account for a turnpike system, loans for improving water and sewer systems, higher education and housing assistance. These discretely presented component units all reported retained earnings at June 30, 1999, totaling \$1,954 million, which represents an increase of \$38 million from the \$1,916 million, as restated, of retained earnings reported the previous year.

The Public School Employees' Retirement System, a fiduciary type fund component unit, pension trust fund, reported a fund balance of \$48,975 million at June 30, 1999, which represents a \$4,118 million increase over the \$44,857 million fund balance in the previous fiscal year.

The total fund equity for the College and University funds, used to account for the State System of Higher Education, a discretely presented component unit, at June 30, 1999 was \$450 million, compared to \$430 million at June 30, 1998.

GENERAL FIXED ASSETS

General fixed assets of the Commonwealth are those used in the performance of general governmental functions. The fixed assets of the proprietary and the fiduciary fund types and the College and University Funds are not included in the General Fixed Assets Account Group, except for certain real property used by the SSHE. General fixed assets as of June 30, 1999 amounted to \$4,882 million at actual or estimated historical cost. Depreciation is not recognized for the Commonwealth's general fixed assets. Infrastructure assets, consisting primarily of highways, roads and bridges, are not reported 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 Independent Auditors' Report submitted herewith, was performed jointly by the Department of the Auditor General and the independent public accounting firm of Ernst & Young LLP. 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 make such audits 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) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth of Pennsylvania for its Comprehensive Annual Financial Report as of and for the fiscal year ended June 30, 1998. This represents the thirteenth consecutive year the Commonwealth of Pennsylvania has received this award.

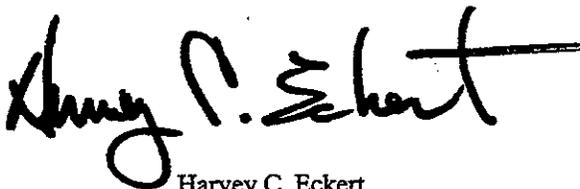
To merit a certificate of achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report which conforms to GFOA standards and satisfies both generally accepted accounting principles and applicable legal requirements. A certificate of achievement is valid for a period of one year only.

We believe the Comprehensive Annual Financial Report of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 1999 conforms to the GFOA standards and we are submitting it to the GFOA to determine its eligibility for a Certificate of Achievement for Excellence in Financial Reporting.

ACKNOWLEDGMENTS

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

Sincerely,



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

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Commonwealth of Pennsylvania

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1998

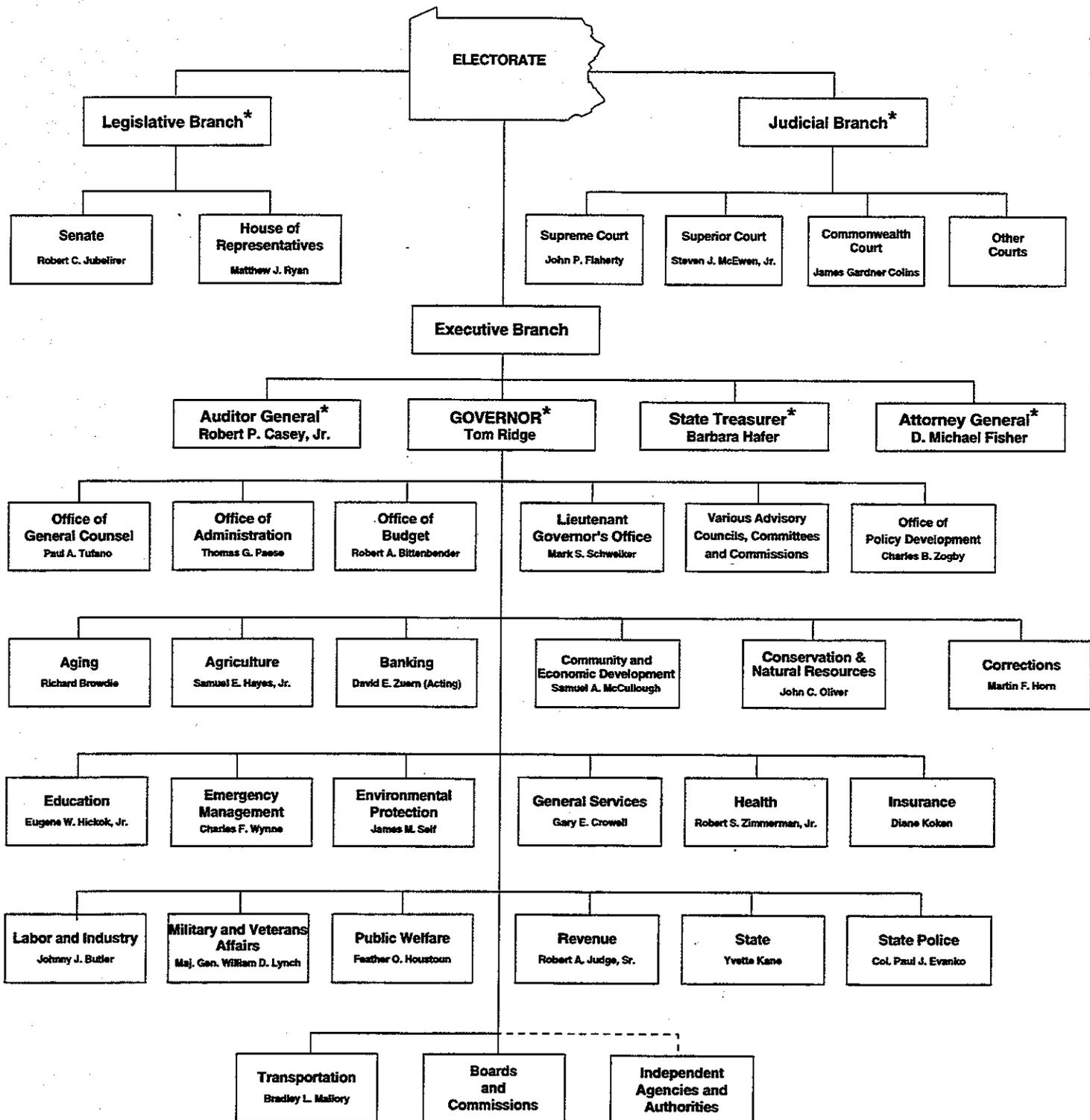
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



Cary Brubaker
President

Jeffrey L. Esler
Executive Director

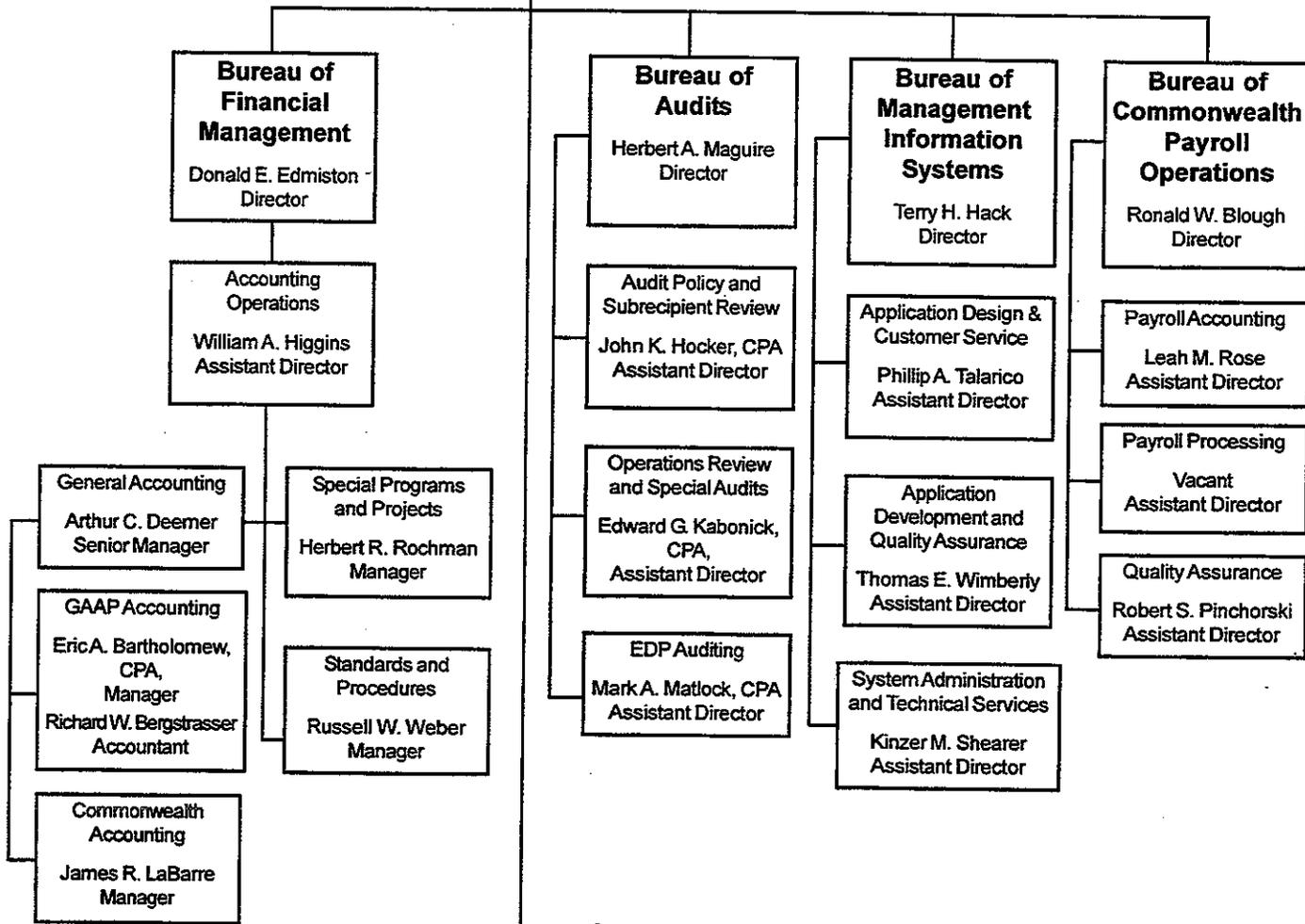
COMMONWEALTH OF PENNSYLVANIA
ORGANIZATION AND OFFICIALS CHART
JUNE 30, 1999



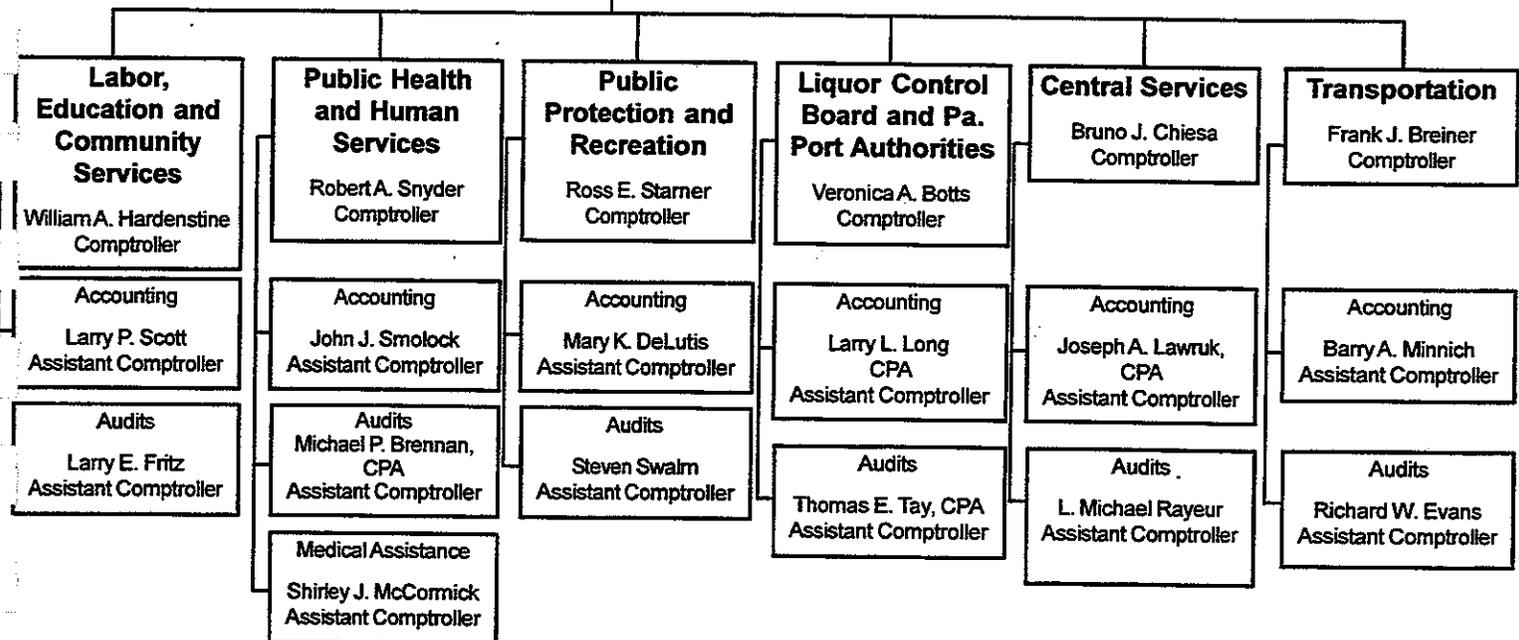
* Independently Elected

**Office of the Budget
Comptroller Operations
June 30, 1999**

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



Comptroller Offices



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Financial Section



Commonwealth of Pennsylvania



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

ERNST & YOUNG LLP

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

Independent Auditors' Report

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

We have jointly audited the general purpose financial statements of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 1999, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not jointly audit the financial statements of certain component units, which represent 78 percent of total assets of the Trust and Agency Funds, 100 percent of the revenues of the Pension Trust Fund, and 100 percent of the discretely presented component units. We also did not jointly audit the financial statements of one enterprise fund which represents 2 percent of total assets of the enterprise funds. The financial statements of these component units were audited by other auditors, including Ernst & Young LLP acting separately, whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for those component units, is based solely on the reports of the other auditors. Ernst & Young LLP has audited separately 4 percent of total assets and 5 percent of total revenues of the discretely presented component units.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth of Pennsylvania at June 30, 1999, and the results of its operations and the cash flows of its proprietary fund types for the fiscal year then ended, in conformity with generally accepted accounting principles.

As discussed in Note B, the Commonwealth adopted GASB Statement 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans."

The year 2000 supplementary information on page 72 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB), and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because disclosure criteria specified by GASB Technical Bulletin No. 98-1 as amended are not sufficiently specific to permit us to perform procedures that would provide meaningful results. In addition, we do not provide assurance that the Commonwealth of Pennsylvania is or will become year 2000 compliant, and the Commonwealth's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Commonwealth of Pennsylvania does business are or will become year 2000 compliant.

Our audit 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 accompanying table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Commonwealth of Pennsylvania. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

We did not audit the data included in the introductory and statistical sections of this report and, therefore, express no opinion thereon.

Robert P. Casley, Jr.

Ernst & Young LLP

November 5, 1999

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General Purpose Financial Statements



Commonwealth of Pennsylvania

COMBINED BALANCE SHEET

All Fund Types, Account Groups and Discretely Presented Component Units

June 30, 1999

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Governmental Fund Types				Proprietary Fund Types			Fiduciary Fund Type		Account Groups			Total (Memorandum Only)		Total (Memorandum Only) Reporting Entity
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General	Fixed Assets	Long-Term Obligations	Primary Government	Component Units	Total (Memorandum Only)		
													8	16	
ASSETS AND OTHER DEBITS															
Assets:															
Cash—Note D.....	\$ 59,873	\$ 30,226	\$ 8	\$ 16	\$ 13,997	\$ 410	\$ 7,228	\$ -	\$ -	\$ -	\$ 111,758	\$ 122,046	\$ 233,804		
Cash with fiscal agents—Note D.....	-	-	9,960	-	-	-	2,686,003	-	-	-	2,695,963	10,008	2,705,971		
Temporary investments—Note D.....	3,714,831	1,936,812	378,734	346,150	777,442	18,952	2,970,500	-	-	-	10,143,421	3,274,980	13,418,401		
Long-term investments—Note D.....	-	15,667	-	-	1,480,568	-	25,650,939	-	-	-	27,147,174	52,860,387	80,007,561		
Receivables, net:															
Taxes—Note G.....	912,107	170,948	-	-	-	-	308,401	-	-	-	1,391,456	-	1,391,456		
Accounts.....	42,411	14,323	7,821	-	9,285	34	183,805	-	-	-	257,679	50,097	307,776		
Accrued interest.....	14,564	8,968	61	1,285	19,614	78	113,798	-	-	-	158,368	81,247	239,615		
Notes and loans—Note G.....	-	60,483	-	-	185,507	-	3,582	-	-	-	249,572	6,264,726	6,514,298		
Lease rentals—Note G.....	-	-	2,489	-	-	-	-	-	-	-	2,489	3,717,441	3,719,930		
Pension contributions.....	-	-	-	-	-	-	-	-	-	-	-	251,487	251,487		
Investment proceeds.....	-	-	-	-	-	-	152,462	-	-	-	152,462	782,843	935,305		
Other.....	13,945	9,472	-	-	-	-	244	-	-	-	23,661	222,609	246,270		
Due from other funds—Note H.....	44,325	48,267	45	17,631	7,931	13,354	78,582	-	-	-	210,135	195,069	405,204		
Due from primary government—Note H.....	-	-	-	-	-	-	-	-	-	-	-	7,687	7,687		
Due from component units—Note H.....	3,961	40	27,808	-	-	616	7,356	-	-	-	39,781	142	39,923		
Due from other governments—Note B.....	1,116,793	150,786	-	-	13	756	20,441	-	-	-	1,288,789	2,480	1,291,269		
Advances to other funds—Note H.....	74,808	3,000	-	-	-	-	-	-	-	-	77,808	-	77,808		
Inventory.....	-	-	-	-	121,556	13,132	-	-	-	-	134,688	11,506	146,194		
Fixed assets—Note E.....	-	-	-	-	89,192	85,513	-	-	4,850,318	-	5,025,023	4,902,864	9,927,887		
Less: accumulated depreciation.....	-	-	-	-	(66,564)	(42,909)	-	-	-	-	(109,473)	(2,169,639)	(2,279,112)		
Other assets.....	-	-	-	-	2,689	-	440,512	-	-	-	443,201	362,917	806,118		
Other Debits:															
Amounts available in Commonwealth Funds for:															
Retirement of general obligation bonds.....	-	-	-	-	-	-	-	-	-	-	396,847	-	396,847		
Retirement of other bonds.....	-	-	-	-	-	-	-	-	-	-	-	91,084	91,084		
Other general long-term obligations.....	-	-	-	-	-	-	-	-	-	-	-	-	-		
Amounts to be provided for the retirement of:															
General obligation bonds.....	-	-	-	-	-	-	-	-	-	-	4,856,767	-	4,856,767		
Other bonds.....	-	-	-	-	-	-	-	-	-	-	-	3,701,584	3,701,584		
Other general long-term obligations.....	-	-	-	-	-	-	-	-	-	-	2,636,439	243	2,636,682		
TOTAL ASSETS AND OTHER DEBITS	\$ 5,997,618	\$ 2,448,992	\$ 426,926	\$ 365,082	\$ 2,641,230	\$ 89,936	\$ 32,623,853	\$ 4,850,318	\$ 7,890,053	\$ 57,334,008	\$ 74,743,808	\$ 132,077,816			

- See notes to financial statements -

(Continued)

All Fund Types, Account Groups and Discretely Presented Component Units (continued)

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

LIABILITIES, EQUITY AND OTHER CREDITS

Liabilities:

	Governmental Fund Types				Proprietary Fund Types			Fiduciary Fund Type		Account Groups			Total (Memorandum Only)		Total (Memorandum Only) Reporting Entity
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General	Fixed Assets	General	Long-Term Obligations	Primary Government	Component Units	Total	
Accounts payable and accrued liabilities.....	\$ 1,799,606	\$ 601,150	\$ -	\$ 95,096	\$ 110,308	\$ 12,583	\$ 166,988	\$ -	\$ -	\$ -	\$ -	\$ 2,785,731	\$ 625,722	\$ 3,415,453	
Investment purchases payable.....	-	-	-	-	-	-	603,637	-	-	-	-	603,637	1,026,774	1,630,411	
Tax refunds payable.....	500,999	1,198	-	-	-	-	3,855	-	-	-	-	506,052	-	506,052	
Tuition benefits payable.....	-	-	-	-	130,084	-	-	-	-	-	-	130,084	-	130,084	
Matured debt principal and interest payable.....	-	-	9,960	-	-	-	-	-	-	-	-	9,960	-	9,960	
Reverse repurchase agreement obligations.....	92,581	37,808	9,438	7,396	-	-	-	-	-	-	-	147,223	-	147,223	
Securities lending program obligations.....	112,801	41,478	15	69	406,703	769	1,147,673	-	-	-	-	1,554,376	3,221,012	4,775,388	
Due to other funds—Note H.....	-	-	-	-	22,352	-	43,616	-	-	-	-	221,100	195,069	416,169	
Due to primary government—Note H.....	-	-	-	-	-	4	-	-	-	-	-	3,735	39,279	39,279	
Due to component units—Note H.....	102	3,629	-	-	-	4	-	-	-	-	-	3,735	142	3,877	
Due to other governments.....	583,223	53,816	-	15,455	469	50	239,346	-	-	-	-	892,359	259,903	1,152,262	
Deferred revenue.....	44,260	22,044	10,310	-	25,902	3	67	-	-	-	-	102,586	3,742,457	3,845,043	
Notes payable—Note J.....	-	-	-	-	-	-	-	-	-	-	-	-	436,399	436,399	
Demand revenue bonds payable—Note J.....	-	-	-	-	-	-	-	-	-	-	-	-	946,000	946,000	
Advances from other funds—Note H.....	626	6,508	-	-	71,350	-	1,330,427	-	-	-	-	77,858	741,696	2,078,519	
Other liabilities.....	-	-	356	-	5,414	-	-	-	-	-	-	1,336,823	-	1,291,212	
Insurance loss liability—Note F.....	-	-	-	-	1,291,212	-	-	-	-	-	-	5,253,614	-	5,253,614	
General obligation bonds payable—Note K.....	-	-	-	-	-	-	-	-	-	-	-	-	-	3,792,668	
Bonds payable—Note K.....	-	-	-	-	-	-	-	-	-	-	-	-	-	3,792,668	
Revenue bonds payable—Note K.....	-	-	-	-	-	-	-	-	-	-	-	-	-	5,668,054	
Bond anticipation notes payable.....	-	21,700	-	15,200	-	-	-	-	-	-	-	36,900	243	37,143	
Capital lease and other general long-term obligations—Note K.....	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
TOTAL LIABILITIES.....	3,134,198	789,331	30,079	133,216	2,063,794	13,409	3,535,609	-	-	2,636,439	7,890,053	2,636,439	21,079,343	38,669,832	
Equity and Other Credits:															
Contributed capital—Note H.....	-	-	-	-	251,587	-	-	-	-	-	-	260,774	1,651,912	1,912,686	
Investment in fixed assets.....	-	-	-	-	-	-	-	4,850,318	-	-	-	4,850,318	290,209	5,140,527	
Retained earnings:															
Reserved—Note C.....	-	-	-	-	5,392	-	-	-	-	-	-	5,392	1,267,244	1,272,636	
Unreserved.....	2,863,420	1,659,661	396,847	231,866	577,436	76,527	29,088,244	-	-	-	-	387,797	686,720	1,074,517	
Fund balance:															
Reserved for:															
Encumbrances.....	279,912	366,804	-	549,858	-	-	6,780	-	-	-	-	1,203,354	41,874	1,245,228	
Advances—Note C.....	74,808	3,000	-	-	-	-	-	-	-	-	-	77,808	-	77,808	
Pension benefits.....	-	-	-	-	-	-	24,123,358	-	-	-	-	24,123,358	48,975,306	73,098,664	
Loans receivable.....	-	60,483	-	-	-	-	-	-	-	-	-	60,483	34,675	95,158	
Tax stabilization.....	944,031	-	-	-	-	-	-	-	-	-	-	944,031	-	944,031	
Deferred compensation.....	-	-	-	-	-	-	728,308	-	-	-	-	728,308	-	728,308	
Endowment and similar funds.....	-	-	-	-	-	-	-	-	-	-	-	-	15,740	15,740	
Restricted fund balance.....	-	-	-	-	-	-	-	-	-	-	-	-	37,310	37,310	
Other—Note C.....	329,014	31,754	-	-	-	-	833,702	-	-	-	-	1,194,470	161,315	1,355,785	
Unreserved:															
Designated for:															
Capital projects.....	-	-	-	81,817	-	-	-	-	-	-	-	81,817	503,149	584,966	
Debt service:															
Retirement of general obligation bonds.....	-	-	396,847	-	-	-	-	-	-	-	-	396,847	-	396,847	
Retirement of other bonds.....	-	-	-	-	-	-	-	-	-	-	-	-	91,084	91,084	
Highways.....	-	213,622	-	-	-	-	-	-	-	-	-	213,622	-	213,622	
Other—Note C.....	189,490	275	-	-	-	-	2,565	-	-	-	-	183,330	3,392	186,722	
Undesignated (deficit)—Note C.....	1,055,165	983,723	-	(399,809)	-	-	3,393,531	-	-	-	-	5,022,610	(95,465)	4,937,145	
TOTAL EQUITY AND OTHER CREDITS.....	2,863,420	1,659,661	396,847	231,866	577,436	76,527	29,088,244	4,850,318	-	2,636,439	7,890,053	2,636,439	53,664,465	93,408,784	
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS.....	\$ 5,997,618	\$ 2,448,992	\$ 426,926	\$ 365,082	\$ 2,641,230	\$ 89,936	\$ 32,623,853	\$ 4,850,318	\$ 7,890,053	\$ 57,334,008	\$ 74,743,808	\$ 132,077,816			

- See notes to financial statements. -

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

**All Governmental Fund Types, Expendable Trust Funds and
Discretely Presented Component Units**

For the Fiscal Year Ended June 30, 1999

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Governmental Fund Types				Fiduciary Fund Type	Total (Memorandum Only)	Component Units	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	Primary Government		Reporting Entity
REVENUES:								
Taxes.....	\$ 18,162,547	\$ 1,897,199	\$ -	\$ 45,530	\$ 4,824	\$ 20,110,100	\$ -	\$ 20,110,100
Unemployment taxes.....	-	-	-	-	1,459,773	1,459,773	-	1,459,773
License and fees.....	147,051	872,205	-	-	81,152	1,100,408	-	1,100,408
Intergovernmental.....	9,462,123	1,101,302	-	30	49,336	10,612,791	327	10,613,118
Charges for sales and services.....	1,812,081	224,021	-	21,273	-	2,057,375	10,327	2,067,702
Investment income.....	157,591	83,711	2,557	14,666	313,393	571,918	25,253	597,171
Lottery revenues.....	-	1,659,305	-	-	-	1,659,305	-	1,659,305
Lease rental principal and interest.....	-	-	1,827	-	-	1,827	321,435	323,262
Other.....	119,966	75,117	164	17,180	89,764	302,191	12,430	314,621
TOTAL REVENUES	29,861,359	5,912,860	4,548	98,679	1,998,242	37,875,688	369,772	38,245,460
EXPENDITURES:								
Current:								
General government.....	1,231,556	1,490,575	-	786	23,220	2,746,137	-	2,746,137
Protection of persons and property.....	2,764,332	19,240	-	1,697	71,130	2,856,399	10,466	2,866,865
Public health and welfare.....	14,591,847	728,563	-	-	1,503,639	16,824,049	-	16,824,049
Public education.....	7,841,624	1,108	-	-	-	7,842,732	2,777	7,845,509
Conservation of natural resources.....	138,417	250,197	-	47,987	-	436,601	-	436,601
Economic development and assistance.....	388,709	9,467	-	70,829	-	469,005	43,678	512,683
Transportation.....	372,848	3,139,299	-	142,122	-	3,654,269	-	3,654,269
Capital outlay.....	38,473	41,449	-	502,941	-	582,863	479,661	1,062,524
Debt service:								
Principal retirement.....	-	-	443,675	-	11,394	455,069	197,557	652,626
Interest and fiscal charges.....	-	-	262,667	2	-	262,669	169,930	432,599
TOTAL EXPENDITURES	27,367,806	5,679,898	706,342	766,364	1,609,383	36,129,793	904,069	37,033,862
REVENUES OVER (UNDER) EXPENDITURES	2,493,553	232,962	(701,794)	(667,685)	388,859	1,745,895	(534,297)	1,211,598
OTHER FINANCING SOURCES (USES):								
Bond proceeds.....	-	19,294	-	837,545	-	856,839	497,515	1,354,354
Refunding bond proceeds.....	-	-	-	-	-	-	215,005	215,005
Operating transfers in—Note H.....	106,667	335,237	903,081	-	-	1,344,985	549,442	1,894,427
Operating transfers out—Note H.....	(821,131)	(471,610)	(91)	-	-	(1,292,832)	(549,442)	(1,842,274)
Operating transfers from primary government—Note H.....	-	-	-	-	-	-	40,400	40,400
Operating transfers to component units—Note H.....	(781,636)	-	-	-	-	(781,636)	-	(781,636)
Payment to refunded bond escrow agent.....	-	-	-	-	-	-	(211,526)	(211,526)
Capital lease and installment purchase obligations.....	20,499	8,336	-	-	-	28,835	-	28,835
NET OTHER FINANCING SOURCES (USES)	(1,475,601)	(108,743)	902,990	837,545	-	156,191	541,394	697,585
REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	1,017,952	124,219	201,196	169,860	388,859	1,902,086	7,097	1,909,183
FUND BALANCES, AS RESTATED, JULY 1, 1998 — NOTE C.....	1,958,881	1,575,292	195,651	62,006	3,742,325	7,534,155	625,966	8,160,121
RESIDUAL EQUITY TRANSFERS— NOTE H.....	(113,413)	(39,850)	-	-	-	(153,263)	-	(153,263)
FUND BALANCES JUNE 30, 1999.....	\$ 2,863,420	\$ 1,659,661	\$ 396,847	\$ 231,866	\$ 4,131,184	\$ 9,282,978	\$ 633,063	\$ 9,916,041

— See notes to financial statements. —

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
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, 1999

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	General Fund			Budgeted Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
State Programs:						
Taxes, net of refunds.....	\$ 17,478,300	\$ 18,190,330	\$ 712,030	\$ 1,054,981	\$ 1,078,224	\$ 23,243
Lottery receipts.....	-	-	-	894,639	899,691	5,052
Liquor store profits transfer.....	50,000	50,000	-	-	-	-
Licenses and fees.....	72,640	81,212	8,572	752,967	769,242	16,275
Investment income.....	83,965	124,200	40,235	45,907	60,565	14,658
Unclaimed property, net of claim payments.....	41,985	41,178	(807)	-	-	-
Fines, penalties and interest.....	23,600	27,941	4,341	33,080	30,314	(2,766)
Departmental services.....	1,669,226	1,669,226	-	40,861	40,861	-
Miscellaneous.....	59,150	67,794	8,644	33,868	33,428	(440)
TOTAL STATE PROGRAMS.....	19,478,866	20,251,881	773,015	2,856,303	2,912,325	56,022
Federal Programs.....	9,957,143	9,289,272	(667,871)	814,605	720,957	(93,648)
TOTAL REVENUES.....	29,436,009	29,541,153	105,144	3,670,908	3,633,282	(37,626)
EXPENDITURES:						
State Programs:						
General government.....	1,759,293	1,725,106	34,187	507,885	487,415	20,470
Protection of persons and property.....	2,509,687	2,484,240	25,447	303,146	300,741	2,405
Public health and welfare.....	7,003,588	7,002,888	700	653,727	627,414	26,313
Public education.....	7,892,776	7,862,869	29,907	1,556	1,182	374
Conservation of natural resources.....	130,385	130,156	229	1,000	966	34
Economic development and assistance.....	357,593	357,586	7	149	149	-
Transportation.....	383,414	369,720	13,694	1,529,271	1,520,081	9,190
TOTAL STATE PROGRAMS.....	20,036,736	19,932,565	104,171	2,996,734	2,937,948	58,786
Federal Programs.....	9,957,143	9,289,272	667,871	814,605	720,957	93,648
TOTAL EXPENDITURES.....	29,993,879	29,221,837	772,042	3,811,339	3,658,905	152,434
REVENUES OVER (UNDER) EXPENDITURES.....	(557,870)	319,316	877,186	(140,431)	(25,623)	114,808
OTHER FINANCING SOURCES (USES):						
Prior-year lapses.....	118,356	118,356	-	42,011	42,011	-
Transfer to Tax Stabilization Reserve Fund.....	-	(255,448)	(255,448)	-	-	-
Increase in budgeted revenues.....	773,015	-	(773,015)	-	-	-
NET OTHER FINANCING SOURCES.....	891,371	(137,092)	(1,028,463)	42,011	42,011	-
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES—NOTE M.....	333,501	182,224	(151,277)	(98,420)	16,388	114,808
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), AS RESTATED, JULY 1, 1998 — NOTE C.....	265,312	265,312	-	427,095	427,095	-
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS) JUNE 30, 1999.....	\$ 598,813	\$ 447,536	\$ (151,277)	\$ 328,675	\$ 443,483	\$ 114,808

— See notes to financial statements. —

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

All Proprietary Fund Types and Discretely Presented Component Units

For the Fiscal Year Ended June 30, 1999

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Proprietary Fund Types		Total (Memorandum Only) Primary Government	Component Units	Total (Memorandum Only) Reporting Entity
	Enterprise	Internal Service			
OPERATING REVENUES:					
Sales and services.....	\$ 929,097	\$ 189,792	\$ 1,118,889	\$ 746,278	\$ 1,865,167
Investment income.....	182,919	-	182,919	70,606	253,525
Interest on notes and loans.....	5,501	-	5,501	375,680	381,181
Other.....	339	24	363	16,544	16,907
TOTAL OPERATING REVENUES.....	1,117,856	189,816	1,307,672	1,209,108	2,516,780
OPERATING EXPENSES:					
Cost of sales and services.....	958,751	178,169	1,136,920	913,540	2,050,460
Interest expense.....	15,843	-	15,843	330,825	346,668
Depreciation.....	5,292	9,307	14,599	143,943	158,542
Provision for uncollectible accounts.....	12,069	2	12,071	19,228	31,299
Other.....	(948)	-	(948)	3,177	2,229
TOTAL OPERATING EXPENSES.....	991,007	187,478	1,178,485	1,410,713	2,589,198
OPERATING INCOME (LOSS).....	126,849	2,338	129,187	(201,605)	(72,418)
NONOPERATING REVENUES (EXPENSES):					
Investment income.....	6,384	1,002	7,386	36,079	43,465
Interest expense.....	-	-	-	(79,895)	(79,895)
Oil company franchise tax.....	-	-	-	41,891	41,891
Other revenues.....	600	12	612	3,563	4,175
Other expenses.....	(361)	(328)	(689)	(75,919)	(76,608)
NONOPERATING REVENUES, NET.....	6,623	686	7,309	(74,281)	(66,972)
INCOME (LOSS) BEFORE OPERATING TRANSFERS AND EXTRAORDINARY ITEMS.....	133,472	3,024	136,496	(275,886)	(139,390)
OPERATING TRANSFERS:					
Operating transfers out—Note H.....	(52,153)	-	(52,153)	-	(52,153)
Operating transfers from primary government—Note H.....	-	-	-	314,666	314,666
OPERATING TRANSFERS, NET.....	(52,153)	-	(52,153)	314,666	262,513
INCOME BEFORE EXTRAORDINARY ITEMS.....	81,319	3,024	84,343	38,780	123,123
Extraordinary loss on early extinguishment of debt.....	-	-	-	(620)	(620)
NET INCOME.....	81,319	3,024	84,343	38,160	122,503
RETAINED EARNINGS/FUND BALANCES, JULY 1, 1998.....	244,530	64,305	308,835	1,915,804	2,224,639
RESIDUAL EQUITY TRANSFER IN.....	-	11	11	-	11
RETAINED EARNINGS/FUND BALANCES, JUNE 30, 1999.....	\$ 325,849	\$ 67,340	\$ 393,189	\$ 1,953,964	\$ 2,347,153

— See notes to financial statements. —

COMBINED STATEMENT OF CASH FLOWS

All Proprietary Fund Types and Discretely Presented Component Units

For the Fiscal Year Ended June 30, 1999

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)

	Proprietary Funds		Total (Memorandum Only) Primary Government	Component Units	Total (Memorandum Only) Reporting Entity
	Enterprise	Internal Service			
CASH FLOWS FROM OPERATING ACTIVITIES:					
Operating income (loss).....	\$ 126,849	\$ 2,338	\$ 129,187	\$ (201,605)	\$ (72,418)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation.....	5,292	9,307	14,599	143,943	158,542
Net amortization.....	-	-	-	9,579	9,579
Provision for uncollectible accounts.....	12,069	2	12,071	19,228	31,299
Nonoperating revenues.....	600	12	612	3,563	4,175
Nonoperating expenses.....	-	(70)	(70)	(75,919)	(75,989)
Reclassification of investment income.....	(182,919)	-	(182,919)	(70,606)	(253,525)
Changes in assets and liabilities:					
Receivables.....	(4,891)	131	(4,760)	(210,573)	(215,333)
Due from other funds.....	(4,976)	(2,037)	(7,013)	-	(7,013)
Due from primary government.....	-	-	-	(37)	(37)
Due from component units.....	-	15	15	(19)	(4)
Due from other governments.....	1	(514)	(513)	48,617	48,104
Inventory.....	5,721	405	6,126	(54)	6,072
Other current assets.....	(1,767)	1	(1,766)	(258,158)	(259,924)
Accounts payable and accrued liabilities.....	11,981	(813)	11,168	18,706	29,874
Due to other funds.....	(4,766)	297	(4,469)	-	(4,469)
Due to primary government.....	-	-	-	(1,977)	(1,977)
Due to component units.....	-	4	4	19	23
Due to other governments.....	31	4	35	127,717	127,752
Deferred revenue.....	301	(87)	214	(42,348)	(42,134)
Insurance loss liability.....	(84,145)	-	(84,145)	-	(84,145)
Tuition benefits payable.....	25,390	-	25,390	-	25,390
Securities lending program obligations.....	119,494	-	119,494	-	119,494
Other current liabilities.....	(2,324)	-	(2,324)	45,649	43,325
TOTAL ADJUSTMENTS.....	(104,908)	6,657	(98,251)	(242,670)	(340,921)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	21,941	8,995	30,936	(444,275)	(413,339)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Repayments under advances from other funds.....	(100)	-	(100)	-	(100)
Proceeds from issuance of debt obligations.....	-	-	-	513,199	513,199
Principal paid on debt obligations.....	-	-	-	(300,098)	(300,098)
Operating transfers from primary government.....	-	-	-	314,666	314,666
Operating transfers out.....	(52,153)	-	(52,153)	-	(52,153)
Increase in contributed capital.....	11,530	-	11,530	-	11,530
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES.....	(40,723)	-	(40,723)	527,767	487,044
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from issuance of debt obligations.....	-	-	-	590,199	590,199
Principal paid on debt obligations.....	-	-	-	(156,527)	(156,527)
Interest paid on debt obligations.....	-	-	-	(79,895)	(79,895)
Increases in contributed capital.....	36,052	-	36,052	124,921	160,973
Decreases in contributed capital.....	(5,000)	-	(5,000)	(2,076)	(7,076)
Acquisition and construction of capital assets.....	(9,219)	(14,239)	(23,458)	(327,819)	(351,277)
Proceeds from sale of capital assets.....	-	923	923	-	923
Oil company franchise tax.....	-	-	-	41,891	41,891
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES.....	21,833	(13,316)	8,517	190,694	199,211
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of investments.....	(8,347,539)	(81,845)	(8,429,384)	(4,608,878)	(13,038,262)
Proceeds from sale and maturities of investments.....	8,201,137	85,255	8,286,392	4,232,456	12,518,848
Investment income.....	144,171	993	145,164	107,121	252,285
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	(2,231)	4,403	2,172	(269,301)	(267,129)
NET INCREASE IN CASH.....	820	82	902	4,885	5,787
CASH, JULY 1, 1998.....	13,177	328	13,505	77,723	91,228
CASH, JUNE 30, 1999.....	\$ 13,997	\$ 410	\$ 14,407	\$ 82,608	\$ 97,015

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

— See notes to financial statements. —

STATEMENT OF CHANGES IN PLAN NET ASSETS
Pension Trust Fund

For the Year Ended December 31, 1998

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	<u>State Employees' Retirement System</u>
ADDITIONS:	
Net appreciation in fair value of investments.....	\$ 1,212,355
Pension contributions:	
Employee.....	221,618
Employer.....	310,501
Investment income.....	<u>2,296,272</u>
TOTAL ADDITIONS	<u>4,040,746</u>
 DEDUCTIONS:	
Benefit payments.....	1,050,870
Refunds of contributions.....	11,285
Investment expenses.....	148,783
Administrative expenses.....	<u>18,221</u>
TOTAL DEDUCTIONS	<u>1,229,159</u>
Net increase.....	2,811,587
Fund balance reserved for pension benefits:	
JANUARY 1, 1998.....	<u>21,311,771</u>
DECEMBER 31, 1998.....	<u>\$ 24,123,358</u>

— See notes to financial statements. —

STATEMENT OF CHANGES IN PLAN NET ASSETS
Investment Trust Fund

For the Year Ended December 31, 1998

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	INVEST Program For Local Governments
Investment income.....	\$ 41,276
Less: participant administrative expenses.....	371
Net increase in net assets resulting from operations	<u>40,905</u>
Net investment income distributions to participants.....	<u>(40,900)</u>
Share transactions (at net asset value of \$1.00 per share):	
Shares purchased.....	2,462,376
Shares issued in lieu of cash distributions.....	32,591
Shares redeemed.....	<u>(2,198,448)</u>
Net increase in net assets from share transactions.....	<u>296,519</u>
Net increase in net assets.....	296,524
FUND BALANCE, JANUARY 1, 1998.....	<u>537,178</u>
FUND BALANCE, DECEMBER 31, 1998.....	<u>\$ 833,702</u>

— See notes to financial statements. —

COMBINED BALANCE SHEET
Discretely Presented Component Units

June 30, 1999

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	Governmental Funds	Proprietary Funds	Fiduciary Fund - Note I	College and University Funds	Total (Memorandum Only) Component Units
ASSETS AND OTHER DEBITS					
Assets:					
Cash—Note D.....	\$ 2,822	\$ 72,894	\$ -	\$ 46,330	\$ 122,046
Cash with fiscal agents—Note D.....	294	9,714	-	-	10,008
Temporary investments—Note D.....	223,496	1,412,802	1,440,997	197,685	3,274,980
Long-term investments—Note D.....	416,263	1,241,211	50,793,776	409,137	52,860,387
Receivable, net:					
Accounts.....	52	19,275	-	30,770	50,097
Accrued interest.....	1,925	79,322	-	-	81,247
Notes and loans—Note G.....	1,365	6,231,718	-	31,643	6,264,726
Lease rental—Note G.....	3,701,580	15,861	-	-	3,717,441
Pension contributions.....	-	-	251,487	-	251,487
Investment proceeds.....	-	-	782,843	-	782,843
Other.....	735	-	218,229	3,645	222,609
Due from other funds—Note H.....	417	-	-	194,652	195,069
Due from primary government—Note H.....	-	6,347	1,340	-	7,687
Due from component units—Note H.....	-	142	-	-	142
Due from other governments—Note B.....	112	2,351	17	-	2,480
Inventory.....	-	6,915	-	4,591	11,506
Fixed assets—Note E.....	-	3,930,790	18,552	953,522	4,902,864
Less: accumulated depreciation.....	-	(1,853,986)	(12,438)	(303,215)	(2,169,639)
Other assets.....	19	328,092	-	34,806	362,917
Other Debits:					
Amounts available for retirement of other bonds.....	91,084	-	-	-	91,084
Amounts to be provided for the retirement of:					
Other bonds.....	3,701,584	-	-	-	3,701,584
Other general long-term obligations.....	243	-	-	-	243
TOTAL ASSETS AND OTHER DEBITS	\$ 8,141,991	\$ 11,503,448	\$ 53,494,803	\$ 1,603,566	\$ 74,743,808
LIABILITIES, EQUITY AND OTHER CREDITS					
Liabilities:					
Accounts payable and accrued liabilities.....	\$ 10,845	\$ 222,768	\$ 269,736	\$ 126,373	\$ 629,722
Investment purchases payable.....	-	-	1,026,774	-	1,026,774
Obligations under securities lending.....	-	-	3,221,012	-	3,221,012
Due to other funds—Note H.....	417	-	-	194,652	195,069
Due to primary government—Note H.....	-	32,530	1,975	4,774	39,279
Due to component units—Note H.....	-	142	-	-	142
Due to other governments.....	2,922	256,981	-	-	259,903
Deferred revenue.....	3,701,719	598	-	40,140	3,742,457
Notes payable—Note J.....	-	436,399	-	-	436,399
Demand revenue bonds payable—Note J.....	-	946,000	-	-	946,000
Other liabilities.....	114	334,100	-	407,482	741,696
Bonds payable—Note K.....	3,792,668	-	-	-	3,792,668
Revenue bonds payable—Note K.....	-	5,668,054	-	-	5,668,054
Capital lease obligations—Note K.....	243	-	-	379,925	380,168
TOTAL LIABILITIES	7,508,928	7,897,572	4,519,497	1,153,346	21,079,343
Equity and Other Credits:					
Contributed capital—Note H.....	-	1,651,912	-	-	1,651,912
Investment in fixed assets.....	-	-	-	290,209	290,209
Retained earnings:					
Reserved—Note C.....	-	1,267,244	-	-	1,267,244
Unreserved.....	-	686,720	-	-	686,720
Fund balance:					
Reserved for:					
Encumbrances.....	6,557	-	-	35,317	41,874
Pension benefits.....	-	-	48,975,306	-	48,975,306
Loans receivable.....	-	-	-	34,675	34,675
Endowment and similar funds.....	-	-	-	15,740	15,740
Restricted fund balance.....	2,657	-	-	34,653	37,310
Other—Note C.....	4,768	-	-	156,547	161,315
Unreserved:					
Designated for:					
Capital projects.....	503,149	-	-	-	503,149
Debt service:					
Retirement of other bonds.....	91,084	-	-	-	91,084
Other.....	3,392	-	-	-	3,392
Undesignated (deficit)—Note C.....	21,456	-	-	(116,921)	(95,465)
TOTAL EQUITY AND OTHER CREDITS	633,063	3,605,876	48,975,306	450,220	53,664,465
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS	\$ 8,141,991	\$ 11,503,448	\$ 53,494,803	\$ 1,603,566	\$ 74,743,808

— See notes to financial statements. —

COMBINING BALANCE SHEET
Governmental Funds - Discretely Presented Component Units

June 30, 1999

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	State Public School Building Authority	Ben Franklin/ IRC Partnership	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority	Total
ASSETS AND OTHER DEBITS					
Assets:					
Cash—Note D.....	\$ 480	\$ 1	\$ -	\$ 2,341	\$ 2,822
Cash with fiscal agents.....	-	-	294	-	294
Temporary investments—Note D.....	58,985	13,004	3,614	147,893	223,496
Long-term investments—Note D.....	28,110	-	-	388,153	416,263
Receivables, net:					
Accounts.....	4	-	48	-	52
Accrued interest.....	484	61	-	1,380	1,925
Notes and loans—Note G.....	1,365	-	-	-	1,365
Lease rental—Note G.....	345,623	-	-	3,355,957	3,701,580
Other.....	-	-	-	735	735
Due from primary government—Note H.....	417	-	-	-	417
Due from other governments.....	-	-	112	-	112
Other assets.....	-	-	19	-	19
Other Debits:					
Amounts available for retirement of other bonds.....	1,843	-	-	89,241	91,084
Amounts to be provided for the retirement of:					
Other bonds.....	345,627	-	-	3,355,957	3,701,584
Other general long-term obligations.....	243	-	-	-	243
TOTAL ASSETS AND OTHER DEBITS	\$ 783,181	\$ 13,066	\$ 4,087	\$ 7,341,657	\$ 8,141,991
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities.....	\$ 2,604	\$ 4,727	\$ 299	\$ 3,215	\$ 10,845
Due to other funds.....	417	-	-	-	417
Due to other governments.....	-	2,922	-	-	2,922
Deferred revenue.....	345,623	-	-	3,356,096	3,701,719
Other liabilities.....	106	-	8	-	114
Bonds payable—Note K.....	347,470	-	-	3,445,198	3,792,668
Capital lease and other general long-term obligations.....	243	-	-	-	243
TOTAL LIABILITIES	696,463	7,649	307	6,804,509	7,508,928
Fund Balance:					
Reserved for:					
Encumbrances.....	-	6,557	-	-	6,557
Restricted fund balance.....	2,657	-	-	-	2,657
Other.....	-	-	-	4,768	4,768
Unreserved:					
Designated for:					
Capital projects.....	60,010	-	-	443,139	503,149
Debt service:					
Retirement of other bonds.....	1,843	-	-	89,241	91,084
Other.....	-	-	3,392	-	3,392
Undesignated.....	22,208	(1,140)	388	-	21,456
TOTAL FUND BALANCES	86,718	5,417	3,780	537,148	633,063
TOTAL LIABILITIES AND FUND BALANCES	\$ 783,181	\$ 13,066	\$ 4,087	\$ 7,341,657	\$ 8,141,991

— See notes to financial statements. —

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

Governmental Funds -

Discretely Presented Component Units

For the Fiscal Year Ended June 30, 1999

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	State Public School Building Authority	Ben Franklin/ IRC Partnership	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority	Total
REVENUES:					
Intergovernmental.....	\$ -	\$ 327	\$ -	\$ -	\$ 327
Charges for sales and services.....	1,115	-	8,246	966	10,327
Investment income.....	4,721	795	231	19,506	25,253
Lease rental principal and interest.....	35,218	-	-	286,217	321,435
Other.....	5,768	-	173	6,489	12,430
TOTAL REVENUES	46,822	1,122	8,650	313,178	369,772
EXPENDITURES:					
Protection of persons and property.....	-	-	10,466	-	10,466
Public education.....	1,662	-	-	1,115	2,777
Economic development and assistance.....	-	43,678	-	-	43,678
Capital outlay.....	42,760	-	-	436,901	479,661
Debt service:					
Principal retirement.....	29,848	-	-	167,709	197,557
Interest and fiscal charges.....	14,101	-	-	155,829	169,930
TOTAL EXPENDITURES	88,371	43,678	10,466	761,554	904,069
REVENUES UNDER EXPENDITURES	(41,549)	(42,556)	(1,816)	(448,376)	(534,297)
OTHER FINANCING SOURCES (USES):					
Bond proceeds.....	44,080	-	-	453,435	497,515
Refunding bond proceeds.....	33,895	-	-	181,110	215,005
Operating transfers in—Note H.....	47,404	-	-	502,038	549,442
Operating transfers out—Note H.....	(47,404)	-	-	(502,038)	(549,442)
Operating transfer from primary government—Note H.....	-	40,400	-	-	40,400
Payment to refunded bond escrow agent.....	(33,359)	-	-	(178,167)	(211,526)
NET OTHER FINANCING SOURCES	44,616	40,400	-	456,378	541,394
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	3,067	(2,156)	(1,816)	8,002	7,097
FUND BALANCES, JULY 1, 1998	83,651	7,573	5,596	529,146	625,966
FUND BALANCES, JUNE 30, 1999	\$ 86,718	\$ 5,417	\$ 3,780	\$ 537,148	\$ 633,063

— See notes to financial statements. —

COMBINING BALANCE SHEET
Proprietary Funds - Discretely Presented Component Units

June 30, 1999

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Pennsylvania Turnpike Commission (May 31, 1999)	Pennsylvania Industrial Development Authority	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	Total
ASSETS						
Cash—Note D.....	\$ 62,095	\$ -	\$ 2,876	\$ 7,910	\$ 13	\$ 72,894
Cash with fiscal agents—Note D.....	-	-	-	3,008	6,706	9,714
Temporary investments—Note D.....	169,118	136,667	407,549	448,447	251,021	1,412,802
Long-term investments—Note D.....	732,535	98,954	401,484	8,238	-	1,241,211
Receivables, net:						
Accounts.....	6,004	-	68	13,203	-	19,275
Accrued interest.....	9,116	3,420	-	64,118	2,668	79,322
Notes and loans—Note G.....	-	601,239	2,703,483	1,834,537	1,092,459	6,231,718
Lease rentals—Note G.....	-	15,861	-	-	-	15,861
Due from primary government—Note H.....	6,347	-	-	-	-	6,347
Due from component units—Note H.....	-	-	45	-	97	142
Due from other governments—Note B.....	-	-	-	2,310	41	2,351
Inventory.....	6,915	-	-	-	-	6,915
Fixed assets—Note E.....	3,780,411	-	8,111	141,877	391	3,930,790
Less: accumulated depreciation.....	(1,811,110)	-	(3,015)	(39,618)	(243)	(1,853,986)
Other assets.....	31,930	10,321	13,726	254,901	17,214	328,092
TOTAL ASSETS	\$ 2,993,361	\$ 866,462	\$ 3,534,327	\$ 2,738,931	\$ 1,370,367	\$ 11,503,448
LIABILITIES AND EQUITY						
Liabilities:						
Accounts payable and accrued liabilities.....	\$ 100,260	\$ 367	\$ 51,136	\$ 66,448	\$ 4,557	\$ 222,768
Due to primary government—Note H.....	4,608	-	16	90	27,816	32,530
Due to component units—Note H.....	-	-	97	-	45	142
Due to other governments.....	-	-	-	256,976	5	256,981
Deferred revenue.....	-	-	-	598	-	598
Notes payable—Note J.....	-	-	6,049	430,350	-	436,399
Demand revenue bonds payable—Note J.....	-	-	-	946,000	-	946,000
Other liabilities.....	17,439	10,776	252,855	53,030	-	334,100
Revenue bonds payable—Note K.....	1,543,481	378,053	2,720,851	837,785	187,884	5,668,054
TOTAL LIABILITIES	1,665,788	389,196	3,031,004	2,591,277	220,307	7,897,572
Equity:						
Contributed capital—Note H.....	247,480	327,840	1,960	-	1,074,632	1,651,912
Retained earnings:						
Reserved—Note C.....	1,080,093	-	124,470	62,681	-	1,267,244
Unreserved.....	-	149,426	376,893	84,973	75,428	686,720
TOTAL EQUITY	1,327,573	477,266	503,323	147,654	1,150,060	3,605,876
TOTAL LIABILITIES AND EQUITY	\$ 2,993,361	\$ 866,462	\$ 3,534,327	\$ 2,738,931	\$ 1,370,367	\$ 11,503,448

— See notes to financial statements. —

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

Proprietary Funds - Discretely Presented Component Units *For the Fiscal Year Ended June 30, 1999*

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	<u>Pennsylvania Turnpike Commission (May 31, 1999)</u>	<u>Pennsylvania Industrial Development Authority</u>	<u>Pennsylvania Housing Finance Agency</u>	<u>Pennsylvania Higher Education Assistance Agency</u>	<u>Pennsylvania Infrastructure Investment Authority</u>	<u>Total</u>
OPERATING REVENUES:						
Sales and services.....	\$ 350,565	\$ -	\$ 136,964	\$ 256,002	\$ 2,747	\$ 746,278
Investment income.....	-	11,376	29,946	19,848	9,436	70,606
Interest on notes and loans.....	-	20,702	186,757	148,472	19,749	375,680
Other.....	12,700	725	2,757	362	-	16,544
TOTAL OPERATING REVENUES.....	363,265	32,803	356,424	424,684	31,932	1,209,108
OPERATING EXPENSES:						
Cost of sales and services.....	190,179	3,226	138,379	579,622	2,134	913,540
Interest expense.....	-	21,845	175,551	121,826	11,603	330,825
Depreciation.....	132,866	-	325	10,712	40	143,943
Provision for uncollectible accounts.....	-	1,221	16,468	-	1,539	19,228
Other.....	-	2,577	600	-	-	3,177
TOTAL OPERATING EXPENSES.....	323,045	28,869	331,323	712,160	15,316	1,410,713
OPERATING INCOME (LOSS).....	40,220	3,934	25,101	(287,476)	16,616	(201,605)
NONOPERATING REVENUES (EXPENSES):						
Investment income.....	36,079	-	-	-	-	36,079
Interest expense.....	(79,895)	-	-	-	-	(79,895)
Oil company franchise tax.....	41,891	-	-	-	-	41,891
Other revenue.....	-	-	-	3,563	-	3,563
Other expenses.....	-	-	-	(75,919)	-	(75,919)
NONOPERATING REVENUES, NET.....	(1,925)	-	-	(72,356)	-	(74,281)
INCOME (LOSS) BEFORE OPERATING TRANSFERS AND EXTRAORDINARY ITEMS.....	38,295	3,934	25,101	(359,832)	16,616	(275,886)
OPERATING TRANSFERS:						
Operating transfers from primary government— Note H.....	-	-	-	314,666	-	314,666
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS.....	38,295	3,934	25,101	(45,166)	16,616	38,780
Extraordinary loss on early extinguishment of debt.....	-	-	(620)	-	-	(620)
NET INCOME (LOSS).....	38,295	3,934	24,481	(45,166)	16,616	38,160
RETAINED EARNINGS, JULY 1, 1998.....	1,041,798	145,492	476,882	192,820	58,812	1,915,804
RETAINED EARNINGS, JUNE 30, 1999.....	\$ 1,080,093	\$ 149,426	\$ 501,363	\$ 147,654	\$ 75,428	\$ 1,953,964

— See notes to financial statements. —

COMBINING STATEMENT OF CASH FLOWS
Proprietary Funds - Discretely Presented Component Units

For the Fiscal Year Ended June 30, 1999

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)						
	Pennsylvania Turnpike Commission (May 31, 1999)	Pennsylvania Industrial Development Authority	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	Total
CASH FLOWS FROM OPERATING ACTIVITIES:						
Operating income (loss).....	\$ 40,220	\$ 3,934	\$ 25,101	\$ (287,476)	\$ 16,616	\$ (201,605)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Depreciation.....	132,866	-	325	10,712	40	143,943
Net amortization.....	9,579	-	-	-	-	9,579
Provision for uncollectible accounts.....	-	1,221	16,468	-	1,539	19,228
Nonoperating revenues.....	-	-	-	3,563	-	3,563
Nonoperating expenses.....	-	-	-	(75,919)	-	(75,919)
Reclassification of investment income.....	-	(11,376)	(29,946)	(19,848)	(9,436)	(70,606)
Changes in assets and liabilities:						
Receivables.....	(5,633)	35,180	(88,791)	(135,164)	(16,165)	(210,573)
Due from primary government.....	(37)	-	-	-	-	(37)
Due from component units.....	-	-	(7)	-	(12)	(19)
Due from other governments.....	-	-	-	47,715	902	48,617
Inventory.....	(54)	-	-	-	-	(54)
Other current assets.....	(17,601)	183	(768)	(237,636)	(2,336)	(258,158)
Accounts payable and accrued liabilities.....	26,442	(125)	265	(8,144)	268	18,706
Due to primary government.....	38	(1)	(6)	(23)	(1,985)	(1,977)
Due to component units.....	-	-	12	-	7	19
Due to other governments.....	-	-	-	127,715	2	127,717
Deferred revenue.....	-	-	-	(42,342)	(6)	(42,348)
Other current liabilities.....	6,994	(537)	40,099	(907)	-	45,649
TOTAL ADJUSTMENTS.....	152,594	24,545	(62,349)	(330,278)	(27,182)	(242,670)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	192,814	28,479	(37,248)	(617,754)	(10,566)	(444,275)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Proceeds from issuance of debt obligations.....	-	-	255,996	257,203	-	513,199
Principal paid on debt obligations.....	-	(20,795)	(222,709)	(56,594)	-	(300,098)
Operating transfers from primary government.....	-	-	-	314,666	-	314,666
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES.....	-	(20,795)	33,287	515,275	-	527,767
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Proceeds from issuance of debt obligations.....	588,355	-	-	-	1,844	590,199
Principal paid on debt obligations.....	(145,762)	-	-	-	(10,765)	(156,527)
Interest paid on debt obligations.....	(79,895)	-	-	-	-	(79,895)
Increase in contributed capital.....	30,933	20,000	-	-	73,988	124,921
Decrease in contributed capital.....	-	-	-	-	(2,076)	(2,076)
Acquisition and construction of capital assets.....	(307,101)	-	(2,543)	(18,053)	(122)	(327,819)
Proceeds from sale of capital assets.....	-	-	-	-	-	-
Oil company franchise tax.....	41,891	-	-	-	-	41,891
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES.....	128,421	20,000	(2,543)	(18,053)	62,869	190,694
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of investments.....	(1,260,123)	(64,285)	(477,695)	(2,626,570)	(180,205)	(4,608,878)
Proceeds for sale and maturities of investments.....	898,277	22,850	454,369	2,733,109	123,851	4,232,456
Investment income.....	36,079	11,376	29,946	19,848	9,872	107,121
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	(325,767)	(30,059)	6,620	126,387	(46,482)	(269,301)
NET INCREASE (DECREASE) IN CASH.....	(4,532)	(2,375)	116	5,855	5,821	4,885
CASH, JULY 1, 1998.....	66,627	2,375	2,760	5,063	898	77,723
CASH, JUNE 30, 1999.....	\$ 62,095	\$ -	\$ 2,876	\$ 10,918	\$ 6,719	\$ 82,608

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

— See notes to financial statements. —

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS

Pension Trust Fund - Discretely Presented Component Unit

For the Fiscal Year Ended June 30, 1999

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

Public School Employees' Retirement System

	Postemployment Healthcare			Total
	Pension	Premium Assistance	Health Options Program	
ADDITIONS:				
Net appreciation (depreciation) in fair value of investments.....	\$ 4,101,773	\$ (537)	\$ -	\$ 4,101,236
Pension contributions:				
Employee.....	535,640	-	110,867	646,507
Employer.....	511,405	12,955	-	524,360
Other sources.....	2,535	65	-	2,600
Investment income.....	1,557,205	4,063	803	1,562,071
TOTAL ADDITIONS	6,708,558	16,546	111,670	6,836,774
DEDUCTIONS:				
Benefit payments.....	2,283,596	31,658	110,772	2,426,026
Refunds of contributions.....	20,110	-	-	20,110
Investment expenses.....	234,628	20	-	234,648
Administrative expenses.....	24,248	684	2,854	27,786
Net account transfers.....	10,247	-	-	10,247
TOTAL DEDUCTIONS	2,572,829	32,362	113,626	2,718,817
NET INCREASE (DECREASE)	4,135,729	(15,816)	(1,956)	4,117,957
Fund balance reserved for pension and postemployment healthcare benefits:				
JULY 1, 1998.....	44,775,703	76,135	5,511	44,857,349
JUNE 30, 1999	\$ 48,911,432	\$ 60,319	\$ 3,555	\$ 48,975,306

— See notes to financial statements. —

COMBINING BALANCE SHEET

College and University Funds - Discretely Presented Component Unit

June 30, 1999

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Current Funds		Endowment and Similar Funds	Plant Funds			Agency Funds	Component Units	Total
	Unrestricted	Restricted		Unexpended	Renewal and Replacement	Retirement of Indebtedness			
ASSETS:									
Cash—Note D.....	\$ 33,663	\$ -	\$ -	\$ 51	\$ -	\$ 3,123	\$ -	\$ 9,493	\$ 46,330
Temporary investments—Note D.....	157,921	-	-	20,191	13,327	6,246	-	-	197,685
Long-term investments—Note D.....	224,363	282	11,343	1,764	-	162,565	-	8,820	409,137
Receivables, net:									
Accounts.....	17,013	9,952	-	-	632	636	-	2,402	30,770
Notes and loans—Note G.....	-	-	31,643	-	-	-	135	-	31,643
Other.....	-	-	-	3,645	-	-	-	-	3,645
Due from other funds—Note H.....	-	11,268	4,397	45,730	103,227	8,159	11,727	6,834	194,652
Due from primary government—Note H.....	-	-	-	-	-	-	-	-	-
Inventory.....	4,591	-	-	-	-	-	-	-	4,591
Fixed assets—Note E.....	-	-	-	-	-	-	945,430	8,092	953,522
Less: accumulated depreciation.....	-	-	-	-	-	-	(303,215)	-	(303,215)
Other assets.....	20,033	22	-	11	53	6,306	-	8,381	34,806
TOTAL ASSETS	\$ 457,584	\$ 21,524	\$ 34,953	\$ 71,392	\$ 117,239	\$ 187,035	\$ 11,862	\$ 44,022	\$ 1,603,566

LIABILITIES AND FUND EQUITY

Liabilities:									
Accounts payable and accrued liabilities.....	\$ 95,725	\$ 3,697	\$ -	\$ 10,069	\$ 8,541	\$ -	\$ 239	\$ 8,102	\$ 126,373
Due to other funds—Note H.....	194,083	-	-	-	-	423	146	-	194,652
Due to primary government—Note H.....	4,774	-	-	-	-	-	-	-	4,774
Deferred revenue.....	40,140	-	-	-	-	-	-	-	40,140
Other liabilities.....	392,259	-	278	-	-	877	11,477	-	407,482
Capital lease obligations—Note K.....	-	-	-	13,267	9,973	7,693	-	-	379,925
TOTAL LIABILITIES	726,981	3,697	278	23,336	18,514	8,570	11,862	8,102	1,153,346
Fund Equity:									
Investment in fixed assets.....	-	-	-	-	-	-	290,209	-	290,209
Fund balance:									
Reserved for:									
Encumbrances.....	13,960	2,396	-	8,521	8,611	-	-	1,829	35,317
Loans receivable.....	-	-	34,675	-	-	-	-	-	34,675
Endowment and similar funds.....	-	-	15,740	-	-	-	-	-	15,740
Restricted fund balance.....	-	15,431	-	-	16,658	2,564	-	-	34,653
Other—Note C.....	108,902	-	-	11,441	22,835	871	-	12,498	156,547
Unreserved:									
Undesignated (deficit)—Note C.....	(392,259)	-	-	28,094	50,621	175,030	-	21,593	(116,921)
TOTAL FUND EQUITY (DEFICIT)	(269,397)	17,827	34,675	48,056	98,725	178,465	-	35,920	450,220
TOTAL LIABILITIES AND FUND EQUITY	\$ 457,584	\$ 21,524	\$ 34,953	\$ 71,392	\$ 117,239	\$ 187,035	\$ 11,862	\$ 44,022	\$ 1,603,566

- See notes to financial statements. -

COMBINED STATEMENT OF CHANGES IN FUND BALANCES
College and University Funds - Discretely Presented Component Unit

For the Fiscal Year Ended June 30, 1999

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds			Component Units	Total
	Unrestricted	Restricted			Unexpended	Renewal and Replacement	Retirement of Indebtedness		
REVENUES AND OTHER ADDITIONS:									
Unrestricted current funds.....	\$ 615,658	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 615,658
Gifts and bequests.....	-	3,833	20	575	4,698	100	1,743	-	11,840
Grants and contracts.....	-	149,156	111	36	461	-	-	-	150,460
Federal advances.....	-	-	1,320	-	-	-	-	-	1,320
Endowment income.....	-	714	1	-	-	-	-	-	715
Investment income.....	-	358	193	45	1,185	3,778	-	807	8,058
Net increase (decrease) in the fair value of investments.....	-	1	-	554	452	(4,034)	-	245	(2,782)
Interest on loans receivable.....	-	-	724	-	-	-	-	-	724
Expended for plant facilities—net of disposals (including \$23,601 charged to current funds expenditures).....	-	-	-	-	422	-	102,931	-	102,931
Retirement of indebtedness.....	-	-	-	-	68	304	13,547	-	14,715
Other.....	-	540	77	40	7,029	3,175	63	50,671	61,663
TOTAL REVENUES AND OTHER ADDITIONS	615,658	154,602	2,446	1,250	7,286	3,323	118,284	51,723	965,302
EXPENDITURES AND OTHER DEDUCTIONS:									
Educational and general.....	855,774	152,757	-	-	-	-	-	5,588	1,014,119
Auxiliary enterprises.....	126,636	277	-	-	-	-	-	-	126,913
Loan cancellations.....	-	-	373	-	-	-	-	-	373
Administrative and collection costs.....	-	-	568	-	-	-	-	913	1,481
Expended for plant facilities.....	-	-	-	-	31,097	277	30,213	-	95,012
Depreciation on plant facilities.....	-	-	-	-	-	-	44,832	1,197	46,049
Retirement of indebtedness.....	-	-	-	-	-	14,715	-	-	14,715
Interest on indebtedness.....	-	-	-	-	-	19,353	-	43	19,396
Other.....	-	2,151	55	19	510	56	10,432	40,807	54,030
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	982,410	155,185	996	19	31,607	34,401	85,497	48,548	1,372,088
TRANSFER AND ALLOCATION AMONG FUNDS—									
ADDITIONS (DEDUCTIONS):									
Mandatory:									
Principal and interest.....	(15,451)	-	-	-	-	17,371	-	-	-
Other.....	(365)	(110)	319	110	46	-	-	-	-
Nonmandatory:									
Operating transfers from Primary Government—Note H.....	416,262	1,557	-	-	599	-	22	-	426,570
Other.....	(50,250)	-	-	15	16,969	9,355	-	(644)	-
TRANSFERS AND ALLOCATIONS, NET.....	350,196	1,447	319	125	17,568	26,726	22	(644)	426,570
NET INCREASE (DECREASE) FOR THE YEAR.....	(16,556)	864	1,769	1,356	(6,753)	(4,352)	32,809	2,531	19,784
FUND BALANCES (DEFICITS), JULY 1, 1998.....	(252,841)	16,963	32,906	14,384	54,809	182,817	257,400	33,389	430,436
FUND BALANCES (DEFICITS),									
JUNE 30, 1999—NOTE C	\$ (269,397)	\$ 17,827	\$ 34,675	\$ 15,740	\$ 48,056	\$ 178,465	\$ 290,209	\$ 35,920	\$ 450,220

- See notes to financial statements.

**COMBINED STATEMENT OF CURRENT FUNDS REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES**
College and University Funds—Discretely Presented Component Unit

For the Fiscal Year Ended June 30, 1999

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
REVENUES:			
Tuition and fees.....	\$ 416,119	\$ -	\$ 416,119
Government grants and contracts:			
State and local.....	2,370	69,340	71,710
Federal.....	2,214	75,908	78,122
Private gifts, grants and contracts.....	5,496	8,140	13,636
Investment income.....	20,515	185	20,700
Decrease in the fair value of investments.....	(2,340)	(4)	(2,344)
Endowment income.....	95	512	607
Activities of educational departments.....	8,745	-	8,745
Other sources.....	14,114	521	14,635
Auxiliary enterprises.....	148,330	-	148,330
TOTAL REVENUES	<u>615,658</u>	<u>154,602</u>	<u>770,260</u>
EXPENDITURES AND MANDATORY TRANSFERS:			
EXPENDITURES:			
Educational and general:			
Instruction.....	433,461	6,998	440,459
Research.....	867	2,391	3,258
Public service.....	8,672	20,947	29,619
Academic support.....	94,648	4,187	98,835
Student services.....	81,761	4,591	86,352
Operations and maintenance of plant.....	88,513	262	88,775
General institutional support.....	136,856	4,142	140,998
Student aid.....	10,996	109,239	120,235
TOTAL EDUCATIONAL AND GENERAL	<u>855,774</u>	<u>152,757</u>	<u>1,008,531</u>
Auxiliary enterprises.....	126,636	277	126,913
TOTAL EXPENDITURES	<u>982,410</u>	<u>153,034</u>	<u>1,135,444</u>
MANDATORY TRANSFERS:			
Renewal and replacement.....	46	-	46
Retirement of indebtedness.....	5,086	-	5,086
Loan funds matching grants.....	319	-	319
Other.....	37,728	110	37,838
TOTAL MANDATORY TRANSFERS	<u>43,179</u>	<u>110</u>	<u>43,289</u>
TOTAL EXPENDITURES AND MANDATORY TRANSFERS	<u>1,025,589</u>	<u>153,144</u>	<u>1,178,733</u>
OPERATING TRANSFERS, OTHER TRANSFERS AND DEDUCTIONS:			
Operating transfers from Primary Government—Note H.....	416,262	1,557	417,819
Other transfers.....	(22,887)	-	(22,887)
Deductions.....	-	(2,151)	(2,151)
OPERATING TRANSFERS, OTHER TRANSFERS AND DEDUCTIONS, NET	<u>393,375</u>	<u>(594)</u>	<u>392,781</u>
NET INCREASE (DECREASE) IN FUND BALANCES	<u>\$ (16,556)</u>	<u>\$ 864</u>	<u>\$ (15,692)</u>

— See notes to financial statements. —

	<u>Page</u>
Note A Financial Reporting Entity	25
Note B Summary of Significant Accounting Policies	29
Note C Fund Balance / Retained Earnings	35
Note D Deposits and Investments.....	37
Note E Fixed Assets	43
Note F Insurance Loss Liability.....	44
Note G Taxes, Loans and Lease Rental Receivables.....	45
Note H Interfund Accounts / Operating Transfers / Residual Equity Transfers.....	46
Note I Retirement and Other Postemployment Benefits.....	50
Note J Notes and Demand Revenue Bonds Payable	53
Note K Long-Term Obligations.....	55
Note L Refunded Debt	59
Note M Reconciliation of Budgetary and GAAP Basis Amounts	62
Note N Segment Information.....	63
Note O Self-Insurance	64
Note P Commitments and Contingencies	65
Note Q Certain Agency Fund Claims Liabilities.....	67
Note R Deferred Compensation	67
Note S Joint Venture	68
Note T Budgetary Compliance.....	69
Note U Subsequent Events	70

NOTES TO FINANCIAL STATEMENTS

COMMONWEALTH OF PENNSYLVANIA

NOTE A—FINANCIAL REPORTING ENTITY

Primary Government

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

Component Units

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

Blended Component Unit

State Employees' Retirement System (SERS) (Fiduciary Fund Type) — The SERS is a public employe retirement system which covers Commonwealth employes. The PG appoints all voting board members and, on a very limited basis, imposes its will on the SERS. The PG uses the SERS to provide pension benefits to PG employes. The PG makes essentially all employer contributions to the SERS; PG employes make almost all of the employe contributions to the SERS (virtually all PG employes are required to join the SERS). The PG is responsible for all of the SERS pension obligations. The SERS is a blended component unit because it provides services and benefits almost exclusively to the PG.

Discretely Presented Component Units

State Public School Building Authority (SPSBA) and Pennsylvania Higher Educational Facilities Authority (HEFA) (Governmental Fund Types) — The SPSBA and the HEFA issue limited obligation revenue bonds, the proceeds of which are used to finance the construction of facilities for school districts and public and private colleges and universities. These bonds are repaid solely from lease rental payments from the schools. Upon completion of the lease payment requirements (and satisfaction of bondholders), the title to the constructed or acquired assets vests with the schools.

The PG appoints all nine voting members of the SPSBA and the HEFA governing boards; nine high-ranking members of the PG serve as ex-officio members of each board. As a result, the PG is able to impose its will. The PG Department of Education approves the SPSBA and the HEFA projects (which indicates imposition of will and fiscal dependency). Although neither the PG nor the Authorities are obligated for debt service payments (beyond lease rental payments from schools), the PG may take certain actions to satisfy the SPSBA and the HEFA bondholders.

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

Insurance Fraud Prevention Authority (IFPA) (Governmental Type) — The IFPA assists in the prevention, discovery, investigation and prosecution of insurance fraud. The IFPA is funded through assessments paid by the insurance industry and through certain criminal and civil fines, penalties and awards.

The PG appoints six of seven voting members of the IFPA governing board; the Attorney General serves ex-officio as one of these six members. A significant portion of IFPA expenditures funds the Section on Insurance Fraud in the Office of Attorney General; this indicates a financial benefit/burden. The IFPA is not fiscally dependent on the PG.

NOTES TO FINANCIAL STATEMENTS

NOTE A— Financial Reporting Entity (continued)

Pennsylvania Higher Education Assistance Agency (PHEAA) (Proprietary Fund Type) — The PHEAA makes grants and loans to students to help fund the cost of higher education. Lending institutions and post-secondary schools are involved in the loan program. The PG funds the PHEAA grant program; the PHEAA issues revenue bonds to fund the student loan program. Revenue bonds are repaid from student loan repayments. The PHEAA also services student loan portfolios for lending institutions.

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

Pennsylvania Housing Finance Agency (PHFA) (Proprietary Fund Type) — The PHFA makes loans to eligible individuals and organizations to purchase or construct housing. The loan programs benefit low and moderate-income individuals and families.

The PG appoints all voting board members; four of the fourteen members may be removed at will. The Governor is required to request an appropriation from the General Assembly for the PHFA whenever a deficiency exists in the capital reserve account or if additional funds are needed to avoid a default on the PHFA debt. This represents a PG moral obligation for the PHFA debt. The Governor must approve the issuance of the PHFA debt.

Pennsylvania Industrial Development Authority (PIDA) (Proprietary Fund Type) — The PIDA collaborates with local industrial development corporations to make loans which help preserve or expand the work force, assist targeted economic areas or assist specific companies. Loans are made at lower-than-market interest rates; the interest rates are based on local unemployment and other economic conditions. The PIDA issues revenue bonds to finance the loan program. Loan repayments are used for debt service payments. The PIDA operates closely with the DCED.

The PG appoints all voting board members and is able to impose its will on the PIDA. The PG has provided contributed capital; "excess" PIDA funds are transferred to the General Fund. The PG is not obligated for the PIDA debt, but the PG could take certain actions to satisfy bondholders.

Pennsylvania Infrastructure Investment Authority (PENNVEST) (Proprietary Fund Type) — The PENNVEST makes grants and low-interest loans to local governments and authorities, businesses and nonprofit organizations for the construction, improvement, repair or rehabilitation of drinking and waste water systems. The PENNVEST obtains funds through Commonwealth general obligation bond proceeds (approved by referendum), revenue bonds, the Federal government and contributed amounts from Commonwealth funds. Loan repayments finance the PENNVEST debt service costs. The PENNVEST operates closely with the Department of Environmental Protection.

The PG appoints all voting board members; there are limitations on three of the thirteen appointments. By issuing general obligation debt and providing the proceeds to the PENNVEST as contributed capital, the PG creates a significant financial burden. The PG is not obligated for the PENNVEST debt, but the PG could take certain actions to satisfy bondholders. Upon dissolution, the assets of the PENNVEST revert to the Commonwealth.

Pennsylvania Turnpike Commission (PTC) (Proprietary Fund Type) — The PTC was created to construct, maintain and operate a turnpike system in the Commonwealth. Activities are financed through user tolls and the issuance of revenue bonds. Debt service payments are funded through user tolls. The PTC works closely with the Department of Transportation.

The PG appoints all voting members. The Department of Transportation must approve all contracts related to turnpike construction and supervise construction. When all the PTC bondholders have been satisfied, the PTC assets revert to the Department of Transportation. The Governor must approve the issuance of all the PTC debt. The PG is not obligated for the PTC debt, but the PG could take certain actions to satisfy bondholders.

Public School Employes' Retirement System (PSERS) (Fiduciary Fund Type) — The PSERS was created to administer and provide pension benefits to public school employes in Pennsylvania. The PSERS covers almost all such employes. Employer contributions are made by covered, elementary and secondary school employers with the PG reimbursing each employer at least half their required annual contribution. Employer contributions for covered

NOTES TO FINANCIAL STATEMENTS

NOTE A— Financial Reporting Entity (continued)

employees of higher education institutions and state-owned schools are shared equally by covered employers and the PG; all covered public school employees also make contributions.

The PG appoints eight of fifteen voting board members; the seven other members are appointed by active or retired public school employees or are appointed by public school boards. In addition to making significant contributions to the PSERS, the PG guarantees the payment of all annuities and other pension benefits. This represents a compelling PG financial burden.

State System of Higher Education (SSHE) (College and University Funds) — The SSHE was created to provide instruction for postsecondary students. The SSHE is composed of fourteen universities and an administrative headquarters. Resources are provided by student tuition, grants and PG subsidies.

The PG appoints all voting board members. Five of the sixteen appointments must be trustees of universities; three must be students. The PG provides significant operating and capital subsidies to the SSHE. The PG is not obligated for the SSHE debt, but the PG could take certain actions to satisfy bondholders.

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

The PG appoints all sixteen board members; five members are ex-officio. The PG is not obligated for the PEDFA debt, but the PG could take certain actions to satisfy bondholders. Upon dissolution, the assets of PEDFA revert to the Commonwealth.

Pennsylvania Energy Development Authority (PEDA)—The PEDA was created to promote the development of energy sources within the Commonwealth. The PEDA issued revenue bonds and lent the proceeds to fund three specific projects. Loan repayments are derived solely from project revenues. The debt is considered non-recourse, as the PEDA is not obligated to bondholders beyond amounts received from the funded projects. The PEDA has not issued any debt since 1990. Financial statement information for the PEDA is not reported because its only activity involves conduit debt.

The PG appoints all nineteen board members; six members are ex-officio. The Governor must approve the issuance of Authority debt. The PG is not obligated for the PEDA debt, but the PG could take certain actions to satisfy bondholders.

Financial Reports

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

Related Organizations

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE A— Financial Reporting Entity (continued)

Joint Venture

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

Excluded Organizations

School districts, local governments and counties are considered separate, stand-alone primary governments, as they are governed by popularly elected officials.

Secondary vocational-technical schools, intermediate units and community colleges were considered as potential component units, but have been excluded from the financial reporting entity. These schools may receive significant PG operating and/or capital subsidies, but the PG does not appoint a voting majority of governing board members, nor does the PG impose its will on these organizations. Although various Commonwealth laws affect or strongly influence these organizations, the PG does not control day-to-day operating decisions. These organizations are not fiscally dependent on the PG.

Four universities, commonly referred to as "state-related," including Pennsylvania State University, University of Pittsburgh, Lincoln University and Temple University, were considered as potential component units. The PG appoints a portion, but not a voting majority, of the governing board at each university and provides significant operating and capital subsidies. However, given the absence of the PG appointment of a voting majority and the lack of fiscal dependency, these universities are excluded from the financial reporting entity.

NOTES TO FINANCIAL STATEMENTS

NOTE B— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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

Governmental Funds

General Fund—Accounts for all financial resources except those required to be accounted for in another fund. The General Fund is the Commonwealth's 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 Funds—Account for the accumulation of resources, principally transfers from other funds, for the payment of general long-term debt principal and interest.

Capital Projects Funds—Account for financial resources to be used for the acquisition or construction of major capital facilities, including those provided to political subdivisions and other public organizations (other than those financed by Proprietary or Fiduciary Funds).

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, 1998 and the State Stores Fund for its fiscal year ended June 29, 1999.

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, a Pension Trust Fund, an Investment Trust Fund and Agency Funds. The State Employees' Retirement System, a Pension Trust Fund, the Deferred Compensation Fund, an Expendable Trust Fund, and the INVEST Program for Local Governments, an Investment Trust Fund, are included for their fiscal years ended December 31, 1998.

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 Funds, Pension Trust Funds, and College and University Funds.

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

The Component Units include Governmental Funds, Proprietary Funds, a Pension Trust Fund and College and University Funds which are legally separate from the Commonwealth but are considered part of the reporting entity. The College and University Funds are as follows:

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 the accounting guidance and reporting practices outlined in the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of*

NOTES TO FINANCIAL STATEMENTS

NOTE B— Summary of Significant Accounting Policies (continued)

Colleges and Universities, and other applicable guidance. Accordingly, the College and University Funds are an aggregation of the following funds:

Current Funds—Unrestricted and University Designated—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 stipulation.

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 occurrence 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.

Component Units—Account for certain legally separate affiliated organizations for which the Board is financially accountable.

Measurement Focus and Basis of Accounting (GAAP): The general, special revenue, debt service, capital projects funds (Governmental Fund Types) and expendable trust funds are reported using the current financial resources measurement focus and modified accrual basis of accounting. Assets and liabilities of agency funds are reported using the modified accrual basis of accounting. Under this measurement focus, only current assets and current liabilities are normally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Unreserved fund balance represents a measure of available spendable resources. Under the modified accrual basis of accounting, revenues of governmental 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 revenues and sales of goods and services.

Revenues from other sources are recognized when received. Expenditures are generally recognized in the fiscal year the goods or services are received and the related fund liability is incurred. Debt service expenditures for principal and interest on general long-term obligations are recognized when due 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. Expenditures for claims, judgments, compensated absences and employer pension contributions are reported as the amount accrued during the fiscal year that normally would be liquidated with expendable available financial resources. Budgetary encumbrances are not reported as expenditures.

The enterprise, internal service (Proprietary Fund Types) and pension trust funds are reported using the flow of economic resources measurement focus and the accrual basis of accounting. Under this measurement focus all assets

NOTES TO FINANCIAL STATEMENTS

NOTE B— Summary of Significant Accounting Policies (continued)

and liabilities associated with the operations of these funds are included on the balance sheet. Fund equity (i.e., net total assets) consists of contributed capital and retained earnings. Under the accrual basis of accounting, revenues are recognized in the fiscal year earned and expenses are recognized in the fiscal year incurred. Under GASB Statement 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Commonwealth has elected not to adopt the Financial Accounting Standards Board pronouncements issued after November 30, 1989.

The College and University Funds, a component unit, are reported using the "financial flow" (spending) measurement focus and the accrual basis of accounting. This treatment is in accordance with existing authoritative accounting and reporting principles applicable to colleges and universities.

Basis of Accounting (Budgetary): 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 individual appropriations passed by the legislature. The Governor may also reduce individual appropriations, but may not increase them. A gubernatorial veto can be overridden only by a two-thirds majority of each House of the General Assembly.

The Commonwealth's budgets are prepared essentially on a cash basis. 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.

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

- General Fund
- Special Revenue Funds:
 - State Lottery
 - Motor License
 - Workmen's Compensation Administration
 - Banking Department
 - Milk Marketing

Budgetary expenditure control is exercised at the appropriation level (legislative spending authority level). Encumbrances and expenditures cannot exceed appropriated amounts. Appropriation transfers between or within departments and any supplemental appropriations require both executive and legislative branch approval. Unencumbered and unexpended appropriations lapse at fiscal year end and become available for appropriation in the subsequent year.

The legally adopted budget for the General Fund includes \$707 million in supplemental appropriations approved during the fiscal year ended June 30, 1999. Not all Special Revenue Funds are controlled by legally adopted budgets. Controls over spending in such Special Revenue Funds 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. Note T provides more information on budgetary compliance.

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

NOTES TO FINANCIAL STATEMENTS

NOTE B— Summary of Significant Accounting Policies (continued)

Budgeted revenues in the Combined Statement of Revenues, Expenditures and Changes in Unreserved/Undesignated Fund Balances—Budget and Actual (Budgetary Basis) represent official estimates while expenditures represent amounts originally adopted and legally amended. Actual amounts are presented on the budgetary basis (see Note T). Because the budgetary basis of accounting differs from GAAP, a reconciliation of the differences between budgetary basis and the GAAP basis of reporting is presented in Note M.

Pooled Cash: In accordance with the Fiscal Code, cash balances of most Commonwealth funds are pooled by the Treasury Department. Cash balances are segregated by fund, but accounted for centrally for receipt and disbursement purposes. The law requires that collateral be pledged by banks and other financial institutions to guarantee the Commonwealth's cash on deposit.

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

Investment Pools: The Fiscal Code provides the Treasury Department with investment control over most Commonwealth funds. The Treasury Department uses a variety of sophisticated internal investment pools to ensure safety and maximize efficiency, liquidity and yield for Commonwealth funds. All participating funds report amounts invested in such pools as temporary and/or long-term investments; the pools themselves are not financially reported. The Treasury Department maintains an external investment pool, the INVEST Program for Local Governments, which separately issues audited financial statements, and is reported as an Investment Trust Fund.

Temporary Investments: The Treasury Department manages the Short Term Investment Pool (STIP); practically all individual funds which are part of primary government are participants in the STIP. The Treasury Department accounts for each participating fund's equity (considered "shares") in the STIP on a daily basis. "Share" balances of participating funds fluctuate considerably during the fiscal year, based on the timing of cash receipts and disbursements in the participating fund, and are reported as temporary investments. The STIP is considered an internal investment pool.

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

Long-Term Investments: Investments expected to be realized in cash after twelve months are reported as long-term investments. Long-term investments are reported at fair value, except for certain nonparticipating interest-bearing contracts, which are reported at cost. Fair values are based on published market prices, quotations from national securities exchanges and securities pricing services, or by the respective fund managers for securities which are not actively traded. Other investments are valued based on appraisals or the present value of projected future income.

Investment Income: Investment income includes interest, dividends, realized gains and losses and the change in the fair value of investments, if any, during the fiscal year.

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

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. In the governmental fund types, inventories are accounted for on the purchases method.

NOTES TO FINANCIAL STATEMENTS

NOTE B— Summary of Significant Accounting Policies (continued)

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 general 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 before July 1, 1983, the inception date for the SSHE, are reported in the Commonwealth's General Fixed Assets Account Group. All general fixed assets acquired or constructed by the SSHE subsequent to June 30, 1983 without the use of university funds or incurrence of the SSHE debt are also reported in the Commonwealth's General Fixed Assets Account Group. This accounting treatment is used to conform to the enabling legislation for the SSHE, which includes the vesting of title for the SSHE property.

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 the SSHE are stated at cost. Depreciation of SSHE fixed assets is recognized over the estimated useful life of the assets.

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

Compensated Absences: Employees earn annual leave based on 2 percent to 10 percent of regular hours paid. A maximum of 45 days may be carried forward at the end of each calendar year. Employees are paid for accumulated annual leave upon termination or retirement.

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

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

Accumulated annual and sick leave liability payable in subsequent fiscal years from Governmental Funds and Expendable Trust Funds are 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 20 years.

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.

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

Tax Stabilization Reserve Fund: This fund, commonly referred to as the "Rainy Day Fund," was created in July of 1985 by Act 32 to provide financial assistance to minimize future revenue shortfalls and deficits, and promote greater continuity and predictability in the funding of vital government services. The tax stabilization reserve is not to exceed 3 percent of the estimated revenues of the General Fund. Revenue is provided through an executive

NOTES TO FINANCIAL STATEMENTS

NOTE B— Summary of Significant Accounting Policies (continued)

authorization appropriated by the General Assembly for transfer to this fund. Whenever the Governor determines a need to transfer moneys from this fund, a request for an appropriation is made to the General Assembly. An appropriation from the fund requires approval by two-thirds of the members of the General Assembly. Also, Act 35 of 1991 provides that in any fiscal year in which there is a surplus of operating funds in the General Fund, as certified by the Budget Secretary, fifteen percent of such surplus shall be deposited into this fund. In addition, the proceeds received from the disposition of certain assets of the Commonwealth are also to be deposited into this fund. For GAAP reporting purposes, this fund is reported as a fund balance reservation in the General Fund.

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. Legally required transfers between primary government and component unit organizations are reported when incurred as “Operating transfers from component unit” by the recipient organization and “Operating transfers to primary government” or “Operating transfers to component unit” 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, 1999 is presented in Note H.

New Accounting Pronouncement: Effective January 1, 1998 the Commonwealth has adopted GASB Statement 32, “Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.” This standard requires that the Commonwealth’s Deferred Compensation Fund be reported as an Expendable Trust Fund; the Fund was previously reported as an Agency Fund. Note C includes a disclosure on the reclassification.

Total—Memorandum Only: The “Total (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. Interfund eliminations have not been made in the aggregation of the totals.

NOTES TO FINANCIAL STATEMENTS

NOTE C—FUND BALANCE/RETAINED EARNINGS

Deficits: The Disaster Relief Fund, the Workmen's Compensation Supersedeas Fund and the Home Investment Trust Fund, Special Revenue Funds, reported fund balance deficits of \$21,769, \$8,476 and \$688 (amounts in thousands), respectively, at June 30, 1999.

The Capital Facilities Fund, a Capital Projects Fund, reported a deficit unreserved/undesignated fund balance of \$399,809 at June 30, 1999. In total, the Capital Facilities Fund reported a fund balance of \$126,318 at June 30, 1999. Total Capital Projects Funds reported reservations for encumbrances of \$549,858, designations for Capital Projects of \$81,817 and a deficit unreserved/undesignated fund balance of \$399,809, for a total combined fund balance of \$231,886 (amounts in thousands) at June 30, 1999.

The Minority Business Development Fund, an Enterprise Fund, reported deficit retained earnings of \$31,083 (amount in thousands) at June 30, 1999.

The Catastrophic Loss Benefits Continuation Fund, an Expendable Trust Fund, reported a fund balance deficit of \$25,125 (amount in thousands) at June 30, 1999.

The State System of Higher Education, College and University Funds, reported a current funds unrestricted fund balance deficit of \$269,397 (amount in thousands) at June 30, 1999.

Restatement: The unreserved/undesignated budgetary basis fund balance for the General Fund has been restated from \$265,377 at June 30, 1998 to \$265,312 at July 1, 1998 to account for \$65 (amounts in thousands) in spending authority which was increased subsequent to the fiscal year ended June 30, 1998.

Reclassification: The Deferred Compensation Fund was previously reported as an Agency fund type, with total assets and liabilities of \$545,468 as of its fiscal year end of December 31, 1997. Effective January 1, 1998, in accordance with GASB Statement 32, the Deferred Compensation Fund is reported as an Expendable Trust fund and reports fund balance of \$544,737 (amounts in thousands).

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

The amount reserved for advances in the General Fund, \$74.8 million, is applicable to a demand loan to the State Stores Fund for \$66 million, an advance to the State Workmen's Insurance Fund for \$2.3 million, both Enterprise Funds, and an advance to the Motor License Fund for \$2.2 million and the Pharmaceutical Assistance Fund for \$4.3 million, both, Special Revenue Funds. For its fiscal year ended December 31, 1998 the State Workmen's Insurance Fund has reported an advance from the General Fund in the amount of \$2 million.

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

The \$329,014 reported as "Reserved for other" in the General Fund at June 30, 1999 pertains to the following (amounts in thousands):

Restricted revenue	\$ 155,696
Continuing programs	126,760
Judicial carryover appropriations	32,613
Other receivables	13,945
Total General Fund	<u>\$ 329,014</u>

The \$31,754 reported as "Reserved for other" in the Special Revenue Funds at June 30, 1999 pertains to the following (amounts in thousands):

Land reclamation	\$ 22,242
Pharmaceutical assistance programs	3,064
Recreation programs	2,037
Recycling programs	1,467
Other programs	2,944
Total Special Revenue Funds	<u>\$ 31,754</u>

NOTES TO FINANCIAL STATEMENTS

NOTE C—Fund Balance/Retained Earnings (continued)

The \$833.7 million reported as “Reserved for other” in the Trust and Agency Funds pertains to pool participants of the INVEST Program For Local Governments, an Investment Trust fund, at its fiscal year ended December 31, 1998.

The \$4.8 million reported as “Reserved for other” in the Pennsylvania Higher Educational Facilities Authority, a discretely presented governmental fund component unit, pertains to trust indentures.

The \$156.5 million reported as “Reserved for other” in the College and University Funds, a discretely presented component unit, at June 30, 1999 pertains to approved academic projects that will begin in subsequent fiscal periods.

Reserved retained earnings reported for Enterprise Funds are provided principally for reserves for contingencies for the Rehabilitation Center Fund and equipment replacement reserves for other enterprise funds. Reserved retained earnings reported for Discretely Presented Component Unit Proprietary Funds are provided principally for the retirement of revenue bonds relating to the Pennsylvania Turnpike Commission, student loans relating to the Pennsylvania Higher Education Assistance Agency, and housing programs relating to the Pennsylvania Housing Finance Agency. At June 30, 1999 the Commonwealth has included the following reservations of retained earnings for the Enterprise Funds and the Discretely Presented Component Unit Proprietary Funds (amounts in thousands):

	<u>Primary Government</u>	<u>Discretely Presented Component Units</u>
Rehabilitation Center Fund.....	\$ 3,059	\$ -
Pennsylvania Turnpike Commission	-	1,080,093
Pennsylvania Higher Education Assistance Agency	-	62,681
Pennsylvania Housing Finance Agency	-	124,470
Coal and Clay Mine Subsidence Insurance Fund	2,328	-
State Workmen's Insurance Fund	<u>5</u>	<u>-</u>
Total.....	<u>\$ 5,392</u>	<u>\$ 1,267,244</u>

Designations of unreserved fund balances reflect managerial plans for the future use of financial resources. At June 30, 1999 the Commonwealth has included the following amounts as “Designated—Other” for the General Fund and Special Revenue Funds (amounts in thousands):

General Fund:	
Group medical and life insurance.....	\$ 68,708
Job creation tax credits	37,083
Judicial computer system	29,436
Agency construction projects	27,765
Other.....	<u>17,498</u>
Total General Fund.....	<u>\$ 180,490</u>
Special Revenue Funds:	
State Lottery	<u>\$ 275</u>

In addition, the Self-Insurance Guaranty Fund, an Expendable Trust Fund, reported \$2,565 thousand as “Designated—Other” for future worker’s compensation self-insurance claims.

The Insurance Fraud Prevention Authority, a discretely presented governmental fund component unit, reported \$3,392 thousand as “Designated—Other” for future program grants.

NOTES TO FINANCIAL STATEMENTS

NOTE D — DEPOSITS AND INVESTMENTS

Authority for deposits and investments:

The deposit and investment policies of the Treasury Department are governed by section 301, 301.1 and 505 of the Pennsylvania Fiscal Code (Act of 1929, P.L. 343, No. 176, amended November 16, 1985). Treasury deposits must be held in insured depositories approved by the Board of Finance and Revenue and must be fully collateralized. The Treasury Department may invest in direct obligations of the U.S. Treasury and U.S. Government agencies with maturities not exceeding two years; commercial paper rated "Prime One" by Moody's Investors Service or the equivalent by Standard and Poor's or Fitch Investors Service; certificates of deposit issued by Pennsylvania banks or savings and loan associations; repurchase agreements secured by Federal obligations; banker's acceptances; and up to a maximum of 10 percent of the book value of a fund's assets in any type of investment (other than common stock) not otherwise specifically authorized. The Treasury Department manages the Short-Term Investment Pool (STIP) whereby amounts from practically all Commonwealth Funds are invested on a temporary basis. The objectives of the STIP are safety, liquidity and yield and all investments are made in accordance with the preceding statutory authority. Throughout the fiscal year, the STIP participates in reverse repurchase agreements; Treasury Department policies require that the maturity date of reverse repurchase agreements match the maturity date of the underlying securities

The deposit and investment policies of certain component units are established by authority other than the Fiscal Code. Enabling statutes generally provide deposit and investment authority for component units. Further, specific bond and trust indentures, as well as formal governing board resolutions, provide deposit and investment requirements. Allowable investments of component units do not significantly differ from those investments of the Treasury Department, except that, in accordance with applicable statutory authority, the State Employees' Retirement System and the Public School Employees' Retirement System, Pension Trust Funds, have invested in common and preferred stocks, corporate and foreign bonds and notes, mortgages and real estate during their fiscal years. These two Funds also participate in a securities lending program, sponsored by the Treasury Department, and utilize financial instruments with off-balance sheet risk. Specific disclosures about Pension Trust Fund investments are included in this Note.

Deposits:

The Treasury Department controls the receipt and disbursement of amounts owned by agencies included in the primary government. Certain discretely presented component units, meanwhile, control receipt and disbursement of their own funds, typically through a trustee. The following summaries present the amount of primary government and discretely presented component unit (Commonwealth) deposits which are fully insured or collateralized with securities held by the Commonwealth or its agent in the Commonwealth's name (Category 1), those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Commonwealth's name (Category 2) and those deposits which are not collateralized or are collateralized by the pledging financial institution or the pledging institution's trust department or agent, but not in the Commonwealth's name (Category 3) at June 30, 1999 (amounts in thousands).

Primary Government

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total Bank Balance</u>	<u>Carrying Amount</u>
Cash.....	\$ 63,013	\$ 17,760	\$ 8,107	\$ 88,880	\$ 111,758
Cash with fiscal agents.....	2,683,516	3,190	10,364	2,697,070	2,695,963
Certificates of deposit and related items.....	128,828	-	14,415	143,243	143,243

The above-listed \$143,243 in certificates of deposit and related items is reported as part of primary government temporary investments at June 30, 1999. To provide increased income while maintaining safety and liquidity, the Treasury Department routinely enters into overnight repurchase agreements typically funded through "float" for outstanding checks. At June 30, 1999 the Treasury Department used \$514 million of available cash for overnight repurchase agreements. These securities are registered in the Commonwealth's name and are not reported in the financial statements.

Discretely Presented Component Units

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total Bank Balance</u>	<u>Carrying Amount</u>
Cash.....	\$ 71,874	\$ 26,460	\$ 52,320	\$ 150,654	\$ 122,046
Cash with fiscal agents.....	-	727	10,008	10,735	10,008

NOTES TO FINANCIAL STATEMENTS

NOTE D— Deposits and Investments (continued)

Investments:

The Treasury Department, other agencies in the primary government and discretely presented component units (Commonwealth) categorize investments according to the level of credit risk assumed by the Commonwealth. Category 1 includes investments that are insured, registered or held by the Commonwealth or the Commonwealth's agent in the Commonwealth's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the Commonwealth's name. Category 3 includes uninsured and unregistered investments held by the counterparty, or by its trust department or its agent, but not in the Commonwealth's name. Certain investments have not been categorized because securities are not used as evidence of the investment. These uncategorized investments include ownership interests in mutual funds, mortgage loans, real estate and venture capital. The following summaries identify the level of credit risk assumed by the Commonwealth and the related carrying amount of Commonwealth investments at June 30, 1999 (amounts in thousands).

Primary Government

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

Commercial paper.....	\$ 1,021,449
Common and preferred stock.....	8,118,417
Corporate bonds and notes	2,909,664
International fixed income.....	25,276
Repurchase agreements	5,891,405
State and municipal obligations.....	298,237
U.S. Treasury obligations.....	3,591,274
U.S. Government agency obligations.....	<u>1,024,888</u>
Total categorized investments	22,880,610
Add investments not susceptible to credit risk categorization:	
Mutual funds owned by the Deferred Compensation Fund at December 31, 1998 ...	707,178
Investments owned by the State Employees' Retirement System (SERS) at December 31, 1998:	
Mortgage loans.....	225,841
Mutual funds.....	7,302,435
Pennsylvania Treasury short-term investment pool.....	729,864
Real estate.....	1,990,929
Securities lending collateral.....	802,958
Venture capital.....	1,104,281
Securities lent by SERS at December 31, 1998:	
U.S. Treasury securities.....	422,943
Corporate bonds and notes	126,737
Common and preferred stocks.....	272,910
Investments owned by the Statutory Liquidator Fund at June 30, 1999:	
Annuities	2,286
Loans	12,585
Mortgage loans	4,190
Partnership interests, subsidiaries and related items.....	724
Securities lending collateral held by the Workmen's Compensation Security Trust Fund at June 30, 1999	344,715
Securities lending collateral held by the State Workmen's Insurance Fund at December 31, 1998.....	406,703
Securities underlying reverse repurchase agreements at June 30, 1999.....	147,223
Amounts invested by discretely presented component units in Pennsylvania Treasury short-term investment pool at June 30, 1999.....	<u>(337,760)</u>
	37,147,352
Certificates of deposit and related items.....	<u>143,243</u>
Total temporary and long-term investments.....	<u>\$ 37,290,595</u>

The above-listed \$143,243 in certificates of deposit and related items are reported as investments at June 30, 1999, but are treated as deposits for a determination of the level of credit risk associated with them.

NOTES TO FINANCIAL STATEMENTS

NOTE D— Deposits and Investments (continued)

The State Employees' Retirement System, a Pension Trust Fund, owns approximately 97 percent of the common and preferred stock, 89 percent of the corporate bonds and notes and 57 percent of the U.S. Treasury obligations reported in the above summary. The Treasury Short-Term Investment Pool owns 87 percent of the repurchase agreements in the above summary. There were no violations of statutory authority or contractual provisions for investments during the year ended June 30, 1999.

Financial Instruments With Off-Balance Sheet Risk

The State Employees' Retirement System (SERS) enters into foreign exchange contracts, such as forward and spot contracts, to hedge foreign currency exposure. Some foreign currency options also are used for this purpose. The SERS is not a dealer but an end-user of these instruments. The contracts are used primarily to enhance performance and reduce the volatility of the portfolio. Contracts used to enhance performance are fully collateralized, eliminating the use of leverage in the portfolio. The SERS is exposed to credit risk in the event of nonperformance by counterparties to financial instruments. As the SERS generally enters into transactions only with high quality institutions, no losses associated with counterparty nonperformance on derivative financial instruments have been incurred. Legal risk is mitigated through careful selection of brokers and an extensive process of review of all documentation. The SERS is exposed to market risk—the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed within risk limits set by management by buying or selling instruments or entering into offsetting positions.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed upon price and settlement date. At December 31, 1998, the SERS had contracts maturing through December 31, 1999, to purchase or sell foreign currency. The \$7,706,723 of total foreign currency contracts outstanding at December 31, 1998, consist of "buy" contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currency commitments of \$4,162,798 and "sell contracts, which represent U.S. dollar equivalents of commitments to sell foreign currency commitments of \$3,543,925 (amounts in thousands). Net unrealized losses on foreign currency contracts were approximately \$35.6 million at December 31, 1998.

Discretely Presented Component Units

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>
Asset backed securities.....	\$ -	\$ 62,791	\$ -	\$ 62,791
Commercial paper.....	-	133,789	13,579	147,368
Common and preferred stock.....	25,218,596	3,086	28	25,221,710
Corporate bonds and notes.....	3,328,827	44,146	-	3,372,973
Guaranteed investment contracts.....	-	-	3,538	3,538
International equities.....	8,012,807	-	-	8,012,807
International fixed income.....	1,301,420	-	-	1,301,420
Investment agreements.....	-	-	131,418	131,418
Mortgage-backed securities.....	3,302,366	71,229	-	3,373,595
Repurchase agreements.....	176,225	420,625	213,525	810,375
State and municipal obligations.....	193,015	62,360	-	255,375
U.S. Treasury obligations.....	79,591	538,387	-	617,978
U.S. Government agency obligations.....	2,847,261	233,469	401	3,081,131
Various short-term investments.....	<u>474,572</u>	<u>6,773</u>	-	<u>481,345</u>
Total categorized investments.....	<u>\$ 44,934,680</u>	<u>\$1,576,655</u>	<u>\$ 362,489</u>	<u>46,873,824</u>

NOTES TO FINANCIAL STATEMENTS

NOTE D— Deposits and Investments (continued)

Investments not susceptible to credit risk categorization:

Investments owned by the State Public School Building Authority at June 30, 1999:	
Guaranteed investment contracts	1,181
Money market funds	7,892
Pennsylvania Treasury INVEST pool	41,024
Investments owned by the Higher Educational Facilities Authority at June 30, 1999:	
Guaranteed investment contracts	403,371
Money market funds	78,871
Investments owned by the Ben Franklin/IRC Partnership in Pennsylvania Treasury short-term investment pool at June 30, 1999	
	13,004
Investments owned by the Insurance Fraud Prevention Authority in the Pennsylvania Treasury short-term investment pool at June 30, 1999	
	3,614
Investments owned by the Pennsylvania Industrial Development Authority in Pennsylvania Treasury short-term investment pool at June 30, 1999	
	541
Investments owned by the Pennsylvania Housing Finance Agency at June 30, 1999:	
Investment agreements	49,387
Mutual funds	83,787
Pennsylvania Treasury short-term investment pool	3,943
Investments owned by the Pennsylvania Higher Education Assistance Agency at June 30, 1999:	
Money market funds	129,839
Investments owned by the Pennsylvania Infrastructure Investment Authority at June 30, 1999:	
Mutual funds	96,315
Pennsylvania Treasury short-term investment pool	114,792
Investments owned by the Public School Employees' Retirement System at June 30, 1999:	
Farmland investments	74,472
Invested with Pennsylvania Treasury Department	1,140,093
Mutual funds	1,227,386
Private placements	16,438
Real estate	1,704,095
Securities lending collateral	3,221,012
Venture capital	818,436
Investments owned by the State System of Higher Education at June 30, 1999:	
Mutual funds and other investments	<u>32,050</u>
Total temporary and long-term investments	<u>\$56,135,367</u>

The total amount invested by discretely presented component units in the Pennsylvania Treasury short-term investment pool and reported as temporary investments at June 30, 1999 is \$135,894 thousand; also, the Pennsylvania Higher Education Assistance Agency did not report \$201,866 thousand, which is invested in the Pennsylvania Treasury short-term investment pool at June 30, 1999, as temporary investments.

The Public School Employees' Retirement System (PSERS), a Pension Trust Fund, owns approximately 100 percent of the common and preferred stock, 99 percent of the corporate bonds and notes, 100 percent of international equities, 100 percent of international fixed income, 98 percent of mortgage-backed securities, and 78 percent of U.S. government agency obligations reported in the above summary. There were no violations of statutory authority or contractual provisions for investments during the fiscal year ended June 30, 1999.

NOTES TO FINANCIAL STATEMENTS

NOTE D— Deposits and Investments (continued)

Financial Instruments with Off-Balance Sheet Risk

The Public Employees' Retirement System (PSERS) enters into a variety of financial contracts, which include options and futures. The PSERS also enters into foreign exchange positions, such as forward and spot contracts to hedge foreign currency exposure. The PSERS is not a dealer but an end-user of these instruments. The contracts are used primarily to enhance performance and reduce the volatility of the portfolio. Contracts used to enhance performance are fully collateralized, eliminating the use of leverage in the portfolio. Short-term investments and cash equal to or greater than performance obligations under these contracts are maintained at all times. The PSERS is exposed to credit risk in the event of nonperformance by counterparties to financial instruments. As the PSERS generally enters into transactions only with high-quality institutions, no losses associated with counterparty nonperformance on derivative financial instruments have been incurred. Legal risk is mitigated through careful selection of executing brokers and review of all documentation. The PSERS is exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with risk limits set by senior management, by buying or selling instruments or entering into offsetting positions.

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

The following table summarizes the aggregate notional or contractual amounts for the PSERS's derivative financial instruments at June 30, 1999 (amounts in thousands):

Futures contracts long and short	\$ 4,676,490
Foreign exchange forward and spot contracts, gross	3,414,160
Options—calls purchased	10,900
Options—puts purchased	13,320
Options—calls sold	46,396
Options—puts sold	47,976

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay and generally requires margin payments to minimize such risk. Initial margin requirements on futures contracts are provided by investment securities pledged as collateral.

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

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. The contracts reported above primarily include forwards. The \$3,414.2 million of foreign currency contracts outstanding at June 30, 1999 consists of "buy" contracts of \$1,829.7 million, which represent the U.S. dollar equivalent of commitments to purchase foreign currency commitments, and "sell" contracts of \$1,584.5 million, which represent U.S. dollar equivalents of commitments to sell foreign currencies.

The PSERS also invests in mortgage-backed securities such as collateralized mortgage obligations (CMOs) in part to maximize yields. These securities are sensitive to prepayments by mortgagees, which may result from a drop in interest rates. The fair market value of CMOs at June 30, 1999 is \$1,173 million.

NOTES TO FINANCIAL STATEMENTS

NOTE D— Deposits and Investments (continued)

Securities Lending Program

The following funds or organizations participate in a securities lending program established by the Treasury Department: State Lottery (a Special Revenue Fund), State Workmen's Insurance (an Enterprise Fund), Workmen's Compensation Security Trust (an Expendable Trust Fund), Statutory Liquidator (an Agency Fund), the State Employees' Retirement System (a blended component unit Pension Trust Fund) and the Public School Employees' Retirement System (a discretely presented component unit Pension Trust Fund). The Fiscal Code provides the Treasury Department with numerous custodial responsibilities; the securities program is an integral part of the custodial function. A contract between the Treasury Department and its custodian, acting as lending agent, provides that the custodian lends securities owned by the participants to independent brokers, dealers and banks, acting as borrowers.

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

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

The program requires that the lending agent indemnify the Treasury Department for all claims, liabilities and costs resulting from the lending agent's negligence or intentional misconduct. During the fiscal year ended June 30, 1999 (December 31, 1998 for the SWIF and the SERS), there were no failures by any borrower to return securities lent or pay distributions thereon. Also, there were no losses resulting from a lending agent or borrower default and there were no Treasury Department restrictions on the amount of the loans that could be made.

At June 30, 1999 (December 31, 1998 for the SWIF and the SERS), there was no Treasury Department or participant credit risk to the borrowers because the fair value of collateral received was greater than the fair value of the securities lent, consistent with the lending agreements outstanding. The carrying amount and fair value of the securities lent are (amounts in thousands):

State Workmen's Insurance	\$ 438,974
Workmen's Compensation Security Trust	400,982
State Employees' Retirement System	822,590
Public School Employees' Retirement System	3,294,889

Neither the State Lottery Fund nor the Statutory Liquidator Fund had outstanding lending agreements at June 30, 1999.

NOTES TO FINANCIAL STATEMENTS

NOTE E— FIXED ASSETS

A summary of fixed assets by category at June 30, 1999 is as follows (amounts in thousands):

	Primary Government			Discretely Presented Component Units		College and University Funds
	Enterprise Funds	Internal Service Funds	General Fixed Assets Account Group	Proprietary Funds	Fiduciary Fund	
Land.....	\$ 323	\$ 6	\$ 257,946	\$ 107,818	\$ -	\$ 11,483
Buildings	3,834	4,711	3,065,696	463,995	-	465,164
Improvements other than buildings	12,613	3,037	265,998	83,673	-	63,362
Machinery and equipment	71,496	77,759	606,327	191,031	18,552	361,928
Turnpike infrastructure.....	-	-	-	2,548,199	-	-
Construction in progress	926	-	654,351	536,074	-	51,585
Total	<u>\$ 89,192</u>	<u>\$ 85,513</u>	<u>\$ 4,850,318</u>	<u>\$ 3,930,790</u>	<u>\$ 18,552</u>	<u>\$ 953,522</u>

Changes in general fixed assets for the fiscal year ended June 30, 1999 are as follows (amounts in thousands):

	Balance June 30, 1998	Additions	Retirements	Balance June 30, 1999
	Land.....	\$ 255,807	\$ 2,313	\$ 174
Buildings.....	3,040,935	48,508	23,747	3,065,696
Improvements other than buildings.....	256,431	10,844	1,277	265,998
Machinery and equipment	552,065	75,730	21,468	606,327
	4,105,238	137,395	46,666	4,195,967
Construction in progress	403,146	307,476	56,271	654,351
Total general fixed assets.....	<u>\$ 4,508,384</u>	<u>\$ 444,871</u>	<u>\$ 102,937</u>	<u>\$ 4,850,318</u>

Interest costs of \$627 thousand were capitalized for the Pennsylvania Turnpike Commission, a discretely presented component unit Proprietary Fund, for their fiscal year ended May 31, 1999.

The Commonwealth's initial valuation of general fixed assets was made as of June 30, 1986 including appraisal and historical cost reconstruction techniques. Subsequent to June 30, 1986 general fixed asset acquisitions are reported at cost or, for donations or confiscations, at fair market value. At June 30, 1999 the amount of general fixed assets related to the initial valuation amounts to \$1,881 million.

Construction in progress included in the General Fixed Assets Account Group at June 30, 1999 includes project information as follows (amounts in thousands):

	Project Authorization	Expended Through June 30, 1999		Authorization Available
		Amounts Previously Capitalized	Amounts Not Capitalized To Date	
Department of Corrections Institutions.....	\$ 615,091	\$ 165,179	\$ 289,346	\$ 160,566
Capital Complex	551,285	296	166,179	384,810
Colleges and Universities	158,125	18,003	92,827	47,295
Veterans Homes and Military Armories	86,537	26,717	48,300	11,520
Department of Public Welfare Institutions	57,657	4,019	36,239	17,399
Other.....	75,152	20,328	21,460	33,364
Total.....	<u>\$1,543,847</u>	<u>\$ 234,542</u>	<u>\$ 654,351</u>	<u>\$ 654,954</u>

NOTES TO FINANCIAL STATEMENTS

NOTE F— INSURANCE LOSS LIABILITY

The reported insurance loss liability of the State Workmen's Insurance Fund (SWIF), an Enterprise Fund, is primarily based on historical claims experience. One of the assumptions used to determine the reported liability amount include a 5.5 percent discount rate. There is uncertainty as to whether the reported liability will be supported by future claim experience, including payments; this uncertainty must be considered when evaluating the reported insurance loss liability.

For the two calendar years ended December 31, 1998, the following summary provides information on prior year reported insurance loss liability, incurred claims and payments, and current year reported insurance loss liability (amounts in thousands):

Year Ended December 31	Prior Year Liability	Incurred Claims		Payments		Current Year Liability
		Current	Prior	Current	Prior	
1998.....	\$1,375,357	\$ 104,871	\$ 12,637	\$ 12,324	\$ 189,329	\$1,291,212
1997.....	1,474,757	159,158	(19,020)	18,744	220,794	1,375,357

NOTES TO FINANCIAL STATEMENTS

NOTE G— TAXES, LOANS AND LEASE RENTAL RECEIVABLES

Taxes Receivable: Taxes receivable at June 30, 1999 consisted of the following (amounts in thousands):

	General Fund	Special Revenue Funds	Trust and Agency Funds	Total
Sales and use.....	\$ 595,859	\$ 27,260	\$ -	\$ 623,119
Unemployment compensation	-	-	308,401	308,401
Personal income.....	224,578	-	-	224,578
Corporation.....	74,336	-	-	74,336
Liquid fuels.....	-	58,309	-	58,309
Other.....	17,334	85,379	-	102,713
	<u>\$ 912,107</u>	<u>\$ 170,948</u>	<u>\$ 308,401</u>	<u>\$ 1,391,456</u>

Notes and Loans Receivable: Loans receivable at June 30, 1999 consisted of the following (amounts in thousands):

	Primary Government		Discretely Presented Component Units	
	Special Revenue Funds	Enterprise Funds	Proprietary Funds	College and University Funds
Mortgage loans	\$ -	\$ -	\$ 2,871,354	\$ -
Student loans	-	-	1,849,290	36,654
Business development loans	56,540	113,021	624,477	-
Water and sewer system loans	16,101	-	1,093,998	-
Volunteer fire company loans.....	-	88,780	-	-
Other notes and loans	5,951	10,103	-	-
	78,592	211,904	6,439,119	36,654
Less: Allowance for uncollectible accounts.....	18,109	26,397	207,401	5,011
Notes and loans receivable, net.....	<u>\$ 60,483</u>	<u>\$ 185,507</u>	<u>\$ 6,231,718</u>	<u>\$ 31,643</u>

Discretely presented component unit governmental funds reported \$1,365 thousand of loans to school districts at June 30, 1999.

Lease Rentals Receivable: The Capital Facilities Fund, a Capital Projects Fund, reports amounts related to construction projects for educational institutions funded through the issuance of General Obligation Bonds, the principal and interest of which are paid through the collection of lease rental payments and deposited in the related Capital Debt Fund, a Debt Service Fund. At the conclusion of the lease terms, the project facilities are conveyed to the educational institutions. Accordingly, these lease arrangements are classified as direct financing leases. Lease rental receivables and associated deferred revenue equal to the principal lease payments to be received are recorded in the Capital Debt Fund. At June 30, 1999 the total minimum lease payments to be received were \$2.8 million and the present value of the lease payments was \$2.5 million, the difference representing interest of \$.3 million. The Pennsylvania Higher Educational Facilities Authority and the State Public School Building Authority, discretely presented governmental fund component units, 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 project. 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. For discretely presented governmental fund component units, total minimum lease payments were \$6 billion, the present value was \$3.7 billion and interest was \$2.3 billion at June 30, 1999. The Pennsylvania Industrial Development Authority, a discretely presented proprietary fund component unit, reported a lease rental receivable with total minimum payments of \$30 million, present value of \$16 million and interest of \$14 million at June 30, 1999. Minimum lease payments for the five fiscal years succeeding June 30, 1999 are as follows (amounts in thousands):

NOTES TO FINANCIAL STATEMENTS

NOTE G— Taxes, Loans and Lease Rental Receivables (continued)

Fiscal Year Ending June 30	Primary Government	Discretely Presented Governmental Fund Component Units	Discretely Presented Proprietary Fund Component Units
2000.....	\$ 469	\$ 265,766	\$ 634
2001.....	267	269,581	634
2002.....	244	274,849	634
2003.....	244	271,538	634
2004.....	244	266,879	634

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

A summary of interfund receivables and payables reported on the combined balance sheet at June 30, 1999 is as follows (amounts in thousands):

FUND TYPE/FUND PRIMARY GOVERNMENT	DUE FROM		DUE TO	
	OTHER FUNDS	COMPONENT UNITS	OTHER FUNDS	COMPONENT UNITS
General	\$ 44,325	\$ 3,961	\$ 112,801	\$ 102
Special Revenue:				
State Lottery Fund	-	-	6,252	-
State Racing Fund.....	-	-	10,246	-
Hazardous Sites Clean-up Fund.....	22,764	-	29	-
Motor License Fund.....	3,920	37	14,282	3,629
Vocational Rehabilitation Fund.....	33	-	4,425	-
Pharmaceutical Assistance Fund.....	5,377	-	1	-
Agricultural Conservation Easement Fund.....	9,966	-	-	-
Public Transportation Assistance Fund.....	3,299	-	407	-
Other Funds	2,908	3	5,836	-
	48,267	40	41,478	3,629
Debt Service:				
Pennsylvania Infrastructure Investment Authority Redemption Fund	-	27,808	-	-
Other Funds	45	-	15	-
	45	27,808	15	-
Capital Projects:				
Capital Facilities Fund.....	13,329	-	61	-
Keystone Recreation, Park and Conservation Fund..	4,302	-	-	-
Land and Water Development Fund.....	-	-	8	-
	17,631	-	69	-
Enterprise:				
State Stores Fund.....	308	-	17,248	-
State Workmen's Insurance Fund.....	914	-	2,556	-
Rehabilitation Center Fund.....	4,179	-	-	-
Small Business First Fund	2,500	-	-	-
Other Funds	30	-	2,548	-
	7,931	-	22,352	-
Internal Service:				
Purchasing Fund.....	9,441	614	679	4
Manufacturing Fund	3,913	2	90	-
	13,354	616	769	4
Expendable Trust:				
Unemployment Compensation Fund.....	2,189	250	-	-
Workmen's Compensation Security Trust Fund.....	42,541	-	252	-
Deferred Compensation Fund.....	-	-	63	-
Catastrophic Loss Benefits Continuation Fund.....	-	-	42,558	-
	44,730	250	42,873	-
Pension Trust:				
State Employees' Retirement System.....	3,919	7,106	26	-
Agency:				
Local Sales and Use Tax Fund	11,589	-	94	-
Allegheny Regional Asset District Sales and Use Tax Fund	14,778	-	15	-
Liquid Fuels Tax Fund.....	3,029	-	260	-
Other Funds	537	-	348	-
	29,933	-	717	-
TOTAL PRIMARY GOVERNMENT	\$ 210,135	\$ 39,781	\$ 221,100	\$ 3,735

NOTES TO FINANCIAL STATEMENTS

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

DISCRETELY PRESENTED COMPONENT UNITS	DUE FROM			DUE TO		
	Other Funds	Component Units	Primary Government	Other Funds	Component Units	Primary Government
Governmental	\$ 417	\$ -	\$ -	\$ 417	\$ -	\$ -
Proprietary:						
Pennsylvania Infrastructure Investment Authority	-	97	-	-	45	27,816
Pennsylvania Turnpike Commission	-	-	6,347	-	-	4,608
Other Funds	-	45	-	-	97	106
	<u>-</u>	<u>142</u>	<u>6,347</u>	<u>-</u>	<u>142</u>	<u>32,530</u>
Fiduciary:						
Public School Employees' Retirement System...	-	-	1,340	-	-	1,975
College and University	<u>194,652</u>	<u>-</u>	<u>-</u>	<u>194,652</u>	<u>-</u>	<u>4,774</u>
TOTAL DISCRETELY PRESENTED COMPONENT UNITS.....	<u>\$ 195,069</u>	<u>\$ 142</u>	<u>\$ 7,687</u>	<u>\$ 195,069</u>	<u>\$ 142</u>	<u>\$ 39,279</u>

The amount of total interfund receivables of \$452,814 thousand does not agree with total interfund payables of \$459,325 thousand at June 30, 1999 due to different fiscal year ends for certain funds included in the combined balance sheet at June 30, 1999. The amount shown for the Pennsylvania Turnpike Commission, a discretely presented proprietary fund component unit, is as of its fiscal year end of May 31, 1999. The amounts shown as interfund accounts for the State Employees' Retirement System, a Pension Trust Fund, the INVEST Program for Local Governments, an Investment Trust Fund, the State Workmen's Insurance Fund, an Enterprise Fund, and the Deferred Compensation Fund, an Expendable Trust Fund, are as of their fiscal year end of December 31, 1998. The following presents a reconciliation of interfund accounts reported at June 30, 1999 and those amounts which would have been reported if all funds used the same fiscal year end (amounts in thousands):

Due from other funds - Combined Balance Sheet at June 30, 1999	\$ 405,204
Due from primary government - Combined Balance Sheet at June 30, 1999	7,687
Due from component units - Combined Balance Sheet at June 30, 1999	<u>39,923</u>
Interfund receivables — Combined Balance Sheet	452,814
Pennsylvania Turnpike Commission decrease in receivables from June 1, 1999 to June 30, 1999	(2,714)
State Workmen's Insurance Fund increase in receivables from January 1, 1999 through June 30, 1999	307
State Employees' Retirement System increase in receivables from January 1, 1999 through June 30, 1999	<u>8,396</u>
TOTAL INTERFUND RECEIVABLES	<u>\$ 458,803</u>
Due to other funds - Combined Balance Sheet at June 30, 1999	\$ 416,169
Due to primary government - Combined Balance Sheet at June 30, 1999	39,279
Due to component units - Combined Balance Sheet at June 30, 1999	<u>3,877</u>
Interfund payables — Combined Balance Sheet	459,325
Pennsylvania Turnpike Commission decrease in payables from June 1, 1999 to June 30, 1999	(24)
INVEST Program for Local Governments increase in payables from January 1, 1999 through June 30, 1999	33
State Employees' Retirement System increase in payables from January 1, 1999 through June 30, 1999	1,637
State Workmen's Insurance Fund decrease in payables from January 1, 1999 through June 30, 1999	(2,180)
Deferred Compensation Fund increase in payables from January 1, 1999 through June 30, 1999	<u>12</u>
TOTAL INTERFUND PAYABLES	<u>\$ 458,803</u>

NOTES TO FINANCIAL STATEMENTS

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

At June 30, 1999 the General Fund has reported Advances to Other Funds of \$74,808. Specifically, this amount has been advanced as follows: \$66,000 to the State Stores Fund, \$2,300 to the State Workmen's Insurance Fund, both Enterprise Funds, \$2,175 to the Motor License Fund, and \$4,333 to the Pharmaceutical Assistance Fund, both Special Revenue Funds. These amounts have been reported by the respective owing Funds as Advances from Other Funds, except for the State Workmen's Insurance Fund, which has reported an advance of \$2,000 for its fiscal year ended December 31, 1998 (amounts in thousands).

At June 30, 1999 the Hazardous Sites Cleanup Fund, a Special Revenue Fund, has reported an advance to other funds of \$3,000 (in thousands). This amount was advanced to the Small Business First Fund, an Enterprise Fund, which has reported an advance from other funds of \$3,000 (amounts in thousands).

A summary of operating transfers reported for the fiscal year ended June 30, 1999 is as follows (amounts in thousands):

PRIMARY GOVERNMENT	OPERATING TRANSFERS			
	IN	FROM COMPONENT UNITS	OUT	TO COMPONENT UNITS
General.....	\$ 106,667	\$ -	\$ 821,131	\$ 781,636
Special Revenue:				
State Lottery Fund.....	-	-	283,876	-
State Racing Fund.....	-	-	10,213	-
Hazardous Sites Clean-up Fund.....	-	-	14,000	-
Motor License Fund.....	-	-	144,226	-
Vocational Rehabilitation Fund.....	26,574	-	-	-
Pharmaceutical Assistance Fund.....	286,501	-	-	-
Water Facilities Loan Fund.....	-	-	5,395	-
Industrial Sites Clean-up Fund.....	12,000	-	-	-
Other Funds.....	10,162	-	13,900	-
	<u>335,237</u>	<u>-</u>	<u>471,610</u>	<u>-</u>
Debt Service:				
Land and Water Development Sinking Fund.....	14,496	-	-	-
Water Facilities Loan Redemption Fund.....	12,982	-	-	-
Capital Debt Fund.....	798,970	-	-	-
Pennsylvania Infrastructure Investment Authority Redemption Fund.....	27,009	-	-	-
Local Criminal Justice Sinking Fund.....	15,738	-	-	-
Agricultural Conservation Easement Sinking Fund.....	6,866	-	-	-
Keystone Recreation, Park and Conservation Fund.....	4,435	-	-	-
Disaster Relief Redemption Fund.....	7,633	-	-	-
Pennsylvania Economic Revitalization Sinking Fund.....	6,596	-	-	-
Volunteer Company Loan Sinking Fund.....	3,188	-	-	-
Other Funds.....	5,168	-	91	-
	<u>903,081</u>	<u>-</u>	<u>91</u>	<u>-</u>
Enterprise:				
State Stores Fund.....	-	-	51,485	-
Small Business First Fund.....	-	-	668	-
	<u>-</u>	<u>-</u>	<u>52,153</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT.....	\$ 1,344,985	\$ -	\$ 1,344,985	\$ 781,636
DISCRETELY PRESENTED COMPONENT UNITS	IN	FROM PRIMARY GOVERNMENT	OUT	TO PRIMARY GOVERNMENT
Governmental Funds.....	\$ 549,442	\$ 40,400	\$ 549,442	\$ -
Proprietary:				
Pennsylvania Higher Education Assistance Agency.....	-	314,666	-	-
College and University Funds.....	-	426,570	-	-
TOTAL DISCRETELY PRESENTED COMPONENT UNITS.....	\$ 549,442	\$ 781,636	\$ 549,442	\$ -

NOTES TO FINANCIAL STATEMENTS

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

Increases and decreases in contributed capital for proprietary fund types—primary government and discretely presented component units—during the fiscal year ended June 30, 1999 are summarized as follows (amounts in thousands):

Cash flows from capital and related financing activities:

Increases in contributed capital—primary government	\$ 47,582
Decreases in contributed capital—primary government	(5,000)
Increases in contributed capital—discretely presented component units	124,921
Decreases in contributed capital—discretely presented component units	<u>(2,076)</u>
Net increase in contributed capital for proprietary fund types—primary government and discretely presented component units	<u>\$ 165,427</u>

The following summary reconciles the above-listed net change in contributed capital to net governmental residual equity transfers out of \$153,263 and an internal services residual equity transfer in of \$11 (amounts in thousands):

Net residual equity transfers	\$ 153,252
add: general obligation bond proceeds received directly by the Pennsylvania Infrastructure Investment Authority	7,131
less: amount reported by the Pennsylvania Infrastructure Investment Authority as grant revenue or reimbursement for certain administrative costs	(2,723)
less: program grants disbursed by the Pennsylvania Infrastructure Investment Authority	(2,076)
add: federal funds received by the Pennsylvania Turnpike Commission	2,933
add: federal funds received by the Pennsylvania Infrastructure Bank Fund	6,847
add: other increase to the Rehabilitation Center Fund	52
add: other increase for the Purchasing Fund	<u>11</u>
Net increase in contributed capital for proprietary fund types—primary government and discretely presented component units	<u>\$ 165,427</u>

Assigned Investment Income: Certain funds, as follows, receive investment income which is assigned to another fund for legal, contractual or other reasons. Interfund transfers are reported by those funds which assign/receive investment income for other than legal or contractual reasons (amounts in thousands).

<u>Assigning Fund</u>	<u>Receiving Fund</u>	<u>Reason</u>	<u>Amount</u>
Liquor License	General	Legal/contractual	\$ 89
Liquid Fuels Tax	Motor License	Legal/contractual	490
Land and Water Development	Land and Water Development		
	Sinking	Legal/contractual	98
Remining Financial Assurance	Land and Water Development		
	Sinking	Other	110
Water Facilities Loan	PA Economic Revitalization		
	Sinking	Other	101
Fire Insurance Tax	State Insurance	Legal/contractual	1,052
Fire Insurance Tax	Municipal Pension Aid	Legal/contractual	289

NOTES TO FINANCIAL STATEMENTS

NOTE I—RETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS

PENSION SYSTEMS

Commonwealth laws established contributory defined benefit pension plans covering substantially all Commonwealth and public school employes. Commonwealth employes are members of the State Employees' Retirement System (SERS), a blended component unit. The SERS is the only blended component unit in the financial reporting entity and it is the only pension trust fund included in the primary government. Public school employes are members of the Public School Employees' Retirement System (PSERS), a discretely presented component unit. The PSERS is the only Fiduciary Fund reported as a discretely presented component unit. Both the SERS and the PSERS issue stand-alone financial statements which are available to the public. Written requests for financial statements should be directed to the following addresses:

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

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

STATE EMPLOYES' RETIREMENT SYSTEM

Plan Description: The SERS is the administrator of a cost-sharing multiple-employer defined benefit retirement system established to provide pension benefits for employes of state government and certain other organizations. At December 31, 1998 there were 107 employer state agencies and other organizations participating in the SERS. The SERS provides retirement, death, and disability benefits. Retirement benefits vest after 10 years of credited service. Employes who retire at age 60 or with 35 years of service, if under age 60, are entitled to a normal (unreduced) annual retirement benefit. Members of the General Assembly and certain employes classified in hazardous duty positions can retire with full benefits at age 50 with at least three years of service.

The general annual benefit for full retirement is 2 percent of the member's highest three-year-average salary multiplied by years of service. Members of the legislature who were members of the SERS before March 1, 1974 are entitled to a benefit of 7.5 percent of average salary for each year of legislative service. State police troopers are entitled to an annual benefit equal to a percentage of their highest annual salary (excluding the year of retirement). The annual benefit is 75 percent of salary for 25 or more years of service and 50 percent of salary for 20-24 years of service. The Commonwealth has the authority to establish or amend benefit provisions. Act 41 of 1998 permitted certain participants with at least 30 years of service to retire without a reduction in benefits from July 1, 1998 through June 30, 1999.

Funding Policy: The SERS Board has the authority to establish or amend periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll. The active plan member contribution rate is 5 percent of covered payroll for most employes; higher contributions are required for certain members of the General Assembly and judges and district justices who elect higher contribution rates. All member contribution rates are determined by Commonwealth law. During each of the three years ended December 31, the annual required employer contributions (amounts in thousands) and the related percentage of that amount actually contributed are as follows:

<u>Year ended December 31</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1997	\$ 324,093	100.0
1996	373,902	100.0
1995	376,692	102.1

During the year ended December 31, 1998 employer contributions amounted to \$310,501 thousand; the SERS did not perform an actuarial valuation as of December 31, 1998 and did not report an annual required contribution for the year ended December 31, 1998. At December 31, 1998, the SERS disclosed no long-term contracts for contributions to the plan.

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

NOTES TO FINANCIAL STATEMENTS

NOTE I— Retirement and Other Postemployment Benefits (continued)

Investment Valuation: Investments are reported at fair value. United States government obligations, corporate and foreign bonds and notes, and common and preferred stocks, including collective trust fund, are generally valued based on published market prices and quotations from national security exchange and securities pricing services. Securities that are not traded on a national security exchange are valued by the asset manager or third parties based on similar sales. Mortgage loans are valued by the asset manager using the present value of future cash flows. Real estate is primarily valued based on appraisals performed by independent appraisers or, for properties not appraised, at the present value of the projected future net income stream. Venture capital and alternative investments are valued based on amounts established by valuation committees. Foreign exchange contracts, which are not reported in the statement of plan net assets, are marked-to-market daily with changes in fair value recognized as part of investment income. The investment in the Commonwealth Treasury short-term investment pool is reported at cost plus allocated interest, which approximates fair value. Collateral received under the Commonwealth Treasury securities lending program is reported at fair value.

Investment Concentration: The fair value of individual investments at December 31, 1998 that represent 5 percent or more of plan net assets are as follows (amounts in thousands):

Barclays Global Investors N.A:		
Equity Index Fund P—113,172,095 units.....		\$ 5,149,244
70/30 Enhanced U.S. Tactical Asset Allocation Fund—36,116,702 units ..		1,291,186

PUBLIC SCHOOL EMPLOYES' RETIREMENT SYSTEM

Plan Description: The PSERS is a cost-sharing multiple-employer defined benefit retirement system established to provide pension and other benefits for public school employees. At June 30, 1999 there were 660 participating employers, generally school districts. The PSERS provides retirement, death, disability and health care benefits. Retirement benefits vest after 10 years of credited service. Members are eligible for full monthly retirement benefits upon reaching (a) age 62 with at least one year of service, (b) age 60 with 30 or more years of service, or (c) 35 or more years of service regardless of age. Act 41 of 1998 permitted school employees with at least 30 years of credited service to retire without a reduction in benefits from April 1 through June 30, 1999.

Benefits for full retirement are generally equal to 2 percent of the member's final average salary multiplied by years of service. The Commonwealth has the authority to establish or amend benefit provisions.

Funding Policy: The Public School Employees' Retirement Code provides that the PSERS Board has the authority to establish or amend periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll. The active plan member contribution rate for employees hired before July 22, 1983 is 5.25 percent of covered payroll; for employees hired after July 21, 1983, the rate is 6.25 percent. Member contribution rates are determined by Commonwealth law.

Effective July 1, 1995, employers defined as school entities (school districts, area vocational-technical schools, and intermediate units) are required to pay the entire employer contribution. School entities are partially reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income aid ratio (as defined in Act 29 of 1994), which is at least one half of the total employer contribution. For employers which are not school entities, the employer contribution is paid equally by the employer and the Commonwealth to the PSERS; no Commonwealth reimbursement occurs.

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

<u>Fiscal year</u> <u>Ended June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
1999	\$513,940	100.00
1998	\$718,431	100.00
1997	\$796,205	100.00

At June 30, 1999, the PSERS disclosed no long-term contracts for contributions to the plan.

Summary of Significant Accounting Policies: The PSERS financial statements are prepared on the accrual basis of accounting, whereby expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of the

NOTES TO FINANCIAL STATEMENTS

NOTE I— Retirement and Other Postemployment Benefits (continued)

related trade date. Member and employer contributions are recognized in the period in which employe salaries are reported. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

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

Investment Concentration: At June 30, 1999 there were no investments in any one organization that represented 5 percent or more of plan net assets.

OTHER POSTEMPLOYMENT BENEFITS

The Commonwealth funds certain health care benefits for retired employes (that meet specified length-of-service and age requirements) and their eligible dependents. These benefits are provided as a result of negotiated union contracts and through administrative policy. The Commonwealth recognizes the cost of providing these benefits as paid, which totaled \$195 million for the fiscal year ended June 30, 1999. Approximately 84,000 individuals were covered by these benefits during the fiscal year.

The Commonwealth provides several other postemployment benefits, including disability life insurance and certain benefits to beneficiaries of state police officers killed in the line of duty. The amount expended for these benefits was not material during the fiscal year ended June 30, 1999.

NOTES TO FINANCIAL STATEMENTS

NOTE J—NOTES AND DEMAND REVENUE BONDS PAYABLE

Primary Government

During the fiscal year ended June 30, 1997, the Commonwealth issued General Obligation Bond Anticipation Notes, Series 1997 A (notes), pursuant to a resolution adopted on February 18, 1997, in anticipation of the issuance of general obligation bonds of the Commonwealth. No general obligation bonds to retire the notes were issued during the 1996-97 or the 1997-98 fiscal year. During the fiscal year ended June 30, 1999 general obligation bonds were issued to retire a portion of the notes. The notes bear interest at varying rates, not to exceed 9 percent per annum. Bond anticipation notes outstanding at June 30, 1999 reported by the Capital Facilities Fund, a capital projects fund, and the Disaster Relief Fund, a special revenue fund, are \$15.2 million and \$21.7 million, respectively.

Discretely Presented Component Units

The Pennsylvania Higher Education Assistance Agency (PHEAA), a proprietary fund component unit, has reported \$946.0 million of demand revenue bonds outstanding and \$430.3 million of notes payable consisting of student loan financing of \$380.7 million, other lines of credit of \$42.2 million and other notes and bonds payable of \$7.4 million at June 30, 1999 as follows (amounts in thousands):

Demand student loan revenue bonds payable, due 2018-2027, at a weighted average interest rates of 2.68 and 3.80 percent at June 30, 1999 and 1998, respectively.....	\$ 946,000
Student loan financing notes payable, due in 2000-2007, at a weighted average rates of 5.35 and 5.95 percent at June 30, 1999 and 1998, respectively.....	380,747
Other lines of credit, due 2000-2005, at a weighted average interest rates of 5.87 and 5.47 percent at June 30, 1999 and 1998, respectively.....	42,200
Other notes and bonds payable, due 2000-2009, at a weighted average interest rates of 5.80 and 5.76 percent at June 30, 1999 and 1998, respectively.....	<u>7,403</u>
Total.....	<u>\$ 1,376,350</u>

The note and bond indentures among other things require PHEAA to comply with various covenants including minimum parity levels as defined, student loan and investment yields, and program expenses. The demand bonds payable are subject to purchase, at par plus accrued interest, by PHEAA on demand of the bondholders upon seven days prior irrevocable written notice. Under the irrevocable letters of credit issued by the Student Loan Marketing Association, the trustee is entitled to draw an amount sufficient to pay the purchase price of the bonds delivered to it. The letters of credit are valid from 2001 through 2027. The PHEAA is required to pay annual commitment fees ranging from 12 to 45 basis points on the stated amount of the letter of credit coverage. At June 30, 1999 total letter of credit coverage was \$1.6 billion.

All student loan financing notes payable, demand student loan revenue bonds payable and student loan revenue bonds payable are collateralized by student loans and investments. At June 30, 1999, \$2.17 billion of debt is collateralized by \$1.85 billion of student loan principal and related interest receivable, and \$446.0 million of investments. The other notes and bonds payable are collateralized with operational assets. Amounts due under the lines of credit are collateralized with accounts receivable and student loans. As of June 30, 1999 the PHEAA has \$255.3 million of available credit under student loan financing arrangements and \$6.0 million available under other lines of credit.

NOTES TO FINANCIAL STATEMENTS

NOTE J— Notes and Demand Revenue Bonds Payable (continued)

Stated maturities of notes and bonds payable for each of the five years subsequent to June 30, 1999 and through maturity are as follows (amounts in thousands):

<u>Year of Maturity</u>	<u>Demand Student Loan Revenue Bonds Payable</u>	<u>Student Loan Financing Notes Payable</u>	<u>Other Notes and Bonds Payable</u>
2000	\$ -	\$ 63,323	\$ 3,003
2001	-	282,424	1,810
2002	-	-	846
2003	-	-	653
2004	-	-	146
2005-29	<u>946,000</u>	<u>35,000</u>	<u>945</u>
Total	<u>\$ 946,000</u>	<u>\$ 380,747</u>	<u>\$ 7,403</u>

Notes and bonds payable, as well as all other debt, are limited obligations of the PHEAA. PHEAA has no taxing power and the Commonwealth is not obligated to pay principal, redemption price, if any, or interest on any of the PHEAA's debt.

The Pennsylvania Housing Finance Agency (PHFA), a proprietary fund component unit, maintains a line of credit with the Pennsylvania Treasury Department under which it may borrow up to \$15 million to fund its multi-family housing program. The line of credit bears interest from the date of issuance at a rate equal to the current yield on two-year Treasury Notes plus 20 basis points. At June 30, 1999, \$1 million is owed at a range of 4.47 to 6.98 percent against this line of credit. Total reported notes payable at June 30, 1999 for the PHFA is \$6 million.

NOTES TO FINANCIAL STATEMENTS

NOTE K— LONG-TERM OBLIGATIONS

Long-term obligations of the Commonwealth's primary government at June 30, 1999 and changes for the fiscal year ended are as follows (amounts in thousands):

GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP	Issue Dates	Interest Rates	Maturity Dates Through	Bonds Authorized But Unissued	Balance July 1, 1998	Additions	Reductions	Balance June 30, 1999
General Obligation Bonds Payable From								
Tax Revenues:								
Capital Facilities.....	1970-99	4.47-10.16%	2019	\$ 27,454,150	\$ 2,486,340	\$ 824,000	\$ 262,515	\$ 3,047,825
Disaster Relief.....	1973	4.91- 5.48%	2003	131,908	30,025	-	5,505	24,520
Land and Water Development.....	1970-94	4.89- 7.07%	2014	300	56,435	-	12,090	44,345
Nursing Home Loan Development.....	1983	8.26%	2002	31,000	3,790	-	1,665	2,125
Project 70 Land Acquisition.....	1970	6.26%	2000	-	1,490	-	720	770
Volunteer Companies Loan.....	1982-98	4.84-10.75%	2018	-	26,140	-	1,790	24,350
Vietnam Conflict Veterans								
Compensation.....	1970-74	5.36- 6.11%	2003	3,000	6,540	-	2,305	4,235
Water Facilities Loan.....	1983-97	4.89- 8.26%	2017	11,500	119,320	-	6,605	112,715
Pennsylvania Economic Revitalization	1991-95	5.04- 6.60%	2015	14,000	37,445	-	4,550	32,895
Pennsylvania Infrastructure								
Investment Authority.....	1989-98	4.72- 6.90%	2018	275,000	260,340	7,000	15,350	251,990
Agricultural Conservation Easement								
Purchase.....	1991-98	4.47- 6.60%	2018	-	59,095	19,000	3,260	74,835
Local Criminal Justice.....	1992-98	4.47- 6.60%	2018	11,000	162,980	3,000	6,685	159,295
Keystone Recreation, Park and								
Conservation.....	1994-98	4.84- 6.60%	2018	-	47,460	-	1,880	45,580
Refunding Bonds.....	1991-97	5.12- 6.60%	2011	-	1,543,924	2,965	118,755	1,428,134
				<u>27,931,858</u>	<u>4,841,324</u>	<u>855,965</u>	<u>443,675</u>	<u>5,253,614</u>
Other General Long-Term Obligations								
Payable From Tax Revenues:								
Installment Purchase Obligations.....	-	-	-	-	18,231	28,301	12,842	33,690
Capital Lease Obligations.....	-	-	-	-	55,976	285	2,098	54,163
Obligations Under Master Lease								
Agreement—Equipment.....	-	-	-	-	18,265	-	11,510	6,755
Obligations Under Master Lease—								
Prison Facilities.....	-	-	-	-	681,150	-	27,670	653,480
Self-Insurance—Note O.....	-	-	-	-	595,024	95,446	100,951	589,519
Compensated Absences.....	-	-	-	-	606,627	308,599	289,136	626,090
Catastrophic Motor Vehicle Losses.....	-	-	-	-	142,898	69,761	28,500	184,159
Other.....	-	-	-	-	531,578	204,470	247,465	488,583
				-	<u>2,649,749</u>	<u>706,862</u>	<u>720,172</u>	<u>2,636,439</u>
TOTAL GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP ..				<u>\$ 27,931,858</u>	<u>\$ 7,491,073</u>	<u>\$ 1,562,827</u>	<u>\$ 1,163,847</u>	<u>\$ 7,890,053</u>

Long-term obligations of the discretely presented component unit organizations at June 30, 1999 (May 31, 1999 for the Pennsylvania Turnpike Commission) and changes for the fiscal year then ended are as follows (amounts in thousands):

GOVERNMENTAL FUNDS

Bonds Payable from Lease Rentals:

Pennsylvania Higher Educational

Facilities Authority.....	1969-99	2.70- 9.63%	2031	\$ 3,070,660	\$ 635,242	\$ 260,704	\$ 3,445,198
State Public School Building Authority..	1986-99	2.60- 7.88%	2021	<u>343,326</u>	<u>81,837</u>	<u>77,693</u>	<u>347,470</u>

TOTAL GOVERNMENTAL FUNDS

	<u>3,413,986</u>	<u>717,079</u>	<u>338,397</u>	<u>3,792,668</u>
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PROPRIETARY FUNDS

Revenue Bonds Payable from User

Charges:

Pennsylvania Higher Education

Assistance Agency.....	1984-92	6.49%	2026	837,785	-	-	837,785	
Pennsylvania Housing Finance Agency..	1982-99	2.88-11.00%	2030	2,716,387	255,315	222,353	2,749,349	
Pennsylvania Industrial Development								
Authority.....	1994-96	4.75- 7.00%	2014	394,470	-	20,660	373,810	
Pennsylvania Turnpike Commission.....	1991-98	2.50- 6.60%	2028	1,127,930	588,355	134,975	1,581,310	
Pennsylvania Infrastructure Investment								
Authority.....	1990-98	4.00- 7.15%	2014	<u>196,365</u>	<u>38,045</u>	<u>47,510</u>	<u>186,900</u>	
				<u>5,272,937</u>	<u>881,715</u>	<u>425,498</u>	<u>5,729,154</u>	

Less: Bond discounts.....	-	-	-	53,083	9,239	9,862	52,460
Deferred costs of refunding.....	-	-	-	<u>7,543</u>	<u>1,621</u>	<u>524</u>	<u>8,640</u>

TOTAL PROPRIETARY FUNDS

	<u>5,212,311</u>	<u>870,855</u>	<u>415,112</u>	<u>5,668,054</u>
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TOTAL COMPONENT UNIT

LONG-TERM OBLIGATIONS

	<u>\$ 8,626,297</u>	<u>\$ 1,587,934</u>	<u>\$ 753,509</u>	<u>\$ 9,460,722</u>
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NOTES TO FINANCIAL STATEMENTS

NOTE K— Long-Term Obligations (continued)

Primary Government

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

The total "Additions" of \$855,965 for General Obligations Bonds Payable from Tax Revenues at June 30, 1999, as reported in Note K, differs from total bond proceeds of \$856,839 for Governmental Fund Types, as reported in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances, by \$874. This difference includes premium on bonds issued of \$10,839, less bond proceeds for non-governmental funds of \$7,000 and less principal accretion for capital appreciation bonds of \$2,965 (amounts in thousands).

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

The balance outstanding at June 30, 1999 in the General Long-Term Obligations Account Group for Refunding Bonds includes \$16.2 million of accreted value for capital appreciation bonds. No principal or interest is payable on the capital appreciation bonds until maturity.

Included in "Other" for Other General Long-Term Obligations payable from tax revenues are the following (amounts in thousands):

Workmen's Compensation Security Trust Claims	\$ 284,113
Public Utility Realty Tax Act (PURTA)	136,700
Litigation—Note P	66,634
Arbitrage Rebate Tax	<u>1,136</u>
	<u>\$ 488,583</u>

The Workmen's Compensation Security Trust Fund provides for payment of valid claims under the Workmen's Compensation Law to individuals whose employers are insured by insolvent insurance carriers. The PURTA provides for a tax on utility realty property whereby amounts received during the fiscal year are used as a General Fund revenue source. The Act also provides for payment of a majority of the PURTA revenues as a distribution to local taxing authorities during the following fiscal year (normally in October). Such payments are appropriated in the following fiscal year and are, therefore, not expendable or available during the fiscal year the related revenue is received. The other amounts included in the General Long-Term Obligations Account Group at June 30, 1999 relating to Workmen's Compensation Claims, Litigation and Arbitrage Rebate Tax, are not payable with currently expendable available financial resources.

In 1991, the Commonwealth entered into lease arrangements with five local government authorities for the rental of five new prisons. Each authority issued bonds to finance the construction of the prisons. Each lease provided for the Commonwealth to pay periodic rentals equal to debt service payments on each authority's debt obligation. On July 1, 1993 a finance corporation issued certificates of participation to refund the authority debt obligations, to consolidate the financing of the prisons and to provide additional construction funding. As a result of the consolidated financing, the Commonwealth makes lease payments equal to the finance corporation's debt service payments. Both the original and the new leases provide that the Commonwealth's obligation to make lease payments is subject to Commonwealth appropriations made to provide for these obligations. In the fiscal year ended June 30, 1994 the Commonwealth began using the new prison facilities. The finance corporation holds nominal title to the facilities as security for the Commonwealth lease payments. When the certificates are fully redeemed, at which time the lease agreement expires, legal title vests with the Commonwealth. At June 30, 1999 the Commonwealth has reported \$653.5 million as a liability under prison master lease arrangements and has reported general fixed assets for the related prison facilities.

The Commonwealth's constitutional debt limit, which allows for the incurrence of debt to be used for capital projects without electorate approval as specifically itemized in a capital budget, was \$37.2 billion as of September 1, 1999, with net debt outstanding of \$3.9 billion.

Discretely Presented Component Units

The Pennsylvania Housing Finance Agency (PHFA), the Pennsylvania Higher Education Assistance Agency (PHEAA), the Pennsylvania Industrial Development Authority, the Pennsylvania Turnpike Commission (PTC) and the Pennsylvania Infrastructure Investment Authority, discretely presented proprietary fund component units, have pledged substantially all of their revenues for the redemption of revenue bonds outstanding. Revenue bonds outstanding as reported in this note disclosure for the fiscal year ended June 30, 1999 (May 31, 1999 for the PTC) include bond discounts and deferred costs of refunding of \$52.5 million and \$8.6 million, respectively.

NOTES TO FINANCIAL STATEMENTS

NOTE K— Long-Term Obligations (continued)

The Pennsylvania Higher Educational Facilities Authority and the State Public School Building Authority (SPSBA), discretely presented governmental fund component units, have bonds outstanding as of June 30, 1999 which are payable from the lease rentals of the projects financed. The lease rentals are pledged as collateral for the bonds outstanding.

At June 30, 1999 the SPSBA reported \$243 thousand in other general long-term obligations which represents a liability for compensated absences.

The following table presents annual principal and interest payments for long-term debt outstanding for the primary government and discretely presented component units at June 30, 1999 (May 31, 1999 for the Pennsylvania Turnpike Commission) (amounts in thousands):

PRIMARY GOVERNMENT

	2000	2001	2002	2003	2004	2005 Through Maturity	Total
GENERAL OBLIGATION BONDS:							
Capital Facilities.....	\$ 437,291	\$ 392,883	\$ 344,442	\$ 282,971	\$ 260,712	\$ 2,683,300	\$ 4,401,599
Disaster Relief.....	6,820	6,833	6,869	6,904	-	-	27,426
Land and Water Development.....	14,506	13,565	7,925	4,554	1,153	10,445	52,148
Nursing Home Loan Development.....	643	596	549	550	-	-	2,338
Project 70 Land Acquisition.....	785	-	-	-	-	-	785
Volunteer Companies Loan.....	3,094	2,987	2,907	2,520	2,061	21,426	34,995
Vietnam Conflict Veterans Compensation.....	2,601	478	482	487	491	-	4,539
Water Facilities Loan.....	12,855	12,630	12,200	11,407	10,781	103,017	162,890
Pennsylvania Economic Revitalization...	6,493	6,323	5,393	2,395	2,385	21,705	44,694
Pennsylvania Infrastructure Investment Authority.....	28,188	26,614	25,956	24,730	24,469	237,053	367,010
Agricultural Conservation Easement Purchase.....	8,233	8,137	7,776	7,309	7,221	70,451	109,127
Local Criminal Justice.....	15,959	15,945	15,927	15,914	15,903	159,670	239,318
Keystone Recreation, Park and Conservation.....	4,399	4,360	4,322	4,289	4,245	48,694	70,309
Refunding Bonds.....	204,011	199,750	199,881	218,001	208,625	825,760	1,856,028
Total Principal and Interest.....	745,878	691,101	634,629	582,031	538,046	4,181,521	7,373,206
Less: Interest Payments.....	266,528	243,756	221,595	201,573	181,415	1,004,725	2,119,592
Other General Long-Term Obligations...	479,350	447,345	413,034	380,458	356,631	3,176,796	5,253,614
	267,253	124,725	123,398	121,269	122,105	1,877,689	2,636,439
TOTAL GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP	\$ 746,603	\$ 572,070	\$ 536,432	\$ 501,727	\$ 478,736	\$ 5,054,485	\$ 7,890,053

DISCRETELY PRESENTED COMPONENT UNITS

GOVERNMENTAL FUNDS:

Other Bonds:

Pennsylvania Higher Educational Facilities Authority.....	\$ 229,688	\$ 233,319	\$ 238,237	\$ 236,180	\$ 232,586	\$ 4,395,233	\$ 5,565,243
State Public School Building Authority..	39,909	40,151	40,582	39,292	38,165	300,563	498,662
Total Principal and Interest.....	269,597	273,470	278,819	275,472	270,751	4,695,796	6,063,905
Less: Interest Payments.....	158,001	157,327	152,299	147,056	141,997	1,514,557	2,271,237
TOTAL GOVERNMENTAL FUNDS	\$ 111,596	\$ 116,143	\$ 126,520	\$ 128,416	\$ 128,754	\$ 3,181,239	\$ 3,792,668

PROPRIETARY FUNDS:

Revenue Bonds:

Pennsylvania Higher Education Assistance Agency.....	\$ 54,348	\$ 336,787	\$ 36,613	\$ 36,613	\$ 36,613	\$ 1,070,598	\$ 1,571,572
Pennsylvania Housing Finance Agency..	257,852	224,569	223,824	223,108	221,369	4,236,355	5,387,077
Pennsylvania Industrial Development Authority.....	43,749	43,006	42,525	42,399	42,243	327,852	541,774
Pennsylvania Turnpike Commission.....	110,615	120,415	120,457	120,806	120,477	2,145,742	2,738,512
Pennsylvania Infrastructure Investment Authority.....	22,802	22,935	22,826	22,615	22,288	138,822	252,288
Total Principal and Interest.....	489,366	747,712	446,245	445,541	442,990	7,919,369	10,491,223
Less: Interest Payments.....	323,401	313,733	299,960	292,510	283,798	3,248,667	4,762,069
TOTAL PROPRIETARY FUNDS	165,965	433,979	146,285	153,031	159,192	4,670,702	5,729,154
TOTAL COMPONENT UNITS	\$ 277,561	\$ 550,122	\$ 272,805	\$ 281,447	\$ 287,946	\$ 7,851,941	\$ 9,521,822

NOTES TO FINANCIAL STATEMENTS

NOTE K— Long-Term Obligations (continued)

The Commonwealth has entered into certain agreements to lease various facilities and equipment. Such agreements are in substance purchases (capital leases) and are reported as Capital Lease Obligations. 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, 1999 (amounts in thousands):

	Primary Government			Discretely Presented Component Units	
	General Long-Term Obligations	Master Lease Obligations Prison Facilities	Equipment	Pennsylvania Higher Education Assistance Agency	College and University Funds
Fiscal year ending June 30					
2000	\$ 7,265	\$ 61,515	\$ 6,305	\$ 6,207	\$ 33,933
2001	7,072	61,454	697	6,099	33,329
2002	6,870	61,387	-	6,498	32,608
2003	6,331	61,337	-	52,730	31,315
2004	6,178	61,287	-	-	31,035
Later years	74,663	643,376	-	-	490,487
Total minimum lease payments	108,379	950,356	7,002	71,534	652,707
Less: amount representing estimated executory costs included in total minimum lease payments	13,772	-	-	-	-
Net minimum lease payments	94,607	950,356	7,002	71,534	652,707
Less: amount representing interest	40,444	296,876	247	18,504	272,782
TOTAL CAPITAL LEASE OBLIGATIONS	\$ 54,163	\$ 653,480	\$ 6,755	\$ 53,030	\$ 379,925
INSTALLMENT PURCHASE OBLIGATIONS	\$ 33,690				

At June 30, 1999 general fixed assets included \$ 95.8 million of buildings and \$2.8 million of equipment being procured by capital leases. A total of \$61.3 million in general fixed assets is being procured by vendor-financed installment purchase arrangements.

Capital lease obligations outstanding as of June 30, 1999 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 \$51.6 million of construction in progress related to capital leases at June 30, 1999.

The Commonwealth has entered into three lease arrangements with a trustee for the refinancing of previously existing leases and installment purchase arrangements and for the leasing of new equipment. These arrangements provide that the trustee issue certificates of participation, the proceeds of which allow for immediate payment to Commonwealth equipment vendors. This is not a general or moral obligation of the Commonwealth; under the arrangement, Commonwealth agencies are responsible for securing appropriations to make lease payments to the trustee, over a specified term, sufficient to fund periodic principal and interest payments to the certificate holders. While Commonwealth agencies maintain custody and use of the leased equipment, the trustee holds legal title to the equipment as security for the agency payments. When the certificates are fully funded, legal title vests with the Commonwealth agency. At June 30, 1999, \$40.8 million in general fixed assets is being procured by these master lease arrangements.

Conduit Debt

The Pennsylvania Economic Development Financing Authority (PEDFA) finances projects on behalf of local industrial and commercial development authorities to promote economic growth within the Commonwealth. Revenue bonds issued by the PEDFA represent limited obligations payable solely from Authority financed project revenues. At June 30, 1999 the PEDFA has \$1,237.9 million of debt outstanding. Neither PEDFA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are included in the accompanying financial statements.

The Pennsylvania Energy Development Authority (PEDA) finances projects related to energy conservation and research. Fees are assessed to recover related processing and application costs incurred. The bonds issued by the Authority represent limited obligations payable solely from payments made by the borrowing entities. The majority of the bonds are secured by the property financed. Upon repayment of a bond, ownership of acquired property transfers from the trustees to the entity served by the bond issuance. The PEDA has \$110.1 million in revenue bonds outstanding at June 30, 1999. The Commonwealth has no obligation for this debt. Accordingly, neither the financed assets nor the bonds are included in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE L—REFUNDED DEBT

Primary Government

In prior years, the Commonwealth defeased certain general obligation bonds by placing the proceeds of refunding bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. At June 30, 1999, \$611.5 million of general obligation bonds outstanding that were previously accounted for in the General Long-Term Obligations Account Group have been defeased through advance refundings.

Discretely Presented Component Units

During the fiscal year ended June 30, 1999 the State Public School Building Authority (SPSBA) and the Pennsylvania Higher Educational Facilities Authority (PHEFA), governmental fund component units, issued revenue bonds to advance and current refund \$31.4 million and \$75.3 million, respectively, of previously issued revenue bonds as follows (amounts in thousands):

Category	School Revenue Bonds Northampton County Area Community College Series M of 1998	School Revenue Bonds Pittston Area School District Series P of 1998	School Revenue Bonds Westmoreland County Community College Series Q of 1998
Issuing Authority	SPSBA	SPSBA	SPSBA
Bond Type	Revenue	Revenue	Revenue
Date Issued	07-30-98	10-06-98	11-06-98
Refunding Bonds Principal	\$5,385	\$16,125	\$10,810
Interest Rate (Refunding)	4.96%	4.74%	4.79%
Refunded Series	School Revenue Bonds Northampton County Area Community College Series of 1993 and 1994	School Revenue Bonds Pittston Area School District Series A and E of 1993*	School Revenue Bonds Westmoreland County Community College Series F of 1995
Refunded Bonds Principal	\$960/\$3,990	\$3,000/\$2,980	\$10,530
Interest Rate (Refunded)	5.72%/5.93%	5.22%/5.46%	5.51%
Payment to Escrow Agent	\$5,258***	\$2,985***	\$11,065
Debt Service Savings (Loss)	\$16/\$93	\$90/\$80	\$225
Economic Gain (Loss)	\$16/\$84	\$57/\$66	\$209

Category	School Revenue Bonds Montgomery County Community College Series A of 1999	Delaware Valley College of Science and Agriculture College Revenue Bonds Series of 1998	Valley Forge Military Academy Foundation Project Revenue Bonds Series of 1998
Issuing Authority	SPSBA	PHEFA	PHEFA
Bond Type	Revenue	Revenue	Revenue
Date Issued	03-18-99	11-03-98	11-24-98
Refunding Bonds Principal	\$11,500	\$13,500	\$3,500
Interest Rate (Refunding)	4.64%	5.46%	variable
Refunded Series	School Revenue Bonds Montgomery County Community College Series A of 1994	Delaware Valley College of Science and Agriculture College Revenue Bonds Series of 1994/1 st and 2 nd Series of 1997*	Valley Forge Military Academy Foundation Project College Revenue Bonds Series of 1992*
Refunded Bonds Principal	\$9,970	\$6,975/\$3,860	\$920
Interest Rate (Refunded)	5.71%	7.09%/5.50%	6.88%
Payment to Escrow Agent	\$11,550	\$7,693/\$3,867	\$934
Debt Service Savings (Loss)	\$323	(\$5,189)**	\$601
Economic Gain	\$321	(\$90)**	\$108

* Current refunding.

** Bonds refunded to extend maturities

*** Escrow for both series combined.

**** No escrow established, as bonds were called immediately.

NOTES TO FINANCIAL STATEMENTS

NOTE L— Refunded Debt (continued)

<u>Category</u>	<u>University of Sciences in Philadelphia Revenue Bonds Series of 1998</u>	<u>Thomas Jefferson University Revenue Bonds Series A of 1999</u>
Issuing Authority	PHEFA	PHEFA
Bond Type	Revenue	Revenue
Date Issued	12-30-98	06-03-99
Refunding Bonds Principal	\$9,430	\$66,010
Interest Rate (Refunding)	4.88%	5.06%
Refunded Series	<u>University of Sciences in Philadelphia Revenue Bonds Series of 1989</u>	<u>Thomas Jefferson University Revenue Bonds Series A of 1989*</u>
Refunded Bonds Principal	\$2,106	\$61,590
Interest Rate (Refunded)	6.99	7.78%
Payment to Escrow Agent	\$2,159	\$64,494
Debt Service Savings (Loss)	\$132	\$3,168
Economic Gain (Loss)	\$146	\$2,969

* Current refunding.

The net refunding bond proceeds, after payment of underwriting fees, insurance, and other issuance costs, 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 for those bonds has been removed from the General Long-Term Obligations Account Group.

The SPSBA and the PHEFA reported advance and current refundings in their component unit financial statements for the Lower Moreland Township School District, the West Perry School District, the Wallenpaupack Area School District, the Saint Clair Area School District, the Tri-Valley School District, the Cheltenham Township School district, the Shenendoah Valley School District, Chatham College, Susquehanna University and Eastern College, which are not reported in the preceding table. The liability for the refunded debt was removed from their General Long-Term Obligations Account Group; however, since the SPSBA and the PHEFA did not issue any new debt, these were not advance or current refunding transactions of the SPSBA or the PHEFA. Furthermore, there were no debt service savings nor any economic gain or loss to the SPSBA or the PHEFA.

At June 30, 1999, \$842.9 million of bonds outstanding, that were previously accounted for in their General Long-Term Obligations Account Group, have been defeased through advance refundings, for the PHEFA and the SPSBA. Included are \$758.6 million for the PHEFA and \$84.3 million for the SPSBA.

During the fiscal year ended June 30, 1999, the Pennsylvania Housing Finance Agency (PHFA), a proprietary fund component unit, redeemed prior to maturity \$45.8 million of Single Family Mortgage Revenue Bonds, Series Y, Z, 1990-28, 1990-29, 1991-30, 1991-31, 1992-33, 1994-38, 1995-45, 1996-47, 1996-48, 1996-50, 1996-51, 1996-52, 1996-53, 1997-54, 1997-56, 1997-57, 1997-58, 1997-59, 1997-60 and 1997-61 using mortgage prepayments. In addition, the PHFA redeemed prior to maturity \$118.2 million of Single Family Mortgage Revenue Bonds, Series U, Y, Z, and 1990-28 using bond proceeds. The PHFA completed the refunding to reduce its total debt service payments over the next 22 years by \$89.3 million and to obtain an economic gain of \$234 thousand.

At June 30, 1999, \$7.1 million of bonds outstanding, that were previously accounted for in the financial statements of the PHFA, have been defeased through refundings.

During the fiscal year ended May 31, 1999, the Pennsylvania Turnpike Commission, a proprietary fund component unit, issued \$310.5 million in Series A Oil Franchise Tax Senior Revenue Bonds and \$228.4 million in Series B Oil Franchise Tax Subordinate Bonds to advance refund the remaining \$101.5 Million of 1994 Series A Oil Franchise Tax Revenue Bonds (1994 Bonds), with the remainder of the proceeds used for various construction projects. The Net refunding bond proceeds of \$115.8 million were deposited in an irrevocable trust to provide for all future debt service payments on the old bonds. As a result, the bonds refunded are considered to be defeased and have been removed from the PTC's financial statements. The PTC recognized an economic loss of \$15.7 million, which it will defer over the remaining life of the 1994 Bonds.

NOTES TO FINANCIAL STATEMENTS

NOTE L— Refunded Debt (continued)

At May 31, 1999, \$737 million of bonds outstanding, that were previously accounted for in the financial statements of the PTC, have been defeased through refundings.

During the fiscal year ended June 30, 1999 the Pennsylvania Infrastructure Investment Authority (PENNVEST), a proprietary fund component unit, issued \$38 million in Series 1998 Revenue Bonds with interest rates ranging from 4.00 to 5.00 percent to advance refund \$36.7 million of previously issued revenue bonds with interest rates ranging from 5.90 to 6.85 percent. The net refunding bond proceeds plus an additional \$4.6 million were used to purchase U.S. Government Securities which were deposited in an irrevocable trust with an escrow agent 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 for those bonds has been removed from the PENNVEST's financial statements. Although the advance refunding resulted in the recognition of a deferred refunding loss of \$3.2 million for the fiscal year ended June 30, 1999, the PENNVEST in effect reduced its aggregate debt service payments by approximately \$4.5 million over the next three years and obtained an economic gain of approximately \$3 million.

At June 30, 1999, \$128 million of bonds outstanding, that were previously accounted for in the financial statements of the Pennsylvania Industrial Development Authority, a proprietary fund component unit, have been defeased through refundings.

At June 30, 1999, \$145.5 million of bonds outstanding, that were previously accounted for in the financial statements of the State System of Higher Education, a college and university fund component unit, have been defeased through refundings.

NOTES TO FINANCIAL STATEMENTS

NOTE M—RECONCILIATION OF BUDGETARY AND GAAP BASIS AMOUNTS

The Commonwealth adopts formal annual budgets for the General and five Special Revenue Funds (Motor License, State Lottery, Workmen's Compensation Administration, Banking Department, and Milk Marketing). The Combined Statement of Revenues, Expenditures, and Changes in Unreserved/Undesignated Fund Balances—Budget and Actual (Budgetary Basis)—presents 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 (amounts in thousands):

	<u>General Fund</u>	<u>Special Revenue Funds</u>
BUDGETARY BASIS:		
Budgetary basis — revenues and other sources over (under) expenditures and other uses.....	\$ 182,224	\$ 16,388
Adjustments:		
To adjust revenues, other financing sources and related receivables and deferred revenue	329,016	1,562,135
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	(2,437,781)	(1,993,994)
To adjust encumbrances	<u>2,944,493</u>	<u>490,296</u>
Net adjustments	<u>835,728</u>	<u>58,437</u>
NONBUDGETED FUNDS:		
GAAP basis — revenues and other sources under expenditures and other uses.....	-	49,394
TOTAL ALL FUNDS:		
GAAP basis — revenues and other sources over expenditures and other uses.....	<u>\$ 1,017,952</u>	<u>\$ 124,219</u>

NOTES TO FINANCIAL STATEMENTS

NOTE N — SEGMENT INFORMATION

The Commonwealth's Primary Government has seven major Enterprise Funds that provide for a variety of loan programs to business and government organizations, workmen's compensation insurance services, liquor sales and capital development loans. The following is a summary of selected financial information related to these Enterprise Funds (amounts in thousands):

	Tuition Payment	Small Business First	State Workmen's Insurance (Dec. 31, 1998)	State Stores	Volunteer Company Loan	Minority Business Development	Machinery and Equipment Loan	Other Enterprise Funds	Total Enterprise Funds
Operating revenues	\$ 41,240	\$ 3,586	\$ 233,541	\$ 811,940	\$ 2,616	\$ 622	\$ 2,171	\$ 22,140	\$ 1,117,856
Depreciation.....	-	-	499	3,132	-	-	-	1,661	5,292
Operating income (loss).....	10,015	2,437	40,695	64,594	2,704	(310)	583	6,131	126,849
Operating transfers out.....	-	668	-	51,485	-	-	-	-	52,153
Net income (loss).....	10,015	1,769	40,695	18,702	2,704	(310)	583	7,161	81,319
Increase (decrease) in contributed capital.	-	14,500	-	-	20,000	(5,000)	1,500	11,582	42,582
Acquisition and construction of capital assets	-	-	77	2,017	-	-	-	7,125	9,219
Net increase (decrease) in cash	(45)	191	(119)	676	25	(1)	56	37	820
Total assets	154,204	83,147	1,914,638	261,141	108,332	7,165	51,531	61,072	2,641,230
Bonds and other long-term liabilities payable from operating revenues	-	-	1,291,212	-	-	-	-	-	1,291,212
Total fund equity.....	23,556	76,068	182,156	77,931	108,283	4,577	51,514	53,351	577,436
Net working capital.....	51,715	27,215	87,850	130,787	19,504	1,745	19,559	43,004	381,379

NOTES TO FINANCIAL STATEMENTS

NOTE O—SELF-INSURANCE

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

There were no reductions in commercial insurance coverage during the fiscal year ended June 30, 1999. No settlements exceeded commercial insurance coverage during each of the past three fiscal years.

The accrued liabilities for employee disability and annuitant medical/hospital claims are determined by an actuary in accordance with accepted actuarial principles. The accrued liability for employee disability was calculated including the effects of changes in statutory benefits from Act 44 of 1993 and Act 57 in 1997. Accrued liabilities for tort and transportation claims are established based on reserves computed from the Commonwealth's claim experience; such claims are not discounted. These liabilities include liabilities for allocated claim adjustment expenditures/expenses and include salvage and subrogation. Salvage and subrogation were not material for the fiscal year ended June 30, 1999. No accrued liability has been reported for property losses.

At June 30, 1999 the accrued liabilities which will be paid with current expendable available financial resources are reported in the General Fund. Those liabilities which will not be paid with current expendable available financial resources at June 30, 1999 are reported in the General Long-Term Obligations Account Group (GLTOAG). All accrued self-insurance liabilities at June 30, 1999 are summarized as follows (amounts in thousands):

	General Fund	Motor License Fund	GLTOAG	Total
Employee disability.....	\$ 73,802	\$ -	\$ 292,983	\$ 366,785
Annuitant medical/hospital.....	32,630	-	-	32,630
Automobile tort.....	2,698	-	14,042	16,740
Employee tort.....	2,521	-	25,410	27,931
General tort.....	1,242	-	34,689	35,931
Transportation.....	-	23,557	222,395	245,952
Totals.....	<u>\$ 112,893</u>	<u>\$ 23,557</u>	<u>\$ 589,519</u>	<u>\$ 725,969</u>

The following summary provides aggregated information on prior year reported self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 1999 and reported self-insurance liabilities at June 30, 1999 (amounts in thousands):

	June 30, 1998	Incurred Claims		Payments		June 30, 1999
	Liability	Current	Prior	Current	Prior	Liability
Employee disability.....	\$ 423,328	\$ 38,195	\$ (35,549)	\$ 5,040	\$ 54,149	\$ 366,785
Annuitant medical/hospital..	33,452	227,291	-	194,661	33,452	32,630
Automobile tort.....	13,710	884	4,354	590	1,618	16,740
Employee tort.....	23,100	982	4,951	95	1,007	27,931
General tort.....	32,768	414	3,611	24	838	35,931
Transportation.....	213,365	2,569	46,470	408	16,044	245,952
Totals.....	<u>\$ 739,723</u>	<u>\$ 270,335</u>	<u>\$ 23,837</u>	<u>\$ 200,818</u>	<u>\$ 107,108</u>	<u>\$ 725,969</u>

NOTES TO FINANCIAL STATEMENTS

NOTE O—Self-Insurance (continued)

The following summary provides aggregated information on June 30, 1997 self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 1998 and reported self-insurance liabilities at June 30, 1998 (amounts in thousands):

	June 30, 1997	Incurred Claims		Payments		June 30, 1998
	Liability	Current	Prior	Current	Prior	Liability
Employee disability	\$ 368,626	\$ 12,687	\$103,359	\$ 7,209	\$ 54,135	\$ 423,328
Annuitant medical/hospital..	33,169	209,607	-	176,155	33,169	33,452
Automobile tort.....	13,631	1,790	1,101	1,038	1,774	13,710
Employee tort	21,130	1,566	2,133	668	1,061	23,100
General tort.....	35,267	518	(741)	71	2,205	32,768
Transportation.....	217,417	10,166	3,032	415	16,835	213,365
Totals	<u>\$ 689,240</u>	<u>\$ 236,334</u>	<u>\$ 108,884</u>	<u>\$ 185,556</u>	<u>\$109,179</u>	<u>\$ 739,723</u>

NOTE P—COMMITMENTS AND CONTINGENCIES

Construction and Other Commitments: At June 30, 1999 the Department of Transportation and at May 31, 1999 the Pennsylvania Turnpike Commission, a discretely presented component unit, have contractual commitments of approximately \$1,407.9 million and \$462.6 million, respectively, for various highway construction and mass transit projects. Financing for these future expenditures will be primarily from approved federal grants and general obligation bond proceeds. In addition, the Commonwealth has a variety of contractual and other commitments for future subsidies and purchases of goods and services for approximately \$9.1 billion at June 30, 1999. Actual expenditures are contingent upon approved spending authority and/or availability of financial resources.

Loan Commitments: At June 30, 1999 the following discretely presented component units had approved loans that had not been disbursed (amounts in millions):

Pennsylvania Housing Finance Agency	\$	143
Pennsylvania Industrial Development Authority.....		173
Pennsylvania Infrastructure Investment Authority		244

Operating Lease Commitments: The Commonwealth and its discretely presented component units have commitments to lease certain buildings and equipment. Future minimum rental commitments for noncancelable operating leases as of June 30, 1999 were as follows (amounts in thousands):

Fiscal year ending June 30:

	Primary Government	Discretely Presented Component Units
2000.....	\$ 224,435	\$ 1,616
2001.....	104,550	1,363
2002.....	78,824	1,193
2003.....	55,059	953
2004.....	44,150	1,491
Later years	<u>175,399</u>	<u>140</u>
Total Minimum Lease Payments	<u>\$ 682,417</u>	<u>\$ 6,756</u>

Rental expenditures/expenses for all operating leases for the fiscal year ended June 30, 1999 amounted to \$299.1 million (\$296.4 million for primary government, \$2.7 million for discretely presented component units).

Litigation: The Commonwealth is a defendant in numerous legal proceedings pertaining to matters normally incidental to routine operations. Such litigation includes, but is not limited to, claims asserted against the Commonwealth arising from alleged torts, alleged breaches of contracts, condemnation proceedings and other alleged violations of Commonwealth and Federal laws. The Commonwealth has recorded accrued liabilities at June 30, 1999 with respect to torts as described in Note O, \$3,317 thousand in the General Fund, \$360 thousand in the Capital Facilities Fund, a Capital Projects Fund and as other General Long-Term Obligations with respect to other matters of litigation in the amount of \$66,634 thousand for which the likelihood of an unfavorable outcome is probable.

NOTES TO FINANCIAL STATEMENTS

NOTE P—Commitments and Contingencies (continued)

Additionally, the Commonwealth is currently involved in certain legal proceedings relative to a case concerning the distribution of certain state funding in an approximate amount ranging from \$200 million to \$1 billion. Other cases that the Commonwealth is vigorously contesting could range from approximately \$69 to \$457 million, zero to \$206 million, \$1 to \$21 million, and zero to \$1.1 billion of additional liabilities for the General Fund, Special Revenue Funds, Capital Projects Funds and the Pension Trust Fund, respectively.

Discretely presented component units of the Commonwealth are vigorously contesting cases which could range from \$200 thousand to approximately \$8.4 million of additional liabilities for the College and University Funds, and could result in approximately \$2.5 million of additional liabilities for the Governmental Funds.

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

Federal Grants: The Commonwealth receives significant financial assistance from the Federal government in the form of grants and entitlements, including several non-cash programs (which are not included in the general purpose financial statements). Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit Act or to financial and compliance audits by the grantor agencies of the Federal government or their designees. Disallowances and sanctions as a result of these audits may become liabilities of the Commonwealth. The Commonwealth is currently involved in administrative and legal proceedings, with certain Federal agencies, contesting various disallowances and sanctions related to Federal Assistance Programs ranging from \$32 to \$194 million. The Commonwealth's management believes ultimate disallowances and sanctions, if any, will not have a material effect on the general purpose financial statements.

Student Loan Guarantees: The Pennsylvania Higher Education Assistance Agency (PHEAA), a Discretely Presented Proprietary Fund Component Unit, guarantees loans made by private lenders to certain resident students. Total original principal for outstanding guarantees issued by PHEAA approximated \$14.7 billion at June 30, 1999. Under the Higher Education Act of 1965, as amended, the PHEAA has entered into an agreement with the U.S. Department of Education for reinsurance of death, disability, bankruptcy, and default claims paid to lenders. Pursuant to this agreement, PHEAA receives reimbursement of claims paid to lenders, provided that there is compliance with various federal requirements. Reinsurance rates vary from 75 percent to 100 percent depending upon default rates in the portfolio guaranteed by PHEAA. During the year ended June 30, 1999, PHEAA's default rate was in a range that permitted the maximum reinsurance reimbursement from the Department.

Lottery Prizes: The State Lottery Fund, a Special Revenue Fund, awards a variety of prizes, including immediate, lump-sum cash prizes and certain large prizes which provide for periodic payments to winners for specific periods of time (in some cases throughout the winners' lifetimes, and to designated beneficiaries). At June 30, 1999, the amount of future payments owed to prizewinners is \$2 billion. To satisfy its financial obligation to these prizewinners, the Fund purchases annuity contracts from insurance companies whereby the insurance companies make periodic payments to prizewinners. Generally, in the event of insurance company default, the Fund is liable for the related annuity payments. However, certain prizewinners voluntarily assign their annuity rights to other parties and receive lump-sum payments in return. In the event of insurance company default where annuity rights have been voluntarily assigned by prizewinners, the Fund is not liable for the related annuity payments. At June 30, 1999, the future payments of \$252 million have been voluntarily assigned by prizewinners.

NOTES TO FINANCIAL STATEMENTS

NOTE Q—CERTAIN AGENCY FUND CLAIMS LIABILITIES

The Medical Professional Liability Catastrophe Loss Fund, an Agency Fund, acts as a service agent to facilitate the payment of medical malpractice claims exceeding basic liability coverage carried by healthcare providers practicing in the Commonwealth. The Fund levies healthcare provider surcharges, as a percentage of insurance premiums for basic coverage, to pay claims and administrative expenses paid on behalf of healthcare providers during the prior year. The actuarially computed liability to the healthcare providers for claims outstanding at June 30, 1999 totals \$2,091.3 million (\$1,597.4 million at present value based on the expected payment pattern and an assumed long-term interest rate of 6 percent). The amount of expendable financial resources available to pay claims at June 30, 1999 is \$170 million. This is reported as a fund liability. The remaining claims will be funded exclusively through surcharge assessments in future years as claims are settled and paid; as a result, a financial liability for remaining claims is not reported.

The Underground Storage Tank Indemnification Fund (the Fund), an Agency Fund, is used to collect fees from underground storage tank owners and operators sufficient to pay owners and operators for costs associated with corrective actions or for bodily injury or property damage caused by tank leaks and other releases. Owners and operators are assessed actuarially determined amounts to accumulate sufficient assets to pay claims. The Fund actuary has estimated potential claims of \$414.9 million at December 31, 1998; on a pro-rata basis, \$369 million at June 30, 1999. There are statutory limits on the extent of the Fund's liability to participating owners and operators; the Fund is not obligated beyond assets held at June 30, 1999. Owners and operators will be assessed for any claims exceeding Fund assets and no financial liability is reported for those claims.

NOTE R—DEFERRED COMPENSATION

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

Prior to December 22, 1998 all amounts of compensation deferred under the plan, all property and rights purchased with the amounts, and all income attributable to these amounts were solely the property and rights of the Commonwealth, subject only to the claims of the Commonwealth's general creditors. Participants' rights under the plan were equal to those of general creditors of the Commonwealth in an amount equal to the fair market value of the deferred account of each participant. The Commonwealth had no liability for losses under the plan but did have the duty of due care that would be required of an ordinary prudent investor. In accordance with the Small Business Jobs Protection Act of 1996 (a federal law) the plan was amended effective December 21, 1998 to provide that all plan assets are held in trust for the exclusive benefit of participants and employees.

Of the \$729 million in assets reported in the Deferred Compensation Fund, an Expendable Trust fund, at December 31, 1998, \$704 million relates to primary government employees and \$22 million relates to employees of discretely presented component units. The remaining balance of \$3 million relates to organizations not included in the Commonwealth's financial reporting entity.

NOTES TO FINANCIAL STATEMENTS

NOTE S—JOINT VENTURE

The Commonwealth and various labor unions representing Commonwealth employees participate in a joint venture, the Pennsylvania Employees Benefit Trust Fund (PEBTF). The PEBTF establishes and provides health and welfare benefits for active Commonwealth employees and is a third party administrator for Commonwealth annuitant medical/hospital benefits. The Commonwealth is required to fund all necessary contributions to pay for the cost of providing benefits; the unions are not required to make contributions. Collective bargaining agreements and administrative policies establish contribution rates and/or amounts. During the fiscal year ended June 30, 1999, the Commonwealth contributed over \$583 million to fund benefits. Neither the Commonwealth nor the unions have an equity interest in the PEBTF. At June 30, 1999, the PEBTF reported total assets of \$388 million, total liabilities and benefit obligations of \$114 million, and net assets available for benefits of \$274 million. During the fiscal year, net assets available for benefits increased by \$28 million. The financial status of the PEBTF is monitored on an ongoing basis; financial stress is not evident.

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE T—BUDGETARY COMPLIANCE

The General Assembly passes, and the Governor approves (or reduces or vetoes), individual appropriations as part of the annual budget adoption process. Budgetary expenditure control occurs at the appropriation level; this is the lowest level of legislative spending control. Encumbrances and expenditures within individual appropriations may not exceed total amounts appropriated. Also, appropriation transfers between or within departments and any supplemental appropriations require both legislative and gubernatorial approval. The legislatively adopted budget for the General Fund includes \$707 million in supplemental appropriations approved during the fiscal year ended June 30, 1999.

A separately available report, the "Status of Appropriations," demonstrates budgetary expenditure compliance for the General Fund for the fiscal year ended June 30, 1999. This report includes a variety of detail information and summaries related to individual appropriations. A second "Status of Appropriations" report (for Special Funds) demonstrates compliance for the five budgeted Special Revenue funds: Motor License, State Lottery, Workmen's Compensation Administration, Banking Department and Milk Marketing. Both "Status" reports are available from the Office of the Budget. The Governor controls spending by using executive authorizations for Special Revenue funds not controlled by legislatively adopted budgets.

Total actual expenditures for "Total State Programs" included in the Combined Statement of Revenues, Expenditures and Changes in Unreserved/Undesignated Fund Balances – Budget and Actual (Budgetary Basis) are derived from the respective "Status of Appropriations" (Total All Current State Ledgers) as follows (in thousands):

	"Status" Page Reference	Total Approved Appropriations	Total Actual + Augmentations	Total Actual - Lapses	Reported Expenditure Amounts
General Fund totals	7 ¹	\$ 19,011,510	\$ 1,669,226	\$104,171	\$20,576,565
less: tax refunds	7 ¹	(644,000)	-	-	(644,000)
Amount reported		<u>\$ 18,367,510</u>	<u>\$ 1,669,226</u>	<u>\$104,171</u>	<u>\$19,932,565</u>
Special Revenue Funds:					
Motor License	50	\$ 2,704,387	\$ 814,685	\$131,749	\$ 3,387,323
less: reductions ²		(753,970)	(777,805)	(119,212)	(1,412,563)
Amount reported		<u>1,950,417</u>	<u>36,880</u>	<u>12,537</u>	<u>1,974,760</u>
State Lottery	3	949,767	3,832	46,002	907,597
Workmen's Compensation					
Administration	250	43,261	149	11	43,399
Banking Department	89	9,768	-	220	9,548
Milk Marketing	94	<u>2,660</u>	<u>-</u>	<u>16</u>	<u>2,644</u>
Total Special Revenue Funds		<u>\$ 2,955,873</u>	<u>\$ 40,861</u>	<u>\$ 58,786</u>	<u>\$ 2,937,948</u>

Total actual expenditures for "Federal Programs" for the General Fund are derived from the General Fund "Status," pkt page 219, page no. 219 "Summary of All Current Federal Ledgers by Character of Expenditure" as follows (in thousands): Commitments of \$1,296,310 and Expenditures of \$7,992,962, for a total of \$9,289,272.

Total actual expenditures for "Federal Programs," Special Revenue funds, are derived from the Special Funds "Status" as follows (in thousands): Motor License - \$659,047 (calculated in footnote 3 below) and State Lottery - \$61,910 (sum of Commitments of \$4,059 and Expenditures of \$57,851, shown on page no.14), for a total of \$720,957.

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

NOTES TO FINANCIAL STATEMENTS

NOTE T—Budgetary Compliance (Continued)

² Excludes the following appropriation symbols, beginning on page 51, Special Funds “*Status of Appropriations*”: 010-003-102-98-1; 010-008-051-98-1; 010-008-053-98-1; 010-008-181-98-1; 010-003-198-98-2; 010-038-230-98-2; 010-008-212-98-2; 010-008-214-98-2; 010-008-217-98-2; 010-008-218-98-2; and 010-008-230-98-2 through 010-008-289-98-2.

³ Consists of \$775,925 in Year-to-Date “Total Federal Funds” on page 112 of “*Report of Revenues and Receipts*” less \$116,878 in Year-to-Date Federal Funds amounts for the following revenue codes (also on page 112 of the “*Report*”): 010811-008051-101; 010811-008181-101; 010811-008181-106; 010811-008181-108; 010811-008232-101; 010811-008284-101; 010811-008289-101; and 010811-008289-102.

NOTE U—SUBSEQUENT EVENTS

Primary Government

On October 1, 1999, the Commonwealth issued \$397 million of General Obligation Bonds, Second Series of 1999 with an interest rate of 5.4 percent. Bond proceeds will be used for the construction and acquisition of capital facilities projects, to construct, rehabilitate and improve water supply, storm water control and sewage treatment systems, and to pay the costs of issuance of the bonds.

Discretely Presented Component Units

On July 14, 1999 and September 15, 1999, the Pennsylvania Housing Finance Agency (PHFA), a proprietary fund component unit, issued \$144.5 million and \$149.8 million, respectively, of Single Family Mortgage Revenue Bonds, Series 1999-66 and 1999-67. The proceeds of the bonds will be used to refund certain of the PHFA’s outstanding Single Family Mortgage Revenue Bonds and to fund the purchase of new single family mortgage loans.

Required Supplementary Information



Commonwealth of Pennsylvania

REQUIRED SUPPLEMENTARY INFORMATION

YEAR 2000 COMPLIANCE

Numerous Commonwealth computer programs which rely on or perform calculations using dates originally included two digits (rather than four) to identify the year. As a result, it was not known whether the year 2000 would be correctly identified, treated as 1900 or treated as some other year. Miscalculations or other failures resulting from incorrect date recognition would significantly disrupt Commonwealth operations. In 1996, the Commonwealth adopted an aggressive action plan to ensure that its computer programs are year 2000 compliant and to avoid disruptions to its operations.

As of June 30, 1999, the Commonwealth has reviewed its computer programs and has modified, validated/tested and returned to service 99.93% of all programs (including essentially all programs affecting vital public services.) The Commonwealth expects to remediate remaining programs by December 31, 1999. Extensive and rigorous Final Readiness Testing (i.e., end-to-end testing with the computer operating with year 2000 dates) began in all Commonwealth agencies under the Governor's jurisdiction prior to July 1, 1999. Through June 30, very few problems occurred and were all quickly rectified and retested. The Commonwealth expects to complete the repair or replacement of personal computers, the identification and repair of potentially faulty embedded technologies (date-sensitive computer chips in telecommunications, security and heating, ventilation and air conditioning equipment) and contingency planning in state agencies by December 31, 1999. Further, the Commonwealth is continuing to communicate with significant contractors, suppliers, vendors, and other affected parties to ensure that they have taken appropriate measures to properly interface with the Commonwealth programs in the year 2000.

The Commonwealth believes that the efforts completed through June 30, 1999 and the measures planned to be taken will fully address this matter. While there can be no guarantee that all of the Commonwealth's vital or non-vital computer programs will be entirely free of year 2000-related problems, no disruptions to normal operations are expected. The amounts contractually committed at June 30, 1999 are not material to either the financial position or the results of operations of the Commonwealth or any of its individual funds.

Combining Financial Statements and Schedules



Commonwealth of Pennsylvania

Special Revenue Funds



Commonwealth of Pennsylvania

SPECIAL REVENUE FUNDS DESCRIPTION

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 operation of the Pennsylvania State Lottery which includes the payment of prizes to lottery winners, property tax and rent assistance to the elderly, mass transit fare subsidies, and prescription drug costs incurred by the eligible elderly.

Motor License Fund — to account for highway and bridge design, construction, improvement, restoration and maintenance, for the purchase of rights-of-way, for aviation activities and facilities, for transportation general government, licensing and safety activities, for payment of subsidies for construction and maintenance of local roads, and for payment of 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. Insurance companies and self-insured businesses are assessed a periodic fee for costs incurred in administering these acts.

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

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

Public Transportation Assistance Fund — to account for the capital, asset maintenance and other transportation needs of the Commonwealth's mass transit entities. Revenue is derived from a fee on the sale of new tires, a motor vehicle lease tax, and a motor vehicle rental fee.

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

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

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

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

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

There are a total of forty-five individual special revenue funds.

COMBINING BALANCE SHEET
Special Revenue Funds

June 30, 1999

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

ASSETS:	Budgeted Funds										Total	
	State Lottery	Motor License	Workmen's Compensation Administration	Banking Department	Milk Marketing	Public Transportation Assistance	Pharmaceutical Assistance	Recycling	Fish and Game	Hazardous Sites Cleanup		Other
Cash.....	\$ 47	\$ 27,710	\$ 17	\$ 33	\$ -	\$ -	\$ 1	\$ 30	\$ 766	\$ 840	\$ 782	\$ 30,226
Temporary investments.....	364,328	833,588	40,500	13,045	2,637	3,845	55,513	156,399	58,560	164,167	244,230	1,936,812
Long-term investments.....	15,667	-	-	-	-	-	-	-	-	-	-	15,667
Receivables, net:												
Taxes.....	-	143,688	-	-	-	27,260	-	-	-	-	-	170,948
Accounts.....	4,395	-	77	4,514	-	-	5,301	-	-	-	36	14,323
Accrued interest.....	1,406	3,172	11	51	9	106	165	623	232	672	2,521	8,968
Notes and loans.....	-	-	-	-	-	-	-	1,629	-	-	58,854	60,483
Other.....	-	9,462	-	-	-	-	-	-	-	-	10	9,472
Due from other funds.....	-	3,920	14	-	-	3,299	5,377	-	1,368	22,764	11,525	48,267
Due from component units.....	-	37	-	-	-	-	-	-	-	-	3	40
Due from other governments.....	3,391	132,596	-	-	-	-	-	-	5,525	-	9,274	150,786
Advances to other funds.....	-	-	-	-	-	-	-	-	-	3,000	-	3,000
Other assets.....	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL ASSETS.....	\$ 389,234	\$ 1,154,173	\$ 40,619	\$ 17,643	\$ 2,646	\$ 34,510	\$ 66,357	\$ 158,681	\$ 66,451	\$ 191,443	\$ 327,235	\$ 2,448,992
LIABILITIES AND FUND BALANCES												
Liabilities:												
Accounts payable and accrued liabilities.....	\$ 156,881	\$ 360,647	\$ 3,316	\$ 613	\$ 184	\$ 3,475	\$ 19,123	\$ 1,722	\$ 8,070	\$ 11,836	\$ 35,283	\$ 601,150
Tax refunds payable.....	-	1,198	-	-	-	-	-	-	-	-	-	1,198
Reverse repurchase agreement obligations.....	9,082	20,734	-	-	-	-	-	3,899	-	4,093	-	37,808
Due to other funds.....	6,252	14,282	239	71	22	407	1	1,987	388	29	17,800	41,478
Due to component units.....	-	3,629	-	-	-	-	-	-	-	-	-	3,629
Due to other governments.....	2,752	39,763	113	33	5	-	2	8,764	265	13	2,106	53,816
Deferred revenue.....	858	187	-	4,104	799	-	-	-	2,364	100	13,632	22,044
Advances from other funds.....	-	2,175	-	-	-	-	-	-	-	-	-	6,508
Bond anticipation notes payable.....	-	-	-	-	-	-	4,333	-	-	-	-	-
TOTAL LIABILITIES.....	175,825	442,615	3,668	4,821	1,010	3,882	23,459	16,372	11,087	16,071	90,521	789,331
Fund Balance:												
Reserved for:												
Encumbrances.....	1,675	314,633	-	-	30	-	605	7,741	2,048	25,519	14,533	366,804
Advances.....	-	-	-	-	-	-	-	-	-	3,000	-	3,000
Loans receivable.....	-	-	-	-	-	-	-	1,629	-	-	58,854	60,483
Other.....	-	-	613	-	-	-	3,064	1,467	2,037	-	24,573	31,754
Unreserved:												
Designated for:												
Highways.....	-	213,622	-	-	-	-	-	-	-	-	-	213,622
Other.....	275	-	-	-	-	-	-	-	-	-	-	275
Undesignated.....	211,459	183,303	36,338	12,822	1,606	30,628	39,229	131,472	51,279	146,853	138,734	983,723
TOTAL FUND BALANCE.....	213,409	711,558	36,951	12,822	1,636	30,628	42,898	142,309	55,364	175,372	236,714	1,659,661
TOTAL LIABILITIES AND FUND BALANCE.....	\$ 389,234	\$ 1,154,173	\$ 40,619	\$ 17,643	\$ 2,646	\$ 34,510	\$ 66,357	\$ 158,681	\$ 66,451	\$ 191,443	\$ 327,235	\$ 2,448,992

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Special Revenue Funds **For Fiscal Year Ended June 30, 1999**

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	Budgeted Funds										Total	
	State Lottery	Motor License	Workmen's Compensation Administration	Banking Department	Milk Marketing	Public Transportation Assistance	Pharmaceutical Assistance	Recycling	Fish and Game	Hazardous Sites Cleanup		Other
REVENUES:												
Taxes.....	\$ -	\$ 1,619,365	\$ -	\$ -	\$ -	\$ 194,118	\$ -	\$ -	\$ 100	\$ 47,631	\$ 35,988	\$ 1,897,202
Licenses and fees.....	43	743,784	-	4,195	2,156	-	-	42,952	49,565	2,235	27,275	872,205
Intergovernmental.....	59,463	912,119	-	-	-	-	-	-	14,655	-	115,065	1,101,302
Charges for sales and service.....	4,755	77,634	43,711	7,468	-	-	-	-	18,855	-	71,598	224,021
Investment income.....	5,383	40,848	1,743	633	128	1,338	1,369	7,531	3,105	8,061	13,572	83,711
Lottery revenues.....	1,659,305	-	-	-	-	-	-	-	-	-	-	1,659,305
Other.....	9,175	36,887	151	88	22	-	-	95	1,973	5,964	20,759	75,114
TOTAL REVENUES.....	1,738,124	3,430,637	45,605	12,384	2,306	195,456	1,369	50,578	88,253	63,891	284,257	5,912,860
EXPENDITURES:												
Current:												
General government.....	1,039,634	324,808	50,658	9,440	2,613	-	-	-	-	-	63,422	1,490,575
Protection of persons and property.....	-	-	-	-	-	-	-	-	-	-	19,240	19,240
Public health and welfare.....	314,279	-	-	-	-	-	271,439	-	-	-	142,845	728,563
Public education.....	-	-	-	-	-	-	-	-	-	-	1,108	1,108
Conservation of natural resources.....	-	-	-	-	-	-	-	37,618	96,331	44,525	71,723	250,197
Economic development and assistance.....	-	2,849,515	-	-	-	-	-	-	-	-	9,467	9,467
Transportation.....	102,105	41,449	-	-	-	187,679	-	-	-	-	-	3,139,299
Capital outlay.....	-	-	-	-	-	-	-	-	-	-	-	41,449
TOTAL EXPENDITURES.....	1,456,018	3,215,772	50,658	9,440	2,613	187,679	271,439	37,618	96,331	44,525	307,805	5,679,898
REVENUES OVER (UNDER) EXPENDITURES.....	282,106	214,865	(5,053)	2,944	(307)	7,777	(270,070)	12,960	(8,078)	19,366	(23,548)	232,962
OTHER FINANCING SOURCES (USES):												
Bond proceeds.....	-	-	-	-	-	-	-	-	-	-	19,294	19,294
Operating transfers in.....	-	-	-	-	-	-	286,501	668	3,539	-	44,529	335,237
Operating transfers out.....	(283,876)	(144,226)	-	-	-	(4,781)	-	(4,211)	-	(14,000)	(20,516)	(471,610)
Capital lease and installment purchase obligations.....	-	8,372	-	-	-	-	-	-	-	-	(36)	8,336
NET OTHER FINANCING SOURCES (USES).....	(283,876)	(135,854)	-	-	-	(4,781)	286,501	(3,543)	3,539	(14,000)	43,271	(108,743)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES.....	(1,770)	79,011	(5,053)	2,944	(307)	2,996	16,431	9,417	(4,539)	5,366	19,723	124,219
FUND BALANCES, JUNE 30, 1998.....	215,179	664,897	42,004	9,878	1,943	27,632	26,467	132,892	59,903	177,506	216,991	1,575,292
RESIDUAL EQUITY TRANSFERS.....	-	(32,350)	-	-	-	-	-	-	-	(7,500)	-	(39,850)
FUND BALANCES, JUNE 30, 1999.....	\$ 213,409	\$ 711,558	\$ 36,951	\$ 12,822	\$ 1,636	\$ 30,628	\$ 42,898	\$ 142,309	\$ 55,364	\$ 175,372	\$ 236,714	\$ 1,659,661

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN UNRESERVED/UNDESIGNATED
FUND BALANCES-BUDGET AND ACTUAL (BUDGETARY BASIS)**

Budgeted Special Revenue Funds

For Fiscal Year Ended June 30, 1999

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	State Lottery			Motor License		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
State Programs:						
Taxes, net of refunds.....	\$ -	\$ -	\$ -	\$ 1,011,720	\$ 1,034,899	\$ 23,179
Lottery receipts.....	894,639	899,691	5,052	-	-	-
Licenses and fees.....	-	-	-	740,730	755,431	14,701
Investment income.....	11,622	17,214	5,592	29,700	40,649	10,949
Fines, penalties and interest.....	-	-	-	33,000	30,203	(2,797)
Departmental services.....	3,832	3,832	-	36,880	36,880	-
Miscellaneous.....	6,176	9,145	2,969	26,740	23,827	(2,913)
TOTAL STATE PROGRAMS.....	916,269	929,882	13,613	1,878,770	1,921,889	43,119
Federal Programs.....	64,825	61,910	(2,915)	749,780	659,047	(90,733)
TOTAL REVENUES.....	981,094	991,792	10,698	2,628,550	2,580,936	(47,614)
EXPENDITURES:						
State Programs:						
General government.....	299,872	280,183	19,689	164,752	163,982	770
Protection of persons and property.....	-	-	-	290,718	288,549	2,169
Public health and welfare.....	653,727	627,414	26,313	-	-	-
Public education.....	-	-	-	1,556	1,182	374
Conservation of natural resources.....	-	-	-	1,000	966	34
Economic development and assistance.....	-	-	-	-	-	-
Transportation.....	-	-	-	1,529,271	1,520,081	9,190
TOTAL STATE PROGRAMS.....	953,599	907,597	46,002	1,987,297	1,974,760	12,537
Federal Programs.....	64,825	61,910	2,915	749,780	659,047	90,733
TOTAL EXPENDITURES.....	1,018,424	969,507	48,917	2,737,077	2,633,807	103,270
REVENUES OVER (UNDER) EXPENDITURES.....	(37,330)	22,285	59,615	(108,527)	(52,871)	55,656
OTHER FINANCING SOURCES:						
Prior year lapses.....	7,941	7,941	-	33,848	33,848	-
NET OTHER FINANCING SOURCES.....	7,941	7,941	-	33,848	33,848	-
Revenues and other sources over (under) expenditures.....	(29,389)	30,226	59,615	(74,679)	(19,023)	55,656
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS)						
JULY 1, 1998.....	272,602	272,602	-	108,477	108,477	-
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 1999.....	\$ 243,213	\$ 302,828	\$ 59,615	\$ 33,798	\$ 89,454	\$ 55,656

(Continued)

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN UNRESERVED/UNDESIGNATED
FUND BALANCES-BUDGET AND ACTUAL (BUDGETARY BASIS)
Budgeted Special Revenue Funds (Continued)**

For Fiscal Year Ended June 30, 1999

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Workmen's Compensation Administration			Banking Department		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
State Programs:						
Taxes, net of refunds.....	\$ 43,261	\$ 43,325	\$ 64	\$ -	\$ -	\$ -
Lottery receipts.....	-	-	-	-	-	-
Licenses and fees.....	-	-	-	10,070	11,653	1,583
Investment income.....	4,050	1,932	(2,118)	390	636	246
Fines, penalties and interest.....	-	5	5	50	86	36
Departmental services.....	149	149	-	-	-	-
Miscellaneous.....	950	453	(497)	-	2	2
TOTAL STATE PROGRAMS.....	48,410	45,864	(2,546)	10,510	12,377	1,867
Federal Programs.....	-	-	-	-	-	-
TOTAL REVENUES.....	48,410	45,864	(2,546)	10,510	12,377	1,867
EXPENDITURES:						
State Programs:						
General government.....	43,261	43,250	11	-	-	-
Protection of persons and property.....	-	-	-	9,768	9,548	220
Public health and welfare.....	-	-	-	-	-	-
Public education.....	-	-	-	-	-	-
Conservation of natural resources.....	-	-	-	-	-	-
Economic development and assistance.....	149	149	-	-	-	-
Transportation.....	-	-	-	-	-	-
TOTAL STATE PROGRAMS.....	43,410	43,399	11	9,768	9,548	220
Federal Programs.....	-	-	-	-	-	-
TOTAL EXPENDITURES.....	43,410	43,399	11	9,768	9,548	220
REVENUES OVER (UNDER) EXPENDITURES.....	5,000	2,465	(2,535)	742	2,829	2,087
OTHER FINANCING SOURCES:						
Prior year lapses.....	54	54	-	64	64	-
NET OTHER FINANCING SOURCES.....	54	54	-	64	64	-
Revenues and other sources over (under) expenditures.....	5,054	2,519	(2,535)	806	2,893	2,087
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS)						
JULY 1, 1998.....	35,634	35,634	-	8,573	8,573	-
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS),						
JUNE 30, 1999.....	\$ 40,688	\$ 38,153	\$ (2,535)	\$ 9,379	\$ 11,466	\$ 2,087

(Continued)

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN UNRESERVED/UNDESIGNATED
FUND BALANCES-BUDGET AND ACTUAL (BUDGETARY BASIS)**

Budgeted Special Revenue Funds (Continued)

For Fiscal Year Ended June 30, 1999

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Milk Marketing			Total		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
State Programs:						
Taxes, net of refunds.....	\$ -	\$ -	\$ -	\$ 1,054,981	\$ 1,078,224	\$ 23,243
Lottery receipts.....	-	-	-	894,639	899,691	5,052
Licenses and fees.....	2,167	2,158	(9)	752,967	769,242	16,275
Investment income.....	145	134	(11)	45,907	60,565	14,658
Fines, penalties and interest.....	30	20	(10)	33,080	30,314	(2,766)
Departmental services.....	-	-	-	40,861	40,861	-
Miscellaneous.....	2	1	(1)	33,868	33,428	(440)
TOTAL STATE PROGRAMS.....	2,344	2,313	(31)	2,856,303	2,912,325	56,022
Federal Programs.....	-	-	-	814,605	720,957	(93,648)
TOTAL REVENUES.....	2,344	2,313	(31)	3,670,908	3,633,282	(37,626)
EXPENDITURES:						
State Programs:						
General government.....	-	-	-	507,885	487,415	20,470
Protection of persons and property.....	2,660	2,644	16	303,146	300,741	2,405
Public health and welfare.....	-	-	-	653,727	627,414	26,313
Public education.....	-	-	-	1,556	1,182	374
Conservation of natural resources.....	-	-	-	1,000	966	34
Economic development and assistance.....	-	-	-	149	149	-
Transportation.....	-	-	-	1,529,271	1,520,081	9,190
TOTAL STATE PROGRAMS.....	2,660	2,644	16	2,996,734	2,937,948	58,786
Federal Programs.....	-	-	-	814,605	720,957	93,648
TOTAL EXPENDITURES.....	2,660	2,644	16	3,811,339	3,658,905	152,434
REVENUES OVER (UNDER) EXPENDITURES.....	(316)	(331)	(15)	(140,431)	(25,623)	114,808
OTHER FINANCING SOURCES:						
Prior year lapses.....	104	104	-	42,011	42,011	-
NET OTHER FINANCING SOURCES.....	104	104	-	42,011	42,011	-
Revenues and other sources over (under) expenditures.....	(212)	(227)	(15)	(98,420)	16,388	114,808
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS)						
JULY 1, 1998.....	1,809	1,809	-	427,095	427,095	-
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 1999.....	\$ 1,597	\$ 1,582	\$ (15)	\$ 328,675	\$ 443,483	\$ 114,808

Debt Service Funds



Commonwealth of Pennsylvania

DEBT SERVICE FUNDS DESCRIPTION

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

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

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

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

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

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

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

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

There are a total of fourteen individual debt service funds.

COMBINING BALANCE SHEET

Debt Service Funds

June 30, 1999

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Disaster Relief Redemption	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Land and Water Development Sinking	Other	Total
ASSETS:								
Cash.....	\$ 1	\$ 1	\$ 1	\$ -	\$ 1	\$ 1	\$ 3	\$ 8
Cash with fiscal agents.....	579	-	8,319	-	-	882	180	9,960
Temporary investments.....	-	-	378,606	104	-	16	8	378,734
Receivables, net:								
Accounts.....	-	-	7,821	-	-	-	-	7,821
Accrued interest.....	-	-	54	-	-	-	7	61
Lease rental.....	-	-	2,489	-	-	-	-	2,489
Due from other funds.....	-	-	-	19	-	26	-	45
Due from component unit.....	-	27,808	-	-	-	-	-	27,808
TOTAL ASSETS	\$ 580	\$ 27,809	\$ 397,290	\$ 123	\$ 1	\$ 925	\$ 198	\$ 426,926
LIABILITIES AND FUND BALANCES:								
Liabilities:								
Matured debt principal and interest payable.....	\$ 579	\$ -	\$ 8,319	\$ -	\$ -	\$ 882	\$ 180	\$ 9,960
Reverse repurchase agreement obligations.....	-	-	9,438	-	-	-	-	9,438
Due to other funds.....	-	-	-	-	-	-	15	15
Deferred revenue.....	-	-	10,310	-	-	-	-	10,310
Other liabilities.....	-	-	356	-	-	-	-	356
TOTAL LIABILITIES	579	-	28,423	-	-	882	195	30,079
Fund balance:								
Unreserved:								
Designated for:								
Debt service:								
Retirement of general obligation bonds.....	1	27,809	368,867	123	1	43	3	396,847
TOTAL FUND BALANCES	1	27,809	368,867	123	1	43	3	396,847
TOTAL LIABILITIES AND FUND BALANCES	\$ 580	\$ 27,809	\$ 397,290	\$ 123	\$ 1	\$ 925	\$ 198	\$ 426,926

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

Debt Service Funds

For the Fiscal Year Ended June 30, 1999

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Disaster Relief Redemption	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Land and Water Development Sinking	Other	Total
REVENUES:								
Investment income.....	\$ -	\$ 5	\$ 2,250	\$ -	\$ 1	\$ 208	\$ 93	\$ 2,557
Lease rental principal and interest.....	-	-	1,827	-	-	-	-	1,827
Other.....	5	-	159	-	-	-	-	164
TOTAL REVENUES	5	5	4,236	-	1	208	93	4,548
EXPENDITURES:								
Debt service:								
Principal retirement.....	5,505	15,350	381,270	4,550	6,605	12,090	18,305	443,675
Interest and fiscal charges.....	2,132	13,624	218,697	2,104	6,377	2,607	17,126	262,667
TOTAL EXPENDITURES	7,637	28,974	599,967	6,654	12,982	14,697	35,431	706,342
REVENUES UNDER EXPENDITURES	(7,632)	(28,969)	(595,731)	(6,654)	(12,981)	(14,489)	(35,338)	(701,794)
OTHER FINANCING SOURCES (USES):								
Operating transfers in.....	7,633	27,009	798,970	6,596	12,982	14,496	35,395	903,081
Operating transfers out.....	-	-	-	-	-	-	(91)	(91)
NET OTHER FINANCING SOURCES	7,633	27,009	798,970	6,596	12,982	14,496	35,304	902,990
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	1	(1,960)	203,239	(58)	1	7	(34)	201,196
FUND BALANCES, JULY 1, 1998	-	29,769	165,628	181	-	36	37	195,651
FUND BALANCES, JUNE 30, 1999	\$ 1	\$ 27,809	\$ 368,867	\$ 123	\$ 1	\$ 43	\$ 3	\$ 396,847

Capital Projects Funds



Commonwealth of Pennsylvania

CAPITAL PROJECTS FUNDS DESCRIPTION

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

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

Local Criminal Justice Fund — to account for the proceeds of bonds issued for grants to counties and multicounty authorities for the repair, expansion, construction, rehabilitation and improvement of local correctional facilities or multicounty regional prison facilities, or for the purchase of electronic monitoring equipment for alternative sentencing programs.

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

Land and Water Development Fund — to account for bond proceeds and other income used to provide grants to eligible entities for use in developing outdoor recreation areas and improvements to sewage treatment facilities.

There are a total of four individual capital projects funds.

COMBINING BALANCE SHEET
Capital Projects Funds

June 30, 1999

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	Capital Facilities	Local Criminal Justice	Keystone Recreation, Park and Conservation	Land and Water Development	Total
ASSETS					
Cash.....	\$ 14	\$ 1	\$ -	\$ 1	\$ 16
Temporary investments.....	231,824	2,589	109,806	1,931	346,150
Receivables, net:					
Accrued interest.....	830	10	437	8	1,285
Due from other funds.....	13,329	-	4,302	-	17,631
TOTAL ASSETS	<u>\$ 245,997</u>	<u>\$ 2,600</u>	<u>\$ 114,545</u>	<u>\$ 1,940</u>	<u>\$ 365,082</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities.....	\$ 84,304	\$ 190	\$ 10,602	\$ -	\$ 95,096
Reverse repurchase agreement obligations.....	4,659	-	2,737	-	7,396
Due to other funds.....	61	-	-	8	69
Due to other governments.....	15,455	-	-	-	15,455
Bond anticipation notes payable.....	15,200	-	-	-	15,200
TOTAL LIABILITIES	<u>119,679</u>	<u>190</u>	<u>13,339</u>	<u>8</u>	<u>133,216</u>
Fund Balance:					
Reserved for:					
Encumbrances.....	526,127	-	23,607	124	549,858
Unreserved:					
Designated for:					
Capital projects.....	-	2,410	77,599	1,808	81,817
Undesignated deficit.....	(399,809)	-	-	-	(399,809)
TOTAL FUND BALANCES	<u>126,318</u>	<u>2,410</u>	<u>101,206</u>	<u>1,932</u>	<u>231,866</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 245,997</u>	<u>\$ 2,600</u>	<u>\$ 114,545</u>	<u>\$ 1,940</u>	<u>\$ 365,082</u>

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

Capital Projects Funds

For the Fiscal Year Ended June 30, 1999

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Capital Facilities	Local Criminal Justice	Keystone Recreation, Park and Conservation	Land and Water Development	Total
REVENUES:					
Taxes.....	\$ -	\$ -	\$ 45,530	\$ -	\$ 45,530
Intergovernmental.....	-	-	-	30	30
Charges for sales and services.....	21,268	-	-	5	21,273
Investment income.....	9,219	153	5,294	-	14,666
Other.....	17,180	-	-	-	17,180
TOTAL REVENUES.....	47,667	153	50,824	35	98,679
EXPENDITURES:					
General government.....	786	-	-	-	786
Protection of persons and property.....	-	1,697	-	-	1,697
Conservation of natural resources.....	5,258	-	42,729	-	47,987
Economic development and assistance.....	70,829	-	-	-	70,829
Transportation.....	142,122	-	-	-	142,122
Capital outlay.....	502,895	-	-	46	502,941
Debt service:					
Interest and fiscal charges.....	-	-	2	-	2
TOTAL EXPENDITURES.....	721,890	1,697	42,731	46	766,364
REVENUES UNDER EXPENDITURES.....	(674,223)	(1,544)	8,093	(11)	(667,685)
OTHER FINANCING SOURCES (USES):					
Bond proceeds.....	834,495	3,050	-	-	837,545
NET OTHER FINANCING SOURCES (USES).....	834,495	3,050	-	-	837,545
REVENUES AND OTHER SOURCES UNDER EXPENDITURES AND OTHER USES.....					
	160,272	1,506	8,093	(11)	169,860
FUND BALANCES, JULY 1, 1998.....	(33,954)	904	93,113	1,943	62,006
FUND BALANCES, JUNE 30, 1999.....	\$ 126,318	\$ 2,410	\$ 101,206	\$ 1,932	\$ 231,866

Enterprise Funds



Commonwealth of Pennsylvania

ENTERPRISE FUNDS DESCRIPTION

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.

Tuition Payment Fund — to account for the tuition account program, which provides for the advance purchase of college tuition credits for the beneficiary to attend a college or university at a future time. Revenue is derived primarily from application fees, tuition unit purchases and investment income.

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

State Workmen's Insurance Fund — to account for premiums paid for worker's compensation insurance by employers who are subscribers and to pay workers' compensation claims and related expenses.

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

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

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

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

Other — to account for enterprise operations including activities associated with low interest loans to manufacturers, insurance to home owners in mining areas against damages resulting from mine subsidence and vocational rehabilitation services and loans and grants issued to attract industrial, manufacturing or research and development enterprises to the Commonwealth of Pennsylvania. This other category is an aggregation of six individual enterprise funds.

There are a total of thirteen individual enterprise funds.

COMBINING BALANCE SHEET

Enterprise Funds

June 30, 1999

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Tuition Payment	Small Business First	State Workmen's Insurance (Dec. 31, 1998)	State Stores	Volunteer Companies Loan	Minority Business Development	Machinery and Equipment Loan	Other	Total
ASSETS:									
Cash.....	\$ 106	\$ 553	\$ 1,146	\$ 11,476	\$ 205	\$ 27	\$ 328	\$ 156	\$ 13,997
Temporary investments.....	50,680	27,990	497,958	112,491	19,207	4,242	19,079	45,795	777,442
Long-term investments.....	102,275	-	1,378,293	-	-	-	-	-	1,480,568
Receivables, net:									
Accounts.....	12	-	7,691	1,416	-	-	-	166	9,285
Accrued interest.....	1,131	251	17,189	486	141	64	169	183	19,614
Notes and loans.....	-	51,853	8,169	-	88,779	2,832	31,955	1,919	185,507
Due from other funds.....	-	2,500	914	308	-	-	-	4,209	7,931
Due from other governments.....	-	-	-	-	-	-	-	-	-
Inventory.....	-	-	-	121,403	-	-	-	13	13
Fixed assets.....	-	-	12,471	54,900	-	-	-	153	121,556
Less: accumulated depreciation.....	-	-	(11,415)	(41,756)	-	-	-	(13,393)	(66,564)
Other assets.....	-	-	2,222	417	-	-	-	50	2,689
TOTAL ASSETS	\$ 154,204	\$ 83,147	\$ 1,914,638	\$ 261,141	\$ 108,332	\$ 7,165	\$ 51,531	\$ 61,072	\$ 2,641,230
LIABILITIES AND FUND EQUITY									
Liabilities:									
Accounts payable and accrued liabilities.....	\$ 192	\$ 20	\$ 6,434	\$ 99,627	\$ -	\$ 69	\$ -	\$ 3,966	\$ 110,308
Tuition benefits payable.....	130,084	-	-	-	-	-	-	-	130,084
Obligations under securities lending.....	-	-	406,703	-	-	-	-	-	406,703
Due to other funds.....	19	4	2,556	17,248	-	2,500	-	25	22,352
Due to other governments.....	3	-	-	335	-	-	-	131	469
Deferred revenue.....	-	4,055	18,186	-	49	19	-	3,593	25,902
Advances from other funds.....	350	3,000	2,000	66,000	-	-	-	-	71,350
Other liabilities.....	-	-	5,391	-	-	-	17	6	5,414
Insurance loss liability.....	-	-	1,291,212	-	-	-	-	-	1,291,212
TOTAL LIABILITIES	130,648	7,079	1,732,482	183,210	49	2,588	17	7,721	2,063,794
Fund Equity:									
Contributed capital.....	-	71,068	-	2,294	80,416	35,660	46,700	15,449	251,587
Retained earnings (deficit):									
Reserved.....	-	-	5	-	-	-	-	5,387	5,392
Unreserved.....	23,556	5,000	182,151	75,637	27,867	(31,083)	4,814	32,515	320,457
TOTAL FUND EQUITY	23,556	76,068	182,156	77,931	108,283	4,577	51,514	53,351	577,436
TOTAL LIABILITIES AND FUND EQUITY	\$ 154,204	\$ 83,147	\$ 1,914,638	\$ 261,141	\$ 108,332	\$ 7,165	\$ 51,531	\$ 61,072	\$ 2,641,230

**COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN RETAINED EARNINGS
Enterprise Funds**

For the Fiscal Year Ended June 30, 1999

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Tuition Payment	Small Business First	State Workmen's Insurance (Dec. 31, 1998)	State Stores	Volunteer Companies Loan	Minority Business Development	Machinery and Equipment Loan	Other	Total
OPERATING REVENUES:									
Sales and services.....	\$ 24,861	\$ -	\$ 71,809	\$ 811,838	\$ -	\$ -	\$ -	\$ 20,589	\$ 929,097
Investment income.....	16,378	978	161,672	-	1,072	362	938	1,519	182,919
Interest on notes and loans.....	-	2,608	-	-	1,544	245	1,072	32	5,501
Other.....	1	-	60	102	-	15	161	-	339
TOTAL OPERATING REVENUES.....	41,240	3,586	233,541	811,940	2,616	622	2,171	22,140	1,117,856
OPERATING EXPENSES:									
Cost of sales and services.....	31,225	911	167,872	743,765	2	529	98	14,349	958,751
Interest expense.....	-	-	15,843	-	-	-	-	-	15,843
Depreciation.....	-	-	499	3,132	-	-	-	1,661	5,292
Provision for uncollectible accounts.....	-	238	9,814	449	(90)	169	1,490	(1)	12,069
Other.....	-	-	(1,182)	-	-	234	-	-	(948)
TOTAL OPERATING EXPENSES.....	31,225	1,149	192,846	747,346	(88)	932	1,588	16,009	991,007
OPERATING INCOME (LOSS).....	10,015	2,437	40,695	64,594	2,704	(310)	583	6,131	126,849
NONOPERATING REVENUES (EXPENSES):									
Investment income.....	-	-	-	5,954	-	-	-	430	6,384
Other revenues.....	-	-	-	-	-	-	-	600	600
Other expenses.....	-	-	-	(361)	-	-	-	-	(361)
NONOPERATING REVENUES, NET.....	-	-	-	5,593	-	-	-	1,030	6,623
INCOME (LOSS) BEFORE OPERATING TRANSFERS.....	10,015	2,437	40,695	70,187	2,704	(310)	583	7,161	133,472
OPERATING TRANSFERS:									
Operating transfers out.....	-	(668)	-	(51,485)	-	-	-	-	(52,153)
OPERATING TRANSFERS, NET.....	-	(668)	-	(51,485)	-	-	-	-	(52,153)
NET INCOME (LOSS).....	10,015	1,769	40,695	18,702	2,704	(310)	583	7,161	81,319
RETAINED EARNINGS (DEFICIT), JULY 1, 1998.....									
RETAINED EARNINGS (DEFICIT), JUNE 30, 1999.....	\$ 23,556	\$ 5,000	\$ 182,156	\$ 75,637	\$ 27,867	\$ (31,083)	\$ 4,814	\$ 37,902	\$ 325,849

COMBINING STATEMENT OF CASH FLOWS
Enterprise Funds

For the Fiscal Year Ended June 30, 1999

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	Tuition Payment	Small Business First	State Workmen's Insurance (Dec. 31, 1998)	State Stores	Volunteer Companies Loan	Minority Business Development	Machinery and Equipment Loan	Other	Total
CASH FLOWS FROM OPERATING ACTIVITIES:									
Operating income	\$ 10,015	\$ 2,437	\$ 40,695	\$ 64,594	\$ 2,704	\$ (310)	\$ 583	\$ 6,131	\$ 126,849
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:									
Depreciation	-	-	499	3,132	-	-	-	1,661	5,292
Net amortization	-	-	-	-	-	-	-	-	-
Provision for uncollectible accounts	-	238	9,814	449	(90)	169	1,490	(1)	12,069
Nonoperating revenues	-	-	-	-	-	-	-	600	600
Reclassification of investment income	(16,378)	(978)	(161,672)	-	(1,072)	(362)	(938)	(1,519)	(182,919)
Change in assets and liabilities:									
Receivables	(601)	(133)	5,970	(710)	(7,487)	(282)	(1,318)	(330)	(4,891)
Due from other funds	-	(2,500)	(220)	(8)	-	-	-	(2,248)	(4,976)
Due from other governments	-	-	-	-	-	-	-	1	1
Inventory	-	-	-	5,641	-	-	-	80	5,721
Other assets	-	-	(1,649)	(68)	-	-	-	(50)	(1,767)
Accounts payable and accrued liabilities	17	20	(597)	12,649	-	(83)	(2)	(23)	11,981
Due to other funds	(16)	(1)	(4,243)	(2,812)	-	2,496	(7)	(183)	(4,766)
Due to other governments	-	-	-	27	-	-	-	4	31
Deferred revenue	(1)	(16)	(1,587)	-	4	(5)	-	1,906	301
Insurance loss liability	-	-	(84,145)	-	-	-	-	-	(84,145)
Tuition benefits payable	25,390	-	-	-	-	-	-	-	25,390
Securities lending program obligations	-	-	119,494	-	-	-	-	-	119,494
Other liabilities	-	-	(2,317)	-	-	-	(9)	2	(2,324)
Total adjustments	8,411	(3,370)	(120,653)	18,300	(8,645)	1,933	(784)	(100)	(104,908)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	18,426	(933)	(79,958)	82,894	(5,941)	1,623	(201)	6,031	21,941
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:									
Repayments under advances from other funds	(100)	-	-	-	-	-	-	-	(100)
Operating transfers out	-	(668)	-	(51,485)	-	-	-	-	(52,153)
Increase in contributed capital	-	-	-	-	-	-	-	11,530	11,530
NET CASH USED FOR NONCAPITAL FINANCING ACTIVITIES	(100)	(668)	-	(51,485)	-	-	-	11,530	(40,723)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:									
Increase in contributed capital	-	14,500	-	-	20,000	-	1,500	52	36,052
Decrease in contributed capital	-	-	-	-	-	(5,000)	-	-	(5,000)
Acquisition and construction of capital assets	-	-	(77)	(2,017)	-	-	-	(7,125)	(9,219)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	-	14,500	(77)	(2,017)	20,000	(5,000)	1,500	(7,073)	21,833
CASH FLOWS FROM INVESTING ACTIVITIES:									
Purchase of investments	(6,286,040)	(25,753)	(1,375,580)	(582,342)	(30,877)	(1,623)	(11,518)	(33,806)	(8,347,539)
Proceeds from sale and maturities of investments	6,258,354	12,079	1,331,842	547,672	15,779	4,639	9,345	21,427	8,201,137
Investment income	9,315	966	123,654	5,954	1,064	360	930	1,928	144,171
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(18,371)	(12,708)	79,916	(28,716)	(14,034)	3,376	(1,243)	(10,451)	(2,231)
NET INCREASE (DECREASE) IN CASH	(45)	191	(119)	676	25	(1)	56	37	820
CASH, JULY 1, 1998	151	362	1,265	10,800	180	28	272	119	13,177
CASH, JUNE 30, 1999	\$ 106	\$ 553	\$ 1,146	\$ 11,476	\$ 205	\$ 27	\$ 328	\$ 156	\$ 13,997

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

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Internal Service Funds



Commonwealth of Pennsylvania

INTERNAL SERVICE FUNDS DESCRIPTION

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

Purchasing Fund — to account for the purchase of materials, supplies, motor vehicles and other equipment by the Department of General Services for the sale or lease to other Commonwealth departments, boards or commissions. Revenue is derived from reimbursements from Commonwealth agencies who use Fund services or products.

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

There are a total of two individual internal service funds.

COMBINING BALANCE SHEET

Internal Service Funds

June 30, 1999

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
ASSETS			
Cash.....	\$ 117	\$ 293	\$ 410
Temporary investments.....	12,805	6,147	18,952
Receivables, net:			
Accounts.....	34	-	34
Accrued interest.....	56	22	78
Due from other funds.....	9,441	3,913	13,354
Due from component units.....	614	2	616
Due from other governments.....	128	628	756
Inventory.....	1,134	11,998	13,132
Fixed assets.....	61,223	24,290	85,513
Less: accumulated depreciation.....	(29,894)	(13,015)	(42,909)
TOTAL ASSETS	\$ 55,658	\$ 34,278	\$ 89,936
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable and accrued liabilities.....	\$ 6,863	\$ 5,720	\$ 12,583
Due to other funds.....	679	90	769
Due to component units.....	4	-	4
Due to other governments.....	16	34	50
Deferred revenue.....	-	3	3
TOTAL LIABILITIES.....	7,562	5,847	13,409
Fund Equity:			
Contributed capital.....	9,187	-	9,187
Retained earnings:			
Unreserved.....	38,909	28,431	67,340
TOTAL FUND EQUITY.....	48,096	28,431	76,527
TOTAL LIABILITIES AND FUND EQUITY	\$ 55,658	\$ 34,278	\$ 89,936

**COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN RETAINED EARNINGS
Internal Service Funds**

For the Fiscal Year Ended June 30, 1999

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
OPERATING REVENUES:			
Sales and services.....	\$ 155,397	\$ 34,395	\$ 189,792
Other.....	-	24	24
TOTAL OPERATING REVENUES	155,397	34,419	189,816
OPERATING EXPENSES:			
Cost of sales and services.....	146,100	32,069	178,169
Depreciation.....	8,042	1,265	9,307
Provision for uncollectible accounts.....	-	2	2
TOTAL OPERATING EXPENSES.....	154,142	33,336	187,478
OPERATING INCOME.....	1,255	1,083	2,338
NONOPERATING REVENUES (EXPENSES):			
Investment income.....	761	241	1,002
Other revenues.....	12	-	12
Other expenses.....	(136)	(192)	(328)
NONOPERATING REVENUES, NET.....	637	49	686
NET INCOME.....	1,892	1,132	3,024
RETAINED EARNINGS, JULY 1, 1998.....	37,006	27,299	64,305
RESIDUAL EQUITY TRANSFER IN.....	11	-	11
RETAINED EARNINGS, JUNE 30, 1999.....	\$ 38,909	\$ 28,431	\$ 67,340

COMBINING STATEMENT OF CASH FLOWS

Internal Service Funds

For the Fiscal Year Ended June 30, 1999

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income.....	\$ 1,255	\$ 1,083	\$ 2,338
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation.....	8,042	1,265	9,307
Provision for uncollectible accounts.....	-	2	2
Nonoperating revenues.....	12	-	12
Nonoperating expenses.....	-	(70)	(70)
Changes in assets and liabilities:			
Receivables.....	30	101	131
Due from other funds.....	(2,621)	584	(2,037)
Due from component units.....	11	4	15
Due from other governments.....	(15)	(499)	(514)
Inventory.....	289	116	405
Other assets.....	-	1	1
Accounts payable and accrued liabilities.....	(1,226)	413	(813)
Due to other funds.....	274	23	297
Due to component units.....	4	-	4
Due to other governments.....	1	3	4
Deferred revenue.....	(90)	3	(87)
TOTAL ADJUSTMENTS.....	4,711	1,946	6,657
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	5,966	3,029	8,995
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets.....	(12,998)	(1,241)	(14,239)
Proceeds from sale of capital assets.....	923	-	923
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....	(12,075)	(1,241)	(13,316)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments.....	(60,622)	(21,223)	(81,845)
Proceeds from sale and maturities of investments.....	65,988	19,267	85,255
Investment income.....	755	238	993
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	6,121	(1,718)	4,403
NET INCREASE IN CASH.....	12	70	82
CASH, JULY, 1, 1998.....	105	223	328
CASH, JUNE 30, 1999.....	\$ 117	\$ 293	\$ 410

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

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Trust and Agency Funds



Commonwealth of Pennsylvania

TRUST AND AGENCY FUNDS DESCRIPTION

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, a pension trust fund and agency funds.

EXPENDABLE TRUST FUNDS

Unemployment Compensation Fund — to account for the receipt of employer taxes and for the payment of unemployment compensation benefits to eligible individuals and to transfer and receive monies from the Federal Unemployment Trust Fund.

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

Catastrophic Loss Benefits Continuation Fund — to account for the payment of medical and rehabilitative expenses over \$100,000 to a lifetime aggregate of \$1 million to residents injured in a motor vehicle accident covered by the original Catastrophic Loss Trust Fund (no longer in existence). Revenue is derived from surcharges on certain motor vehicle moving violations and investment income.

Deferred Compensation Fund — to collect and administer funds contributed by Commonwealth employees who are deferring a portion of their income until future years, in accordance with Internal Revenue Code Section 457.

Self-Insurance Guaranty Fund — to account for the payment of claims arising from defaulting members of self-insurance pooling arrangements under the Workers' Compensation Act. Revenue is derived from assessments on self-insurers.

Real Estate Recovery Fund — to account for reimbursement to aggrieved individuals upon judgments against any person licensed by the Real Estate Commission. Revenue is derived from fees paid by licensees and interest income from investments.

PENSION TRUST FUND

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

INVESTMENT TRUST FUND

INVEST Program For Local Governments — to pool and invest amounts owned by local governments and school districts.

AGENCY FUNDS

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

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

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

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

Municipal Pension Aid Fund — to account for foreign (out-of-state) casualty insurance company tax revenue, which is distributed to municipalities to help defray municipal, police and fire pension fund costs.

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

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

There are a total of six individual expendable trust funds, one pension trust fund, one investment trust fund and twelve individual agency funds.

COMBINING BALANCE SHEET
Trust and Agency Funds

June 30, 1999

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	Expendable Trust Funds	Pension Trust Fund	Investment Trust Fund	Agency Funds	Total
ASSETS					
Cash.....	\$ 18	\$ -	\$ -	\$ 7,210	\$ 7,228
Cash with fiscal agents.....	2,677,078	-	-	8,925	2,686,003
Temporary investments.....	561,168	729,864	836,543	842,925	2,970,500
Long-term investments.....	1,023,956	24,550,673	-	76,310	25,650,939
Receivables, net:					
Taxes.....	308,401	-	-	-	308,401
Accounts.....	8,927	-	-	174,878	183,805
Accrued interest.....	7,459	101,915	734	3,690	113,798
Loans.....	-	-	-	3,582	3,582
Investment proceeds.....	-	152,462	-	-	152,462
Other.....	54	190	-	-	244
Due from other funds.....	44,730	3,919	-	29,933	78,582
Due from component units.....	250	7,106	-	-	7,356
Due from other governments.....	15,589	4,852	-	-	20,441
Other assets.....	901	-	151	439,460	440,512
TOTAL ASSETS	\$ 4,648,531	\$ 25,550,981	\$ 837,428	\$ 1,586,913	\$ 32,623,853
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities.....	\$ 122,447	\$ 21,002	\$ 3,726	\$ 19,813	\$ 166,988
Tax refunds payable.....	3,855	-	-	-	3,855
Investment purchases payable.....	-	603,637	-	-	603,637
Obligations under securities lending.....	344,715	802,958	-	-	1,147,673
Due to other funds.....	42,873	26	-	717	43,616
Due to other governments.....	3,457	-	-	235,889	239,346
Deferred revenue.....	-	-	-	67	67
Other liabilities.....	-	-	-	1,330,427	1,330,427
TOTAL LIABILITIES	517,347	1,427,623	3,726	1,586,913	3,535,609
Fund Balance:					
Reserved for:					
Encumbrances.....	6,780	-	-	-	6,780
Pension benefits.....	-	24,123,358	-	-	24,123,358
Deferred compensation.....	728,308	-	-	-	728,308
Other.....	-	-	833,702	-	833,702
Unreserved:					
Designated for:					
Other.....	2,565	-	-	-	2,565
Undesignated.....	3,393,531	-	-	-	3,393,531
TOTAL FUND BALANCE	4,131,184	24,123,358	833,702	-	29,088,244
TOTAL LIABILITIES AND FUND BALANCE	\$ 4,648,531	\$ 25,550,981	\$ 837,428	\$ 1,586,913	\$ 32,623,853

COMBINING BALANCE SHEET
Expendable Trust Funds

June 30, 1999

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	Unemployment Compensation	Workmen's Compensation Security Trust	Catastrophic Loss Benefits Continuation	Deferred Compensation (December 31, 1998)	Self-Insurance Guaranty	Real Estate Recovery	Total
ASSETS							
Cash.....	\$ -	\$ 16	\$ -	\$ 2	\$ -	\$ -	\$ 18
Cash with fiscal agents.....	2,677,078	-	-	-	-	-	2,677,078
Temporary investments.....	200	490,361	27,263	38,774	3,547	1,023	561,168
Long-term investments.....	-	333,940	-	690,016	-	-	1,023,956
Receivables, net:							
Taxes.....	308,401	-	-	-	-	-	308,401
Accounts.....	2,189	-	6,738	-	-	-	8,927
Accrued interest.....	12	6,972	109	348	14	4	7,459
Other.....	-	-	-	54	-	-	54
Due from other funds.....	2,189	42,541	-	-	-	-	44,730
Due from component units.....	250	-	-	-	-	-	250
Due from other governments.....	15,589	-	-	-	-	-	15,589
Other assets.....	-	901	-	-	-	-	901
TOTAL ASSETS	\$ 3,005,908	\$ 874,731	\$ 34,110	\$ 729,194	\$ 3,561	\$ 1,027	\$ 4,648,531
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued liabilities.....	\$ 68,963	\$ 35,977	\$ 16,677	\$ 823	\$ 6	\$ 1	\$ 122,447
Tax refunds payable.....	3,855	-	-	-	-	-	3,855
Obligations under securities lending.....	-	344,715	-	-	-	-	344,715
Due to other funds.....	-	252	42,558	63	-	-	42,873
Due to other governments.....	3,457	-	-	-	-	-	3,457
TOTAL LIABILITIES	76,275	380,944	59,235	886	6	1	517,347
Fund Balance:							
Reserved for:							
Encumbrances.....	-	6,780	-	-	-	-	6,780
Deferred compensation.....	-	-	-	728,308	-	-	728,308
Unreserved:							
Designated for:							
Other.....	-	-	-	-	2,565	-	2,565
Undesignated (deficit).....	2,929,633	487,007	(25,125)	-	990	1,026	3,393,531
TOTAL FUND BALANCE (DEFICIT)	2,929,633	493,787	(25,125)	728,308	3,555	1,026	4,131,184
TOTAL LIABILITIES AND FUND BALANCE	\$ 3,005,908	\$ 874,731	\$ 34,110	\$ 729,194	\$ 3,561	\$ 1,027	\$ 4,648,531

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
Expendable Trust Funds**

For the Fiscal Year Ended June 30, 1999

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Unemployment Compensation	Workmen's Compensation Security Trust	Catastrophic Loss Benefits Continuation	Deferred Compensation (December 31, 1998)	Self-Insurance Guaranty	Real Estate Recovery	Total
REVENUES:							
Taxes.....	\$ 4,824	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,824
Unemployment taxes.....	1,459,773	-	-	-	-	-	1,459,773
Licenses and fees.....	-	41,864	39,209	-	41	38	81,152
Intergovernmental.....	49,336	-	-	-	-	-	49,336
Investment income.....	164,873	35,040	1,180	112,048	200	52	313,393
Other.....	362	-	2	89,400	-	-	89,764
TOTAL REVENUES	1,679,168	76,904	40,391	201,448	241	90	1,998,242
EXPENDITURES:							
Current:							
General government.....	-	4,133	1,210	17,877	-	-	23,220
Protection of persons and property.....	-	41,728	28,500	-	822	80	71,130
Public health and welfare.....	1,503,639	-	-	-	-	-	1,503,639
Debt service:							
Principal retirement.....	-	11,394	-	-	-	-	11,394
TOTAL EXPENDITURES	1,503,639	57,255	29,710	17,877	822	80	1,609,383
REVENUES OVER (UNDER)							
EXPENDITURES	175,529	19,649	10,681	183,571	(581)	10	388,859
FUND BALANCES (DEFICIT), AS RESTATED, JULY 1, 1998	2,754,104	474,138	(35,806)	544,737	4,136	1,016	3,742,325
FUND BALANCES (DEFICIT), JUNE 30, 1999	\$ 2,929,633	\$ 493,787	\$ (25,125)	\$ 728,308	\$ 3,555	\$ 1,026	\$ 4,131,184

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

Agency Funds

For the Fiscal Year Ended June 30, 1999

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Balance <u>July 1, 1998</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 1999</u>
UNDERGROUND STORAGE TANK				
INDEMNIFICATION FUND				
ASSETS				
Cash.....	\$ 712	\$ 49,130	\$ 49,709	\$ 133
Temporary investments.....	359,744	33,924	29,052	364,616
Receivables, net:				
Loans.....	-	3,582	-	3,582
Accrued interest.....	1,708	19,347	19,564	1,491
TOTAL ASSETS	<u>\$ 362,164</u>	<u>\$ 105,983</u>	<u>\$ 98,325</u>	<u>\$ 369,822</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 3,985	\$ 8,533	\$ 3,985	\$ 8,533
Due to other funds.....	57	28	57	28
Due to other governments.....	1	2	1	2
Other liabilities.....	358,121	37,694	34,556	361,259
TOTAL LIABILITIES	<u>\$ 362,164</u>	<u>\$ 46,257</u>	<u>\$ 38,599</u>	<u>\$ 369,822</u>
STATUTORY LIQUIDATOR FUND				
ASSETS				
Cash.....	\$ 1	\$ 103,284	\$ 103,284	\$ 1
Cash with fiscal agents.....	9,254	8,925	9,254	8,925
Temporary investments.....	126,011	69,051	107,992	87,070
Long-term investments.....	87,551	-	11,253	76,298
Receivables, net:				
Accounts.....	183,791	-	17,043	166,748
Accrued interest.....	1,337	670	1,337	670
Due from other funds.....	47	247	47	247
Other assets.....	338,634	96,017	-	434,651
TOTAL ASSETS	<u>\$ 746,626</u>	<u>\$ 278,194</u>	<u>\$ 250,210</u>	<u>\$ 774,610</u>
LIABILITIES				
Other liabilities.....	\$ 746,626	\$ 27,984	\$ -	\$ 774,610
TOTAL LIABILITIES	<u>\$ 746,626</u>	<u>\$ 27,984</u>	<u>\$ -</u>	<u>\$ 774,610</u>
AGENCY CUSTODIAL ACCOUNTS				
ASSETS				
Cash.....	\$ 3,745	\$ 52,192	\$ 52,642	\$ 3,295
Temporary investments.....	14,097	4,604	4,298	14,403
Long-term investments.....	16	-	4	12
Receivables, net:				
Accounts.....	3,554	6,098	4,725	4,927
Other assets.....	4,959	4,801	4,951	4,809
TOTAL ASSETS	<u>\$ 26,371</u>	<u>\$ 67,695</u>	<u>\$ 66,620</u>	<u>\$ 27,446</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 5,104	\$ 5,512	\$ 5,562	\$ 5,054
Other liabilities.....	21,267	47,813	46,688	22,392
TOTAL LIABILITIES	<u>\$ 26,371</u>	<u>\$ 53,325</u>	<u>\$ 52,250</u>	<u>\$ 27,446</u>

(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

Agency Funds (continued)

For the Fiscal Year Ended June 30, 1999

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Balance <u>July 1, 1998</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 1999</u>
FIRE INSURANCE TAX FUND				
ASSETS				
Cash.....	\$ 1	\$ 111,854	\$ 111,854	\$ 1
Temporary investments.....	53,436	58,512	58,614	53,334
Receivables, net:				
Accrued interest.....	264	235	264	235
TOTAL ASSETS	<u>\$ 53,701</u>	<u>\$ 170,601</u>	<u>\$ 170,732</u>	<u>\$ 53,570</u>
LIABILITIES				
Due to other funds.....	\$ 264	\$ 235	\$ 264	\$ 235
Due to other governments.....	53,367	53,238	53,293	53,312
Other liabilities.....	70	23	70	23
TOTAL LIABILITIES	<u>\$ 53,701</u>	<u>\$ 53,496</u>	<u>\$ 53,627</u>	<u>\$ 53,570</u>
MUNICIPAL PENSION AID FUND				
ASSETS				
Cash.....	\$ 1	\$ 267,730	\$ 267,731	\$ -
Temporary investments.....	123,844	132,823	135,643	121,024
Receivables, net:				
Accrued interest.....	603	3,590	3,705	488
Due from other funds.....	289	290	289	290
TOTAL ASSETS	<u>\$ 124,737</u>	<u>\$ 404,433</u>	<u>\$ 407,368</u>	<u>\$ 121,802</u>
LIABILITIES				
Due to other funds.....	\$ -	\$ 1	\$ -	\$ 1
Due to other governments.....	124,574	131,524	134,350	121,748
Other liabilities.....	163	53	163	53
TOTAL LIABILITIES	<u>\$ 124,737</u>	<u>\$ 131,578</u>	<u>\$ 134,513</u>	<u>\$ 121,802</u>
MEDICAL PROFESSIONAL LIABILITY				
CATASTROPHE LOSS FUND				
ASSETS				
Cash.....	\$ 1,027	\$ 616,127	\$ 615,249	\$ 1,905
Temporary investments.....	139,996	336,370	305,811	170,555
Receivables, net:				
Accounts.....	2,630	3,198	2,630	3,198
Accrued interest.....	645	8,958	8,922	681
Due from other funds.....	12	-	12	-
TOTAL ASSETS	<u>\$ 144,310</u>	<u>\$ 964,653</u>	<u>\$ 932,624</u>	<u>\$ 176,339</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 5,072	\$ 6,226	\$ 5,072	\$ 6,226
Due to other funds.....	399	57	399	57
Due to other governments.....	11	12	11	12
Deferred revenue.....	-	67	-	67
Other liabilities.....	138,828	315,081	283,932	169,977
TOTAL LIABILITIES	<u>\$ 144,310</u>	<u>\$ 321,443</u>	<u>\$ 289,414</u>	<u>\$ 176,339</u>

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

Agency Funds (continued)

For the Fiscal Year Ended June 30, 1999

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Balance <u>July 1, 1998</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 1999</u>
OTHER FUNDS				
ASSETS				
Cash.....	\$ 1,112	\$ 552,208	\$ 551,445	\$ 1,875
Temporary investments.....	27,374	479,269	474,720	31,923
Receivables, net:				
Taxes.....	7	-	7	-
Accounts.....	-	5	-	5
Accrued interest.....	132	617	624	125
Due from other funds.....	31,238	29,396	31,238	29,396
TOTAL ASSETS	<u>\$ 59,863</u>	<u>\$ 1,061,495</u>	<u>\$ 1,058,034</u>	<u>\$ 63,324</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 1,165	\$ -	\$ 1,165	\$ -
Due to other funds.....	205	396	205	396
Due to other governments.....	56,414	517,039	512,638	60,815
Other liabilities.....	2,079	57	23	2,113
TOTAL LIABILITIES	<u>\$ 59,863</u>	<u>\$ 517,492</u>	<u>\$ 514,031</u>	<u>\$ 63,324</u>
TOTAL — ALL FUNDS				
ASSETS				
Cash.....	\$ 6,599	\$ 1,752,525	\$ 1,751,914	\$ 7,210
Cash with fiscal agents.....	9,254	8,925	9,254	8,925
Temporary investments.....	844,502	1,114,553	1,116,130	842,925
Long-term investments.....	87,567	-	11,257	76,310
Receivables, net:				
Taxes.....	7	-	7	-
Accounts.....	189,975	9,301	24,398	174,878
Accrued interest.....	4,689	33,417	34,416	3,690
Loans.....	-	3,582	-	3,582
Due from other funds.....	31,586	29,933	31,586	29,933
Other assets.....	343,593	100,818	4,951	439,460
TOTAL ASSETS	<u>\$ 1,517,772</u>	<u>\$ 3,053,054</u>	<u>\$ 2,983,913</u>	<u>\$ 1,586,913</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 15,326	\$ 20,271	\$ 15,784	\$ 19,813
Due to other funds.....	925	717	925	717
Due to other governments.....	234,367	701,815	700,293	235,889
Deferred revenue.....	-	67	-	67
Other liabilities.....	1,267,154	428,705	365,432	1,330,427
TOTAL LIABILITIES	<u>\$ 1,517,772</u>	<u>\$ 1,151,575</u>	<u>\$ 1,082,434</u>	<u>\$ 1,586,913</u>

General Fixed Assets Account Group



Commonwealth of Pennsylvania

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 pension trust funds.

SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS

For the Fiscal Year Ended June 30, 1999

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

CATEGORY	<u>Balance July 1, 1998</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 1999</u>
Land.....	\$ 255,807	\$ 2,313	\$ 174	\$ 257,946
Buildings.....	3,040,935	48,508	23,747	3,065,696
Improvements other than buildings.....	256,431	10,844	1,277	265,998
Machinery and equipment	<u>552,065</u>	<u>75,730</u>	<u>21,468</u>	<u>606,327</u>
	4,105,238	137,395	46,666	4,195,967
Construction in progress	<u>403,146</u>	<u>307,476</u>	<u>56,271</u>	<u>654,351</u>
Total General Fixed Assets.....	<u>\$ 4,508,384</u>	<u>\$ 444,871</u>	<u>\$ 102,937</u>	<u>\$ 4,850,318</u>
 INVESTMENT IN GENERAL FIXED ASSETS BY SOURCE				
Acquired before July 1, 1986.....	\$ 1,915,629	\$ -	\$ 34,312	\$ 1,881,317
Acquired after June 30, 1986 from:				
General fund	868,985	38,472	5,010	902,447
General obligation bonds.....	950,729	52,966	1,765	1,001,930
Federal grants	35,957	2,997	473	38,481
Special revenue funds.....	322,150	41,448	5,106	358,492
Local funds	31	-	-	31
Donations.....	11,563	1,512	-	13,075
Confiscations	<u>194</u>	<u>-</u>	<u>-</u>	<u>194</u>
Total sources.....	4,105,238	137,395	46,666	4,195,967
Construction in progress	<u>403,146</u>	<u>307,476</u>	<u>56,271</u>	<u>654,351</u>
Total Investment in General Fixed Assets	<u>\$ 4,508,384</u>	<u>\$ 444,871</u>	<u>\$ 102,937</u>	<u>\$ 4,850,318</u>

Funding sources for General Fixed Assets acquired before July 1, 1986 are not available.

SCHEDULE OF GENERAL FIXED ASSETS BY FUNCTION

June 30, 1999

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)

FUNCTION	<u>Land</u>	<u>Buildings</u>	<u>Improvements Other Than Buildings</u>	<u>Machinery and Equipment</u>	<u>Total</u>
General government	\$ 9,439	\$ 517,018	\$ 25,565	\$ 43,793	\$ 595,815
Protection of persons and property	16,631	1,347,960	152,996	82,524	1,600,111
Public health and welfare	2,756	463,648	16,732	94,523	577,659
Public education	17,427	625,138	51,275	2,648	696,488
Conservation of natural resources.....	209,064	62,538	13,251	31,732	316,585
Economic development and assistance.....	-	-	-	333	333
Transportation	2,629	49,394	6,179	350,774	408,976
Totals Allocated To Functions	<u>\$ 257,946</u>	<u>\$ 3,065,696</u>	<u>\$ 265,998</u>	<u>\$606,327</u>	4,195,967
Construction in progress.....					<u>654,351</u>
Total General Fixed Assets					<u>\$ 4,850,318</u>

SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS BY FUNCTION

For the Fiscal Year Ended June 30, 1999

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)

	<u>Balance July 1, 1998</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Balance June 30, 1999</u>
General government	\$ 554,474	\$ 6,340	\$ 40,347	\$ 76,717	\$ 1,369	\$ 595,815
Protection of persons and property	1,568,859	33,651	1,682	586	1,303	1,600,111
Public health and welfare	615,952	28,627	1,691	285	65,514	577,659
Public education	676,690	20,153	58	73	370	696,488
Conservation of natural resources.....	305,360	11,923	310	149	537	316,585
Economic development and assistance...	333	-	-	-	-	333
Transportation	383,570	36,701	2,578	-	8,717	408,976
	4,105,238	137,395	46,666	77,810	77,810	4,195,967
Construction in progress.....	403,146	307,476	56,271	-	-	654,351
Total General Fixed Assets.....	<u>\$ 4,508,384</u>	<u>\$ 444,871</u>	<u>\$ 102,937</u>	<u>\$ 77,810</u>	<u>\$ 77,810</u>	<u>\$ 4,850,318</u>

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Statistical Section



Commonwealth of Pennsylvania

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

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

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	1990	1991	1992	1993	1994 ⁽²⁾	1995 ⁽³⁾	1996 ⁽³⁾	1997 ⁽³⁾	1998 ⁽³⁾	1999 ⁽³⁾
REVENUES BY SOURCE										
Taxes.....	\$ 12,052,117	\$ 11,980,586	\$ 15,444,361	\$ 15,467,501	\$ 16,094,540	\$ 16,990,198	\$ 17,220,048	\$ 18,168,581	\$ 19,043,735	\$ 20,105,276
Licenses and fees.....	661,265	685,196	699,141	717,508	740,723	773,463	796,150	804,429	1,004,050	1,019,256
Intergovernmental.....	4,358,109	5,165,068	6,004,765	6,949,683	7,822,596	7,959,997	9,517,277	9,499,083	9,669,407	10,563,455
Charges for sales and services.....	503,643	1,015,169	1,754,679	1,654,175	847,520	894,852	1,311,375	1,516,527	1,697,933	2,057,375
Investment income.....	221,835	158,280	141,433	94,362	79,329	145,124	152,724	174,604	225,805	258,525
Lottery receipts.....	1,529,835	1,520,943	1,374,271	1,440,784	1,574,949	1,595,726	1,722,558	1,722,558	1,684,015	1,659,305
Other ⁽³⁾	389,318	411,195	343,661	348,727	171,555	167,452	228,931	187,592	178,042	214,254
TOTAL REVENUES	\$ 19,716,122	\$ 20,936,437	\$ 25,762,311	\$ 26,672,740	\$ 27,331,212	\$ 28,526,812	\$ 30,925,782	\$ 32,073,374	\$ 33,502,987	\$ 35,877,446
EXPENDITURES BY FUNCTION										
General government.....	\$ 1,921,076	\$ 1,890,388	\$ 1,917,410	\$ 2,004,638	\$ 2,152,254	\$ 2,313,118	\$ 2,630,517	\$ 2,468,746	\$ 2,586,529	\$ 2,722,917
Protection of persons and property.....	1,217,333	1,291,746	1,377,461	1,466,885	1,772,639	1,927,228	2,345,462	2,462,026	2,613,021	2,785,269
Public health and welfare.....	7,745,019	9,200,299	11,132,219	11,288,552	11,810,077	12,249,729	13,651,317	13,907,167	14,341,539	15,320,410
Public education.....	5,597,935	5,852,950	6,015,589	6,460,659	6,784,190	7,006,744	7,417,504	7,397,274	7,714,443	7,842,732
Conservation of natural resources.....	373,719	431,006	468,431	483,644	525,401	571,502	348,639	369,467	396,087	436,601
Economic development and assistance.....	363,950	315,362	302,028	284,940	272,212	338,377	285,092	300,310	338,984	469,005
Transportation.....	2,392,365	2,391,785	2,265,894	2,536,894	2,695,546	2,773,086	2,832,031	2,912,583	3,243,334	3,654,269
Capital outlay.....	168,807	298,506	207,168	418,062	210,083	264,464	319,195	253,758	360,238	582,863
Debt service:										
Principal retirement.....	608,360	526,625	568,900	594,472	482,344	516,790	447,790	437,880	435,090	443,675
Interest and fiscal charges.....	455,574	452,986	487,479	430,947	291,731	301,480	289,138	287,866	263,356	262,669
TOTAL EXPENDITURES	\$ 20,844,138	\$ 22,651,653	\$ 24,742,579	\$ 25,969,693	\$ 26,996,477	\$ 28,262,433	\$ 30,566,685	\$ 30,797,077	\$ 32,292,621	\$ 34,520,410

(1) Included General, Special Revenue, Debt Service, Capital Projects Funds and Discretely Presented Governmental Fund Component Units, through June 30, 1993.
 (2) Prior to 1989, lease rental principal and interest payments, included as other revenue, were classified as "Other Financing Sources."
 (3) Includes primary government only.

NET BONDED DEBT PER CAPITA

TABLE 2
For the Last Ten Fiscal Years

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

<u>For The Fiscal Year Ended June 30</u>	<u>Net Bonded Debt</u>	<u>Population</u>	<u>Debt Per Capita</u>
1989	\$ 4,705,202	11,866	\$ 397
1990	4,633,507	11,895	390
1991	4,787,512	11,946	401
1992	4,873,542	11,989	407
1993	5,040,938	12,026	419
1994	5,100,012	12,040	423
1995	5,040,662	12,039	418
1996	5,061,530	12,034	420
1997	4,841,729	12,011	403
1998	4,841,324	12,001	403

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

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

TABLE 3
For the Last Ten Fiscal Years

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

<u>For The Fiscal Year Ended June 30</u>	<u>Debt Service Requirements Funded by General Fund</u>	<u>Budgetary Basis General Fund Expenditures⁽¹⁾</u>	<u>%</u>
1990	\$ 450,752	\$ 15,137,774	2.98
1991	456,325	16,251,111	2.81
1992	521,875	19,540,459	2.67
1993	497,045	19,986,749	2.49
1994	512,094	21,060,058	2.43
1995	525,889	22,467,672	2.34
1996	551,133	23,480,336	2.35
1997	649,759	23,384,414	2.78
1998	624,642	24,891,340	2.51
1999	761,572	26,624,901	2.86

⁽¹⁾ Excludes encumbrances included in "Total Expenditures" in the Statement of Revenues, Expenditures and Changes in Unreserved/Undesignated Fund Balances—Budget and Actual (Budgetary Basis).

COMPUTATION OF LEGAL DEBT MARGIN

TABLE 4

As of September 1, 1999

COMMONWEALTH OF PENNSYLVANIA

Average annual tax revenues deposited in the previous five fiscal years	\$ 21,241,970,890
Constitutional factor	x <u>1.75</u>
Constitutional debt limit for debt incurred without the approval of the electors.....	37,173,449,058
Less outstanding net debt (non-electorate approved).....	<u>3,882,412,712</u>
Legal debt margin.....	<u>\$ 33,291,036,346</u>

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

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

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

The figures above are abstracted from a certification of the Auditor General dated September 1, 1999.

SCHEDULE OF REVENUE BOND COVERAGE

TABLE 5
For the Last Ten Fiscal Years

COMMONWEALTH OF PENNSYLVANIA

Pennsylvania Turnpike Commission ^(b)							
(Expressed in Thousands)							
For the Fiscal Year Ended May 31	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1990	\$ 252,373	\$ 113,546	\$ 138,827	\$ 123,940	\$ 73,051	\$ 196,991	0.70
1991	246,985	115,103	131,882	64,135	75,811	139,946	0.94
1992	312,079	113,217	198,862	7,450	76,628	84,078	2.37
1993	329,452	134,844	194,608	11,595	65,600	77,195	2.52
1994	344,617	142,915	201,702	9,405	70,892	80,297	2.51
1995	375,754	146,325	229,429	15,715	72,548	88,263	2.60
1996	389,774	162,150	227,624	23,900	75,644	99,544	2.29
1997	398,897	158,705	240,192	22,845	74,462	97,307	2.47
1998	410,266	165,763	244,503	28,240	72,274	100,514	2.43
1999	441,235	190,179	251,056	29,085	86,483	115,568	2.17

Pennsylvania Industrial Development Authority ^(b)							
(Expressed in Thousands)							
For the Fiscal Year Ended June 30	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1990	\$ 30,422	\$ 1,997	\$ 28,425	\$ 8,900	\$ 9,873	\$ 18,773	1.51
1991	28,963	2,055	26,908	8,440	11,015	19,455	1.38
1992	24,592	1,994	22,598	10,645	18,920	29,565	0.76
1993	25,204	2,368	22,836	10,645	18,595	29,240	0.78
1994	29,802	2,138	27,664	23,085	19,116	42,201	0.66
1995	30,806	2,864	27,942	4,335	20,123	24,458	1.14
1996	30,487	2,898	27,589	10,695	19,747	30,442	0.91
1997	32,963	2,865	30,098	12,955	22,314	35,269	0.85
1998	35,967	2,861	33,106	19,380	22,852	42,232	0.78
1999	30,227	3,187	27,040	20,660	21,845	42,505	0.64

Pennsylvania Housing Finance Agency ^(b)							
(Expressed in Thousands)							
For the Fiscal Year Ended June 30	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest ^(a)	Total	
1990	\$ 199,101	\$ 9,133	\$ 189,968	\$ 21,568	\$ 157,104	\$ 178,672	1.06
1991	214,580	9,944	204,636	25,173	153,305	178,478	1.15
1992	206,991	8,496	198,495	28,118	172,146	200,264	0.99
1993	200,268	9,803	190,465	27,410	166,480	193,890	0.98
1994	194,025	13,325	180,700	29,426	143,904	173,330	1.05
1995	196,023	16,095	179,928	51,406	139,621	191,027	0.94
1996	208,048	16,979	191,069	40,839	146,452	187,291	1.02
1997	222,736	16,748	205,988	39,463	157,989	197,452	1.04
1998	247,841	17,931	229,910	43,558	172,268	215,826	1.06
1999	237,346	19,544	217,802	54,438	175,337	229,775	0.95

^(a) Excludes interest on notes payable.

^(b) Discretely Presented Component Unit.

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

TABLE 6
For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA

<u>Calendar Year</u>	<u>(Expressed in Thousands)</u>		<u>%</u>
	<u>United States</u>	<u>Pennsylvania</u>	
1989	246,820	11,866	4.80
1990	249,398	11,895	4.80
1991	252,106	11,946	4.70
1992	255,011	11,989	4.70
1993	257,753	12,026	4.66
1994	260,289	12,040	4.63
1995	262,765	12,039	4.58
1996	265,190	12,034	4.54
1997	264,744	12,011	4.49
1998	270,298	12,001	4.44

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

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

TABLE 7
For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA

<u>Calendar Year</u>	<u>(Expressed in Thousands)</u>	
	<u>Demand Deposits</u>	<u>Time and Savings Deposits</u>
1989	\$ 6,481,900	\$ 53,565,427
1990	6,453,740	50,542,812
1991	6,308,495	52,112,591
1992	7,150,024	51,434,858
1993	7,620,397	54,334,637
1994	6,952,868	49,674,200
1995	7,124,441	51,766,777
1996	4,233,735	37,254,292
1997	4,764,449	40,036,785
1998	4,581,076	35,885,048

SOURCE: Pennsylvania Department of Banking

TABLE 8
RESIDENT EMPLOYMENT, UNEMPLOYMENT AND UNEMPLOYMENT RATE
PENNSYLVANIA COMPARED TO THE UNITED STATES
For the Last Ten Calendar Years

	1982	1990	1991	1992	1993	1994	1995	1996	1997	1998
COMMONWEALTH OF PENNSYLVANIA										
(Expressed in Thousands Except Percents)										
PENNSYLVANIA										
Civilian labor force.....	5,857	5,791	5,826	5,886	5,889	5,826	5,838	5,903	5,984	5,936
Employment.....	5,592	5,476	5,419	5,440	5,470	5,465	5,495	5,590	5,673	5,661
Unemployment.....	265	315	407	446	416	360	343	313	311	275
Rate %.....	4.5	5.4	6.9	7.5	7.1	6.2	5.9	5.3	5.2	4.6
UNITED STATES										
Civilian labor force.....	123,869	125,840	126,346	128,105	129,200	131,056	132,304	133,943	136,297	137,674
Employment.....	117,342	118,793	117,718	118,492	120,260	123,060	124,900	126,708	129,558	131,464
Unemployment.....	6,527	7,047	8,628	9,613	8,940	7,996	7,404	7,235	6,739	6,210
Rate %.....	5.3	5.6	6.8	7.5	6.9	6.1	5.6	5.4	4.9	4.5

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

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

TABLE 9

For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA

Calendar Year	TOTAL PERSONAL INCOME (Millions of Dollars)			PER CAPITA PERSONAL INCOME (Dollars)		
	United States	Pennsylvania	%	United States	Pennsylvania	%
1989	4,485,191	216,982	4.80	18,172	18,286	100.60
1990	4,786,293	230,894	4.80	19,191	19,410	101.10
1991	4,963,545	239,478	4.80	19,689	20,047	101.80
1992	5,260,922	252,224	4.80	20,631	21,038	102.00
1993	5,469,485	260,109	4.80	21,220	21,635	102.00
1994	5,741,050	269,002	4.70	22,056	22,343	101.30
1995	6,060,138	280,305	4.60	23,059	23,268	100.90
1996	6,408,990	295,349	4.60	24,164	24,533	101.50
1997	6,770,709	308,640	4.60	25,288	25,670	101.50
1998	7,276,800	321,540	4.40	26,412	26,792	101.40

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

THIRTY LARGEST NONGOVERNMENTAL EMPLOYERS

TABLE 10

For the Calendar Year 1998

COMMONWEALTH OF PENNSYLVANIA

EMPLOYER	RANK
Wal-Mart Stores, Inc.....	1
Trustees of the University of Pennsylvania	2
Pennsylvania State University	3
US Airways, Inc.....	4
K-Mart Corporation.....	5
United Parcel Services, Inc.....	6
Mellon Bank, NA.....	7
Weis Markets, Inc.....	8
First Union Corporation.....	9
Sears Roebuck and Company	10
Bell Atlantic.....	11
PNC Bank, NA.....	12
Giant Food Stores, Inc... ..	13
University of Pittsburgh.....	14
AMP, Incorporated	15
May Department Stores company.....	16
J C Penney Company, Inc.....	17
Merck & Co., Inc.....	18
Acme Markets, Inc.....	19
Hershey Foods Corporation... ..	20
Westinghouse Electric Corp... ..	21
Highmark Blue Cross/Blue Shield.....	22
Lucent Technologies, Inc.....	23
Giant Eagle, Inc.....	24
University of Pittsburgh Medical Center	25
PECO Energy Company	26
The Prudential Insurance Co. of America.....	27
General Electric Company.....	28
PA Power & Light Co.....	29
USX Corporation	30

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

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

TABLE 11

COMMONWEALTH OF PENNSYLVANIA

Air Products and Chemicals, Inc.	Healthcare Services Group, Inc.
Albert Abela Co.	Hershey Foods Corporation
Alcoa, Inc.	Ikon Office Solutions, Inc.
Allegheny Teledyne	Interstate Hotels Corp.
Amkor Technology, Inc.	Mellon Bank Corp.
Amerisource Health	Nova Care, Inc.
Aramark Corp.	Pierce Leahy Co.
Armstrong World Industries, Inc.	PNC Financial Corporation
Asplundh Tree Expert Co.	PPG Industries, Inc.
Bayer, Inc.	PECO Energy
Bell Atlantic Corporation	Pennsylvania Power & Light Co.
Bethlehem Steel Corporation	Pep Boys
CDI Corporation	Rite Aid Corporation
Centocor	Rohm and Haas Company
Charming Shoppes, Inc.	Saint-Gobain Corp.
Cigna Corporation	SKF USA, Inc.
Comcast Corporation	SmithKline Beecham Corp.
Conrail	Sunoco
Crown Cork and Seal Company	Technitrol, Inc.
Day & Zimmerman, Inc.	Teleflex, Inc.
DSM Engineering Plastic Prod.	Unisource Worldwide, Inc.
Exide Corporation	UNISYS Corporation
Gannett Fleming, Inc.	Universal Health Services, Inc.
General Nutrition	USX Corporation
Genesis Health Ventures, Inc.	Vishay Intertechnology, Inc.
H. J. Heinz Company	Weis Markets, Incorporated
Harsco Corporation	Wesco International
Hawa, Inc.	Yuasa-Exide, Inc.

SOURCE: *Fortune*, April 1998 and *Ward's Business Directory*.

MISCELLANEOUS STATISTICS

TABLE 12

June 30, 1999

COMMONWEALTH OF PENNSYLVANIA

Date of Ratification of U.S. Constitution	December 12, 1787
Form of Government	Legislative-Executive-Judicial
Miles of State Highway	40,163
Land Area – in square miles	44,888
State Police Protection:	
Number of Stations	90
Number of State Police	4,042
Higher Education (Universities, Colleges and Community Colleges):	
Number of campuses in state	234
Number of educators	22,338
Number of students	636,928
Recreation:	
Number of State Parks	116
Area of State Parks	282,700 Acres
Area of State Forests	2,100,113 Acres

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

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