

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 1987



Commonwealth of Pennsylvania
Robert P. Casey, Governor

Prepared By: Office of the Budget

Michael H. Hershock, Secretary

Comptroller Operations

Harvey C. Eckert, Deputy Secretary

**Commonwealth of Pennsylvania
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 1987**

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COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

December 18, 1987

MICHAEL H. HERSHOCK
SECRETARY
OFFICE OF THE BUDGET

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

It is my privilege to present the Comprehensive Annual Financial Report (CAFR) on the operations of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 1987. 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 financial statements contained in the CAFR were prepared in conformity with generally accepted accounting principles (GAAP) as prescribed in pronouncements by the Governmental Accounting Standards Board. They were jointly audited by the elected Auditor General of the Commonwealth of Pennsylvania and Peat Marwick Main & Co., a nationally recognized public accounting firm. Their Auditors' Report is included in this report.

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

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

The GPFS of the Commonwealth, in conformance with National Council of Governmental Accounting (NCGA) Statement 3, "Defining the Governmental Reporting Entity," includes all funds, account groups, agencies, boards and commissions, and governmental public service corporations over which the Commonwealth's executive and legislative branches exercise an oversight responsibility. Criteria used to determine oversight responsibility include budget adoption and approval, taxing authority, funding of outstanding debt, authority to appoint an organization's governing body, constitutional officers' ability to significantly influence operations, accountability for fiscal operations and scope of public service. Inclusion of an organization in the Commonwealth GPFS in no way alters the defined prerogatives of the organization's management, its statutory authority, or its legal characteristics.

Based on NCGA Statement 3, the following Commonwealth public service organizations meet the oversight criteria and are included in the accompanying financial statements.

General State Authority (GSA): The GSA was created for the purpose of acquiring, constructing, equipping and maintaining public buildings for the use of the Commonwealth, State institutions of every kind and character, additions and improvements to land grant colleges, State universities and medical schools, airports, river and port facilities and flood control projects. Debt service on bonds issued by the GSA is paid from lease payments made to the GSA by the Commonwealth. No GSA debt obligations have been issued since 1968 and none are contemplated.

Pennsylvania Higher Educational Facilities Authority (PHEFA): The PHEFA was created for the purpose of financing, constructing, improving and maintaining any educational facility, and assisting colleges in financing on a short-term basis their working capital requirements. PHEFA revenue bonds and notes payable are financed through lease rental payments. Some of the lessees, although private institutions, are recipients of Commonwealth grants and subsidies.

Pennsylvania Higher Education Assistance Agency (PHEAA): The PHEAA was created to improve the higher educational opportunities of persons who are residents of the Commonwealth and attending institutions of higher education by enabling the agency, lenders and post-secondary institutions to make loans and grants to students or their parents for educational purposes. Debt service on bonds issued by the PHEAA is met from loan repayments and interest and other revenues of the agency.

Pennsylvania Housing Finance Agency (PHFA): The PHFA was created to make loans secured by real property or a leasehold estate, including mortgages, to finance projects designed and planned to be available for low and moderate income persons and families. Bonds issued by the PHFA are partially secured by a capital reserve fund required to be maintained at an amount equal to the maximum annual debt service on its outstanding bonds in any succeeding calendar year. Statute provides that if there is a deficiency in the capital reserve fund or if funds are necessary to avoid default on interest, principal or sinking fund payments on PHFA notes or bonds, an amount sufficient to make up such deficiency shall be placed in the budget of the Commonwealth for the next succeeding year.

Pennsylvania Industrial Development Authority (PIDA): The PIDA was created for the purpose of making secured loans to industrial development agencies for payment of a part of the cost of industrial development projects in critical economic areas. Loan interest and repayments of loan principal and other revenues are used to pay debt service on revenue bonds issued by the PIDA and to make additional loans.

Pennsylvania Turnpike Commission (PTC): The PTC was created for the purpose of constructing, maintaining and operating a turnpike system together with connecting roads, tunnels and bridges. Debt service on turnpike revenue bonds is payable from revenues, primarily tolls and rentals from leases and concessions, of the turnpike system.

State Employees' Retirement System (SERS), Public School Employees' Retirement System (PSERS): The SERS and PSERS were established as independent administrative boards of the Commonwealth. Each system is directed by a governing board which exercises control and management of the systems, including the investment of assets. The retirement plans of the SERS and the PSERS are contributory defined benefit plans covering all state employees, employees of certain state-related organizations, and all public school employees. Proposed changes in benefit and contribution provisions require legislative action and must be supported by an actuarially computed estimate of the cost and actuarial effect on such benefits.

State Highway and Bridge Authority (SHBA): The SHBA was created to construct, reconstruct, improve and maintain highway and bridge projects and roadside rests. Fees, rentals and charges collected by the SHBA are used to meet its debt service requirements. No SHBA debt obligations have been issued since 1968 and none are contemplated.

State Public School Building Authority (SPSBA): The SPSBA was created for the purpose of constructing, furnishing and equipping, and maintaining public school buildings, as part of the public school system of the Commonwealth. Debt service on revenue bonds issued by the SPSBA is met from lease rental payments made by the local school districts, all of which receive substantial financial aid from the Commonwealth.

State System of Higher Education (SSHE): In accordance with NCGA Statement 7, "Financial Reporting for Component Units Within the Governmental Reporting Entity," Commonwealth-owned universities are reported in a "discrete presentation" under a separate fund category in the Commonwealth's GPFS. The State System of Higher Education (SSHE), composed of fourteen universities, was created by Act No. 1982-188 to function independently of the Department of Education for the purpose of providing instruction for undergraduate and graduate students. The corporate powers of the SSHE are exercised by a Board of Governors through the SSHE Chancellor.

Commonwealth-related universities, named below, are not included in the GPFS as the degree of oversight responsibility exercised by the Commonwealth is so remote that it has not been deemed appropriate to reflect them in the reporting entity.

Pennsylvania State University
Temple University
University of Pittsburgh
Lincoln University

It has been determined that the following organization is not a part of the Commonwealth reporting entity after applying criteria of NCGA Statement 3 and is excluded from the GPFS because the Commonwealth does not control its assets, operations or management.

Pennsylvania Municipal Retirement System (PMRS): The PMRS was established as an independent board of the Commonwealth for the purpose of administering a retirement plan for officers, employees, firemen and policemen of the Commonwealth's political subdivisions and municipal authorities, and of institutions supported and maintained by the political subdivisions and municipal government associations. Control and management of the PMRS, including investment of assets, is exercised by a governing board.

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 effect budgetary control at the appropriation and allocation levels.

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

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

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

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

THE GENERAL PURPOSE FINANCIAL STATEMENTS (GPFS)

Although the Commonwealth plans and manages its financial affairs on a budgetary basis, it has undertaken to prepare GPFS in conformity with GAAP applicable to governments. These financial statements differ from those prepared on a budgetary basis in that generic funds are combined by fund types and the financial data is presented on the basis of accounting principles applicable to each fund type. Accordingly, governmental, expendable trust, and agency funds are reported on the modified accrual basis of accounting; proprietary and pension trust funds are reported on the accrual basis of accounting. The College and University Funds are reported on the accrual basis of accounting in accordance with the National Association of College and University Business Officers' *College and University Business Administration* and the American Institute of Certified Public Accountants' *Audits of Colleges and Universities* for institutions of higher education.

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

THE GENERAL FUND

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

During the last four fiscal years, the Commonwealth reported General Fund surplus unreserved/undesignated fund balances on both the budgetary and the modified accrual bases of accounting. A deficit was last reported at the end of the 1982-83 fiscal year. The surplus amounts are the result of controlled expenditure growth, improved productivity and continued economic growth that has produced revenue surpluses despite general tax rate reductions in each of the past three fiscal years.

Budgetary Basis: At June 30, 1987 the General Fund's unreserved/undesignated fund balance (budgetary basis) amounted to \$347.8 million. This compares to a budgetary fund balance of \$219.8 million (as restated) at June 30, 1986. The budgetary basis fund balance at June 30, 1987 was principally the result of revenue collections being \$317.2 million higher than the Official Estimate and appropriation lapses of \$110.7 million offset by supplemental appropriations totalling \$33.1 million.

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

<u>At June 30</u>	<u>Unreserved/ Undesignated Fund Balance (Deficit)</u>	<u>Increase (Decrease)</u>
1983	\$(234.7)	\$(242.2)
1984	76.4	311.1
1985	310.5	234.1
1986	219.8	(90.7)
1987	347.8	128.0

Modified Accrual Basis: At June 30, 1987 the Commonwealth's General Fund reflects a fund balance of \$819.4 million, an improvement of \$203.3 million over the \$616.1 million (as restated) for June 30, 1986. Total assets increased by \$193.1 million to \$2,013.4 million. Liabilities decreased by \$10.2 million to \$1,194.0 million. The unreserved/undesignated fund balance at June 30, 1987 was \$347.4 million as compared to the \$105.0 million reported a year ago. These changes and others (expressed in millions) are reflected in the General Fund summary comparative balance sheet that follows.

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

	<u>June 30, 1987</u>	<u>June 30, 1986</u>	<u>Increase (Decrease)</u>
Assets			
Cash and temporary investments	\$ 938.0	\$ 855.1	\$ 82.9
Receivables, net	561.2	493.4	67.8
Due from other funds/governments	506.5	468.2	38.3
Other assets	7.7	3.6	4.1
Total Assets	<u>\$ 2,013.4</u>	<u>\$ 1,820.3</u>	<u>\$ 193.1</u>
Liabilities			
Accounts payable and other accrued liabilities	\$ 858.9	\$ 941.6	\$ (82.7)
Matured bonds and interest payable	37.4	6.5	30.9
Due to other funds/governments	286.9	245.6	41.3
Deferred revenue	10.8	10.5	.3
Total Liabilities	<u>\$ 1,194.0</u>	<u>\$ 1,204.2</u>	<u>\$ (10.2)</u>
Fund Balance			
Reserved	\$ 191.4	\$ 127.1	\$ 64.3
Unreserved:			
Designated	280.6	384.0	(103.4)
Undesignated	347.4	105.0	242.4
Total Fund Balance	<u>\$ 819.4</u>	<u>\$ 616.1</u>	<u>\$ 203.3</u>
Total Liabilities and Fund Balance	<u>\$ 2,013.4</u>	<u>\$ 1,820.3</u>	<u>\$ 193.1</u>

GENERAL GOVERNMENTAL FUNCTIONS — MODIFIED ACCRUAL BASIS

The Commonwealth's governmental fund types include the General Fund, the Motor License Fund and other Special Revenue Funds, the Debt Service Funds and the Capital Projects Funds. These funds account for most general operating revenues and expenditures. Their combined fund balances at June 30, 1987 decreased by \$35 million to \$2,363 million from \$2,398 million (as restated) at the beginning of the fiscal year. Unreserved/undesignated fund balances at June 30, 1987 amount to \$769 million as compared to \$559 million a year ago. Comparative summaries of general governmental revenues by source and expenditures by function (expressed in millions) follow.

General Governmental Revenues by Source. Revenues of the Commonwealth's General, Special Revenue, Debt Service and Capital Projects Funds totalled \$16,462 million. This represents a 4.4 percent increase over the previous fiscal year. Taxes, penalties and interest constituted 64.7 percent of general governmental revenues; intergovernmental revenues, primarily Federal funds, constituted 22.8 percent.

Revenue Source	Fiscal Years Ended		Increase (Decrease)
	June 30, 1987	June 30, 1986	
Taxes, penalties and interest	\$10,652	\$ 9,970	\$ 682
Licenses and fees	565	540	25
Intergovernmental	3,751	3,745	6
Charges for goods and services	486	531	(45)
Investment income	195	195	.....
Lottery receipts, net of prizes	628	557	71
Other	185	232	(47)
Total Revenues	<u>\$ 16,462</u>	<u>\$ 15,770</u>	<u>\$ 692</u>

Taxes, penalties and interest increased by \$682 million over the previous fiscal year due mainly to the improvement in the state and national economies.

General Governmental Expenditures by Function. Expenditures of the Commonwealth's General, Special Revenue, Debt Service and Capital Projects Funds totalled \$16,676 million, reflecting an increase of \$8 million over the previous fiscal year. Of the total amount expended, public health and welfare accounted for 38.1 percent, public education for 26.4 percent not including the SSHE, and transportation, 12.7 percent.

Expenditure Function	Fiscal Years Ended		Increase (Decrease)
	June 30, 1987	June 30, 1986	
General government	\$ 803	\$ 804	\$ (1)
Protection of persons and property	949	912	37
Public health and welfare	6,361	6,232	129
Public education	4,396	4,123	273
Conservation of natural resources	306	299	7
Economic development and assistance	206	188	18
Transportation	2,114	2,053	61
Capital outlay	476	464	12
Debt service:			
Principal retirement	659	1,186	(527)
Interest and fiscal charges	406	407	(1)
Total Expenditures	<u>\$ 16,676</u>	<u>\$ 16,668</u>	<u>\$ 8</u>

Expenditures for public health and welfare increased by \$129 million or 2.0 percent over the previous fiscal year. Increases in financial support to the economically needy, aid to families with dependent children, and medical assistance comprise the largest portion of the public health and welfare expenditure increase.

Expenditures for public education increased by \$273 million or 6.6 percent over the previous fiscal year. Areas of increase include aid to local school districts for basic instruction, vocational instruction, debt service, pupil transportation, employe retirement including social security, and special education programs.

Expenditures for transportation increased by \$61 million or 2.8 percent over the previous fiscal year. The increase is attributed to the Commonwealth's commitment to the rebuilding of the highway infrastructure and the completion of the Interstate Highway System under the Federal Advance Construction Interstate Program.

The \$527 million reduction in principal retirement was primarily due to the reclassification to Other Financing Uses for the refunding of bonds during the fiscal year ending June 30, 1987, in accordance with The Governmental Accounting Standards Board's Statement 7, *Advance Refundings Resulting in Defeasance of Debt*.

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 August 31, 1987 was \$19.8 billion. Outstanding net capital project debt at August 31, 1987 amounted to \$4.5 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. Net electorate and other bonded debt outstanding at August 31, 1987 amounted to \$700 million.

The total general obligation bond indebtedness outstanding at June 30, 1987 was \$4,559 million. Total debt service expenditures paid from General Fund and Motor License Fund appropriations during the fiscal year ended June 30, 1987 amounted to \$540.7 million.

During the fiscal year ending June 30, 1988 the Office of the Budget projects general obligation bond issuances amounting to \$540 million, an increase of \$214 million as compared to actual issuance of \$326 million, net of refunding bonds issued, during the fiscal year ended June 30, 1987. This forecast reflects the need to make investments in the Commonwealth's capital infrastructure, particularly interstate highways construction under the Federal Advance Construction Interstate Program, highway bridges, mass transportation and water supply systems. Debt principal retirements of \$324 million are forecast during fiscal 1988. The table that follows shows total outstanding long-term indebtedness for general obligation bonds (expressed in millions) at the end of the seven most recent fiscal years.

At June 30	Outstanding Bond Indebtedness ^(a)
1981	\$4,597
1982	4,450
1983	4,487
1984	4,484
1985	4,535
1986	4,529
1987	4,559

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

In December 1985, June 1986, and April 1987, the Commonwealth issued general obligation refunding bonds totalling \$224.1 million. The proceeds will be used to retire general obligation debt incurred in 1980, 1981, 1982 and 1984 at higher interest rates. This will result in estimated savings of \$11.6 million over the life of the refunding bonds, or \$9.1 million when discounted to present value.

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 in the aggregate 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 fourth quarter of the fiscal period.

During the fiscal year ending June 30, 1988, General Fund revenues and budgeted expenditures, adjusted for estimated lapses and encumbrances, are expected to increase by 3.7 percent and 7.0 percent, respectively. These expenditure increases include an anticipated one-time \$140.0 million disbursement for local government tax reform and reflect the planned expenditure of unreserved/undesignated surplus. They are expected to result in a temporary \$279.0 million excess in disbursements over revenues during the course of the fiscal year. As the result of this and tax changes that are likely to affect the cash receipts flow, the Commonwealth anticipates issuance of \$700 million in General Fund tax anticipation notes during the current fiscal year. General Fund tax anticipation note issuances (expressed in millions) during the five most recent fiscal years are shown below. Motor License Fund tax anticipation notes were not issued and are not expected to be issued for the periods shown.

Fiscal Year Issue Ended June 30	For the Account of the General Fund	Amount Issued as a percent of Actual Revenues General Fund
1984	\$970	12%
1985	700	8
1986	500	5
1987	490	5
1988	700 Estimated	7 ^(a)

^(a) As a percent of estimated revenues.

CASH MANAGEMENT

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

In addition, the Treasury Department is empowered to invest such monies of the Commonwealth that have accumulated beyond the ordinary needs of the various Commonwealth Funds. Temporary cash surplus investments held by the Treasury Department by type, maturity ranges and percent at June 30, 1987 are depicted below.

Investment Type	Maturity Range (days)	Percent June 30
United States Treasury and Agency Obligations	1-720	47.1%
Commercial Paper (Moody's Prime One Rating or Equivalent)	1-108	38.0
Certificates of Deposit	7-720	5.0
Repurchase Agreements	1-86	7.8
Bankers' Acceptances (Moody's Aa Rating or Equivalent)	14-136	1.1
Medium-Term Corporate Notes	1-720	1.0
		<u>100.0%</u>

Temporary investments held by the Treasury Department amounted to \$5,131.0 million as of June 30, 1987. Temporary investments were made by specific funds. Interest on investments made by the Treasury Department during the fiscal year amounted to \$276.3 million at an average yield of 6.325 percent.

CAPITAL PROJECTS FUNDS

Proceeds of general obligation bond issues are primarily 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. Projects completed during the fiscal year totalled \$268 million; construction in progress at June 30, 1987 amounted to \$132 million. Authorized but unissued general obligation bonds at June 30, 1987 totalled \$4,912 million.

ENTERPRISE, FIDUCIARY AND COLLEGE AND UNIVERSITY FUNDS

All enterprise funds reported retained earnings for the fiscal year ended June 30, 1987. The overall increase in retained earnings for enterprise funds amounted to \$202 million.

Fiduciary type funds, including expendable trust funds and pension trust funds, reported fund balances of \$18,682 million at June 30, 1987, as compared to \$15,410 million at June 30, 1986.

The total fund balances for the College and University Funds at June 30, 1987 were \$292 million, as compared to \$255 million at June 30, 1986.

GENERAL FIXED ASSETS

General fixed assets of the Commonwealth are those used in the performance of general governmental functions. Except for real property of the SSHE, they do not include the fixed assets of the proprietary and the fiduciary fund types and the College and University Funds. General fixed assets as of June 30, 1987 amounted to \$2,682 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 recorded in the General Fixed Assets Account Group. Both of these practices are in conformity with GAAP.

INDEPENDENT AUDIT

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

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

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) 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, 1986.

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 satisfy 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, 1987 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.

OUTLOOK

Recently, severe declines in world equity values, instability of the value of the dollar in foreign exchange markets and debate over the federal budget have sparked concern over the future of the national economy. Current economic data indicate a slower rate of economic growth may be ahead but an economic recession is not anticipated in the nation or in Pennsylvania in the near future.

Based on the above economic outlook and current revenue and expenditure forecasts, the Commonwealth is projecting a \$117.5 million General Fund budgetary balance (unappropriated surplus) at the end of the 1987-88 fiscal year.

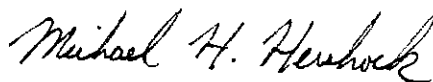
Current revenue estimates are for collections to exceed the original budget estimate of \$10,349.2 million by \$68.6 million. This revised estimate takes into consideration the current \$26.8 million surplus of revenues through November 1987 and the reduction in tax rates and other provisions affecting tax receipts enacted with the 1987-88 fiscal year budget.

Appropriations for the 1987-88 fiscal year currently are \$10,468.9 million, not including \$25 million appropriated to the Tax Stabilization Fund and \$20 million appropriated to the Sunny Day Fund. The Tax Stabilization Fund and the Sunny Day Fund receive appropriations to be used in extraordinary economic circumstances. Potential additional 1987-88 appropriations for costs of current programs are estimated to be \$24.2 million, an amount that may be revised during the development of the 1988-89 fiscal year budget.

ACKNOWLEDGEMENTS

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 our financial reportings to the citizens of the Commonwealth.

Sincerely,



Michael H. Hershock
Secretary
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, 1986

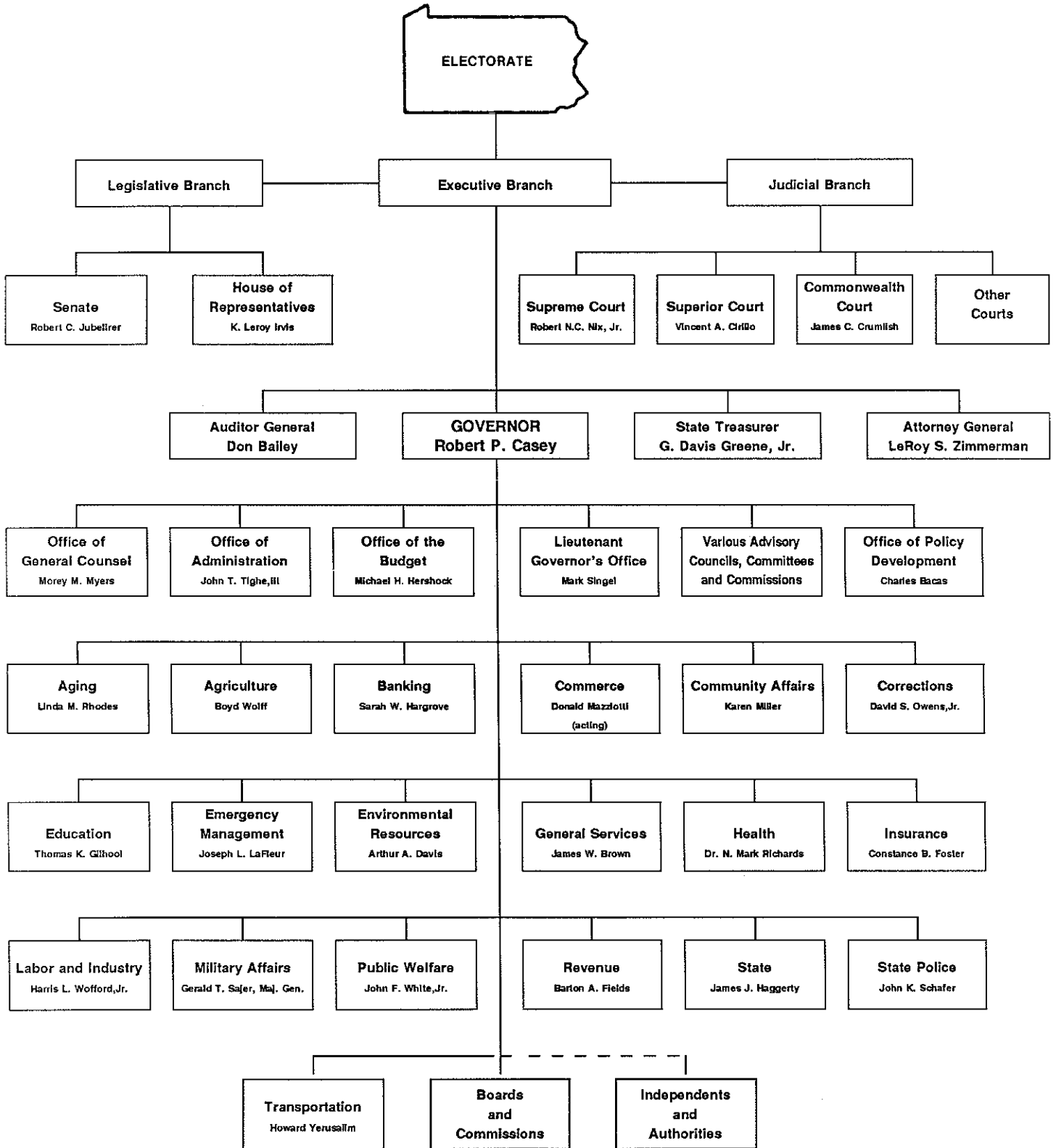
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to governmental units and public employee retirement systems whose comprehensive annual financial reports (CAFR's) are judged to substantially conform to program standards.



President

Executive Director

**COMMONWEALTH OF PENNSYLVANIA
ORGANIZATION AND OFFICIALS CHART
JUNE 30, 1987**



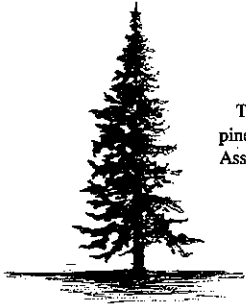
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Financial Section



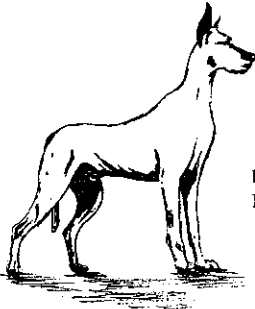
State Coat of Arms

Pennsylvania Symbols



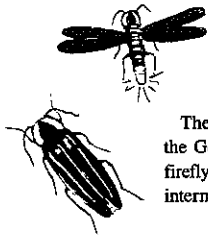
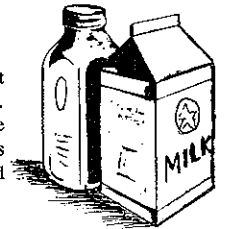
The **Hemlock**, an evergreen related to the pines, is the state tree by an act of the General Assembly of June 23, 1931.

The **Mountain Laurel** is the state flower as approved by the General Assembly on May 5, 1933. The mountain laurel is in full bloom in mid-June, when Pennsylvania's woodlands are filled with its distinctive pink flower.



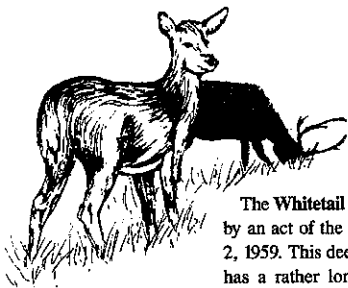
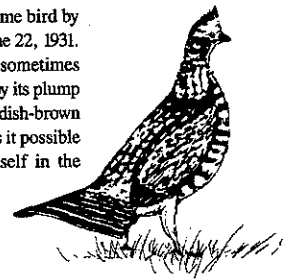
The **Great Dane** is the state dog as approved by the General Assembly on August 15, 1965. It is known for its power and short smooth hair.

Milk is the official state beverage by an act of the General Assembly of April 29, 1982. Pennsylvania ranks fifth in the nation in the production of milk, the soft, soft drink. A glass of milk contains some of every nutrient needed to build and maintain good health.

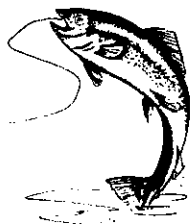


The **Firefly** is the state insect as enacted by the General Assembly on April 10, 1974. The firefly is a winged beetle whose abdomen glows intermittently with a luminescent light.

The **Ruffed Grouse** is the state game bird by an act of the General Assembly of June 22, 1931. The Pennsylvania ruffed grouse, sometimes called the partridge, is distinguished by its plump body, feathered legs, and mottled reddish-brown color. This protective coloring makes it possible for the ruffed grouse to conceal itself in the wilds.

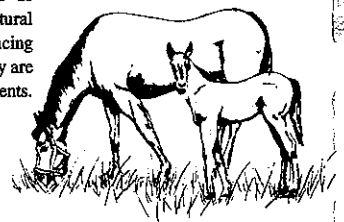


The **Whitetail Deer** is the official state animal by an act of the General Assembly of October 2, 1959. This deer with forward arching antlers has a rather long tail which is white on the undersurface.



The **Brook Trout** is the state fish as adopted by the General Assembly on March 9, 1970. This fish, which is not really a trout, is a member of the Char family and native to Pennsylvania. Commonly found in cold mountain streams, it is identified by white edges on the lower fins. Stream bred brook trout are slow growing in reaching their adult size of seven to eight inches.

The **Standardbred** is the state horse as proposed by House Bill 814 of the Agricultural Affairs committee. These trotting and pacing horses are bred for speed and stamina. They are excellent competitors in harness racing events.





Commonwealth of Pennsylvania
Office of the Auditor General
Harrisburg 17120

DON BAILEY
AUDITOR GENERAL

KPMG Peat Marwick

Certified Public Accountants

Peat Marwick Main & Co.
225 Market Street
Suite 300
P.O. Box 1190
Harrisburg, PA 17108-1190

The Honorable Robert P. Casey
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania

We have jointly examined the general purpose financial statements of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 1987, as listed in the table of contents. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not jointly examine the financial statements of certain component units, which represent 45, 65, 58 and 79 percent of total assets and 2, 82, 73 and 35 percent of total revenues, respectively, of the Special Revenue, Debt Service, Capital Projects and Enterprise Fund Types, 92 percent of total assets of the Trust and Agency Fund Type, all revenues of the Pension Trust Funds, and 22 percent of total liabilities of the General Long-Term Obligations Account Group, and we did not jointly examine the financial statements of the State System of Higher Education which represent the amounts shown as the College and University Funds. The financial statements of these component units and the College and University Funds were audited by other auditors, including Peat Marwick Main & Co. 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 and the College and University Funds, is based solely upon the reports of other auditors. Peat Marwick Main & Co. has examined separately 10 and 61 percent of total assets and 8 and 63 percent of total revenues, respectively, of the Enterprise Funds and Pension Trust Funds and the financial statements of the State System of Higher Education.

In our opinion, based upon our examination and the reports of other auditors, the general purpose financial statements referred to above present fairly the financial position of the Commonwealth of Pennsylvania at June 30, 1987, and the results of its operations and the changes in financial position of its Proprietary Fund Types and Pension Trust Fund for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change, with which we concur, in certain fund reclassifications as described in Note C to the financial statements.

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

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

Don Bailey

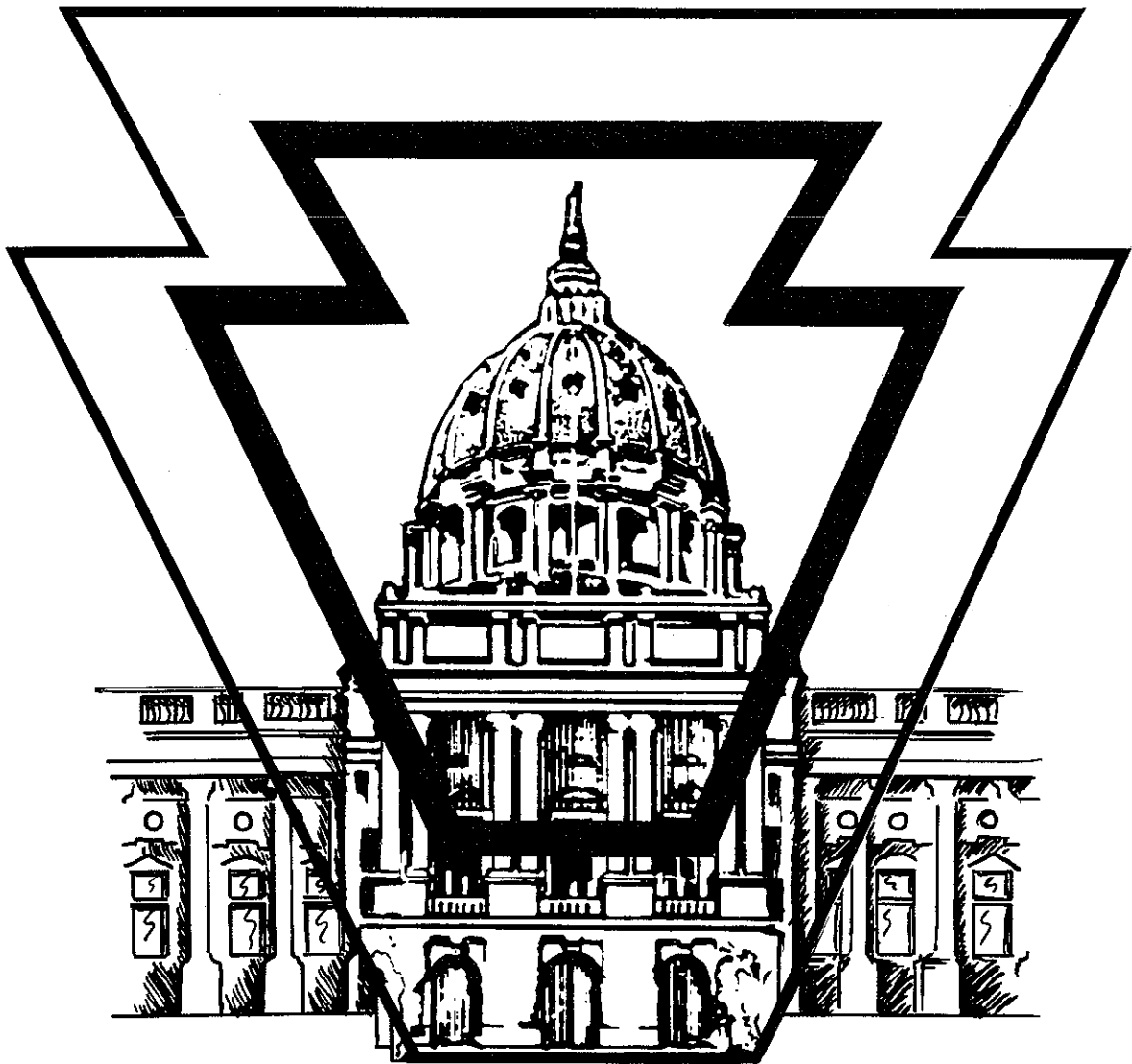
Peat Marwick Main & Co.

November 20, 1987, except for Note R,
as to which the date is December 7, 1987

“Keystone State”

The word “keystone” comes from architecture and refers to the central, wedge-shaped stone in an arch which holds all the other stones in place. The use of the term “Keystone State” as applied to Pennsylvania cannot be traced to a single source. Apparently, it came into use shortly after the Revolution and was commonly accepted soon after 1800. The early common use of the term may be attributed to the strategic geographical location of Pennsylvania in the original union dominated by the states of the Atlantic seaboard. The modern persistence of this designation for Pennsylvania is justified in view of the key position of Pennsylvania in the economic, social and political development of the United States.

General Purpose Financial Statements



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

June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Governmental Fund Types				Proprietary Fund Types			Fiduciary Fund Type		Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	College and University Funds		
Cash—Note D	\$ 42,490	\$ 47,946	\$ 11,101	\$ 743	\$ 32,712	\$ 471	\$ 7,128	\$	\$	\$ 1,609	\$ 144,200	
Cash with fiscal agents—Note D	37,388		52,800				445,242				535,430	
Temporary investments — Note D	858,101	1,119,950	111,203	316,768	1,458,087	6,476	2,771,536			141,836	6,783,957	
Long-term investments—Note D		4,323	76,215	26,110	1,454,274		15,664,677			11,422	17,237,021	
Receivables, net:												
Taxes — Note G	516,407	119,882					348,255				984,544	
Accounts	29,963	37,154			15,124	21	6,526			9,844	98,632	
Accrued interest	13,908	9,359	3,562	1,748	48,346	32	238,963			174	316,092	
Notes and loans — Note G		84,602			1,850,682					16,831	1,952,115	
Lease rental — Note G		1,208,373	53,416								1,261,789	
Pension contributions							196,350				196,350	
Other	973	4,926		1,080		72	149,353			1,315	157,719	
Due from other funds—Note H	28,605	13,376	646	112	837	9,295	215,122			43,122	311,115	
Due from other governments—Note F	408,458	98,022			9,229	1,171	36,503				553,383	
Advances to other funds	69,475										69,475	
Inventory					116,439	9,822				3,725	129,986	
Fixed assets— Note E					1,227,837	28,773	4,564	2,681,718		244,677	4,187,569	
Less: accumulated depreciation					(577,171)	(16,536)	(1,421)				(595,128)	
Other assets					40,910	14	3,525			12,360	64,483	
Amounts available in Commonwealth Funds for:												
Retirement of general obligation bonds									11,756		11,756	
Retirement of revenue bonds									150,627		150,627	
Other general long-term obligations — Note B									170,894		170,894	
Amounts to be provided for the retirement of:												
General obligation bonds									4,547,083		4,547,083	
Revenue bonds									1,208,373		1,208,373	
Other general long-term obligations									1,199,749		1,199,749	
TOTAL ASSETS	\$ 2,013,442	\$ 2,747,913	\$ 308,943	\$ 346,561	\$ 5,677,306	\$ 39,611	\$ 20,086,323	\$ 2,681,718	\$ 7,288,482	\$ 486,915	\$ 41,677,214	

— See notes to financial statements. —

COMBINED BALANCE SHEET—(continued)
All Fund Types and Account Groups

June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Fiduciary Fund Type										Totals (Memorandum Only)	
	Governmental Fund Types			Proprietary Fund Types			Trust and Agency		Account Groups		College and University Funds	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations			
LIABILITIES AND FUND EQUITY												
Liabilities:												
Accounts payable and accrued liabilities	\$ 858,907	\$ 425,330	\$ 34	\$ 26,478	\$ 179,763	\$ 5,079	\$ 176,678	\$ 259,756	\$	\$ 48,372	\$ 1,720,641	\$ 259,756
Unsettled investment purchases												
Matured debt principal and interest payable—												
Note K	37,388		91,781									129,169
Due to other funds—Note H	195,623	21,894	1	11,257	21,048	8,137	5,111			51,074		314,145
Due to other governments	91,304	11,860		9	2,761	23	169,662					275,619
Deferred revenue	10,758	1,214,433	53,416		34,977					14,538		1,328,122
Notes payable—Note J					2,614					4,108		6,722
Demand revenue bonds payable—Note J					302,000							302,000
Advances from other funds		2,175			67,300							69,475
Other liabilities			1,328		109,488	182	188,168			21,468		320,634
Insurance loss liability					560,446							560,446
Federal advances for unemployment compensation benefits—Note K							604,937					604,937
General obligation bonds payable—Note K										4,558,839		4,558,839
Revenue bonds payable—Note K					2,539,876							3,898,876
Capital lease and other general long-term obligations—Note K										1,370,643		1,426,228
TOTAL LIABILITIES	1,193,980	1,675,692	146,560	37,744	3,820,273	13,421	1,404,312			195,145	15,775,609	
Fund Equity:												
Contributed capital												528,800
Investment in fixed assets					519,883	8,917				213,293		2,895,011
Retained earnings:												
Reserved					717,138	17,273						717,138
Unreserved					620,012							637,285
Fund Balance:												
Reserved for:												
Encumbrances	120,815	239,039		310,672			165			10,825		681,516
Advances	69,475											69,475
Pension benefits							18,161,674					18,161,674
Notes and loans		84,602								18,459		103,061
Endowment and similar funds										7,537		7,537
Restricted fund balance										17,345		17,345
Other	1,120						530			5,863		7,513
Unreserved:												
Designated for:												
Capital projects				196,879								196,879
Debt Service:												
Retirement of general obligation bonds			11,756									11,756
Retirement of revenue bonds			150,627									150,627
Highways		44,471										44,471
Other—Note B	280,638	79,988		4,286			102,063					466,975
Undesignated (Deficit)—Note B	347,414	624,121		(203,020)			417,579			18,448		1,204,542
TOTAL FUND EQUITY	819,462	1,072,221	162,383	308,817	1,857,033	26,190	18,682,011			291,770	25,901,605	
TOTAL LIABILITIES AND FUND EQUITY	\$ 2,013,442	\$ 2,747,913	\$ 308,943	\$ 346,561	\$ 5,677,306	\$ 39,611	\$ 20,086,323			\$ 2,681,718	\$ 7,288,482	\$ 41,677,214

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

All Governmental Fund Types and Expendable Trust Funds

For the Fiscal Year Ended June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
REVENUES:						
Taxes, penalties and interest	\$ 9,631,951	\$ 1,020,069	\$	\$	\$ 7,156	\$10,659,176
Unemployment taxes .....	. . . .	. . . .	. . . .	. . . .	1,859,497	1,859,497
Licenses and fees	89,438	475,343	. . . .	. . . .	. . . .	564,781
Intergovernmental	2,986,227	761,602	. . . .	3,505	. . . .	3,751,334
Charges for sales and services	335,898	150,345	. . . .	. . . .	40,239	526,482
Investment income	57,558	76,641	28,061	32,640	36,315	231,215
Lottery revenues (net of \$713,778 in prizes and commissions) .....	. . . .	627,853	. . . .	. . . .	. . . .	627,853
Other	37,504	118,800	14,696	14,341	475	185,816
TOTAL REVENUES	13,138,576	3,230,653	42,757	50,486	1,943,682	18,406,154
EXPENDITURES:						
Current:						
General government	637,312	165,295	. . . .	. . . .	7,085	809,692
Protection of persons and property	948,290	272	. . . .	. . . .	78,450	1,027,012
Public health and welfare	5,583,770	777,092	. . . .	. . . .	1,102,977	7,463,839
Public education	4,387,989	7,751	. . . .	. . . .	25	4,395,765
Conservation of natural resources	229,903	75,696	. . . .	. . . .	. . . .	305,599
Economic development and assistance	185,174	21,181	. . . .	. . . .	. . . .	206,355
Transportation	198,972	1,915,653	. . . .	. . . .	. . . .	2,114,625
Capital outlay	7,073	. . . .	. . . .	469,045	. . . .	476,118
Debt service:						
Principal retirement .....	. . . .	. . . .	659,548	. . . .	. . . .	659,548
Interest and fiscal charges	16,020	2,368	386,925	388	58,506	464,207
TOTAL EXPENDITURES	12,194,503	2,965,308	1,046,473	469,433	1,247,043	17,922,760
REVENUES OVER (UNDER) EXPENDITURES	944,073	265,345	(1,003,716)	(418,947)	696,639	483,394
OTHER FINANCING SOURCES (USES):						
Bond proceeds .....	. . . .	14,831	. . . .	613,465	. . . .	628,296
Refunding bond proceeds .....	. . . .	. . . .	230,192	. . . .	. . . .	230,192
Operating transfers in — Note H	210,020	412,628	1,030,146	105,493	8	1,758,295
Operating transfers out — Note H	(915,792)	(791,262)	(34,682)	(419,829)	. . . .	(2,161,565)
Payment to refunded bond escrow agent .....	. . . .	. . . .	(217,818)	. . . .	. . . .	(217,818)
Capital lease and installment purchase obligations	7,073	. . . .	. . . .	. . . .	. . . .	7,073
Lease principal payments .....	. . . .	124,152	. . . .	. . . .	. . . .	124,152
Other .....	. . . .	(375)	(6,183)	(127,184)	. . . .	(133,742)
NET OTHER FINANCING SOURCES (USES)	(698,699)	(240,026)	1,001,655	171,945	8	234,883
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	245,374	25,319	(2,061)	(247,002)	696,647	718,277
FUND BALANCES (DEFICIT), JULY 1, 1986—AS RESTATED—NOTE C	616,088	1,061,902	164,444	555,819	(176,310)	2,221,943
RESIDUAL EQUITY TRANSFERS — NOTE H	(42,000)	(15,000)	. . . .	. . . .	. . . .	(57,000)
FUND BALANCES, JUNE 30, 1987	\$ 819,462	\$ 1,072,221	\$ 162,383	\$ 308,817	\$ 520,337	\$ 2,883,220

— 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, 1987

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	General Fund			Budgeted Special Revenue Funds — Note M		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
State Programs:						
Taxes, net of refunds	\$ 9,258,365	\$ 9,616,747	\$ 358,382	\$ 891,700	\$ 906,045	\$ 14,345
Lottery receipts .....	.....	.....	.....	720,598	764,261	43,663
Liquor store profits transfer	29,000	32,000	3,000	.....	.....	.....
Licenses and fees	37,420	37,936	516	402,680	430,843	28,163
Fines, penalties and interest	18,600	15,505	(3,095)	.....	.....	.....
Departmental services	443,328	443,328	.....	26,112	26,112	.....
Other	99,865	96,725	(3,140)	88,456	95,583	7,127
TOTAL STATE PROGRAMS	9,886,578	10,242,241	355,663	2,129,546	2,222,844	93,298
Federal Programs	3,175,235	3,028,366	(146,869)	866,545	646,449	(220,096)
TOTAL REVENUES	13,061,813	13,270,607	208,794	2,996,091	2,869,293	(126,798)
EXPENDITURES:						
State Programs:						
General government	949,077	924,971	24,106	625,294	600,982	24,312
Protection of persons and property	765,065	756,721	8,344	152,018	151,885	133
Public health and welfare	3,188,593	3,176,785	11,808	370,660	368,523	2,137
Public education	4,785,963	4,785,003	960	2,598	1,975	623
Conservation of natural resources	170,567	167,339	3,228	.....	.....	.....
Economic development and assistance	171,835	171,580	255	.....	.....	.....
Transportation	193,833	191,764	2,069	1,177,367	1,173,367	4,000
TOTAL STATE PROGRAMS	10,224,933	10,174,163	50,770	2,327,937	2,296,732	31,205
Federal Programs	3,175,235	3,028,366	146,869	866,545	646,449	220,096
TOTAL EXPENDITURES	13,400,168	13,202,529	197,639	3,194,482	2,943,181	251,301
REVENUES OVER (UNDER) EXPENDITURES	(338,355)	68,078	406,433	(198,391)	(73,888)	124,503
OTHER FINANCING SOURCES:						
Prior year lapses	59,884	59,884	.....	31,610	31,610	.....
Increase of budgeted revenues	317,240	.....	(317,240)	.....	.....	.....
TOTAL OTHER FINANCING SOURCES	377,124	59,884	(317,240)	31,610	31,610	.....
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	38,769	127,962	89,193	(166,781)	(42,278)	124,503
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JULY 1, 1986—AS RESTATED—NOTE M						
	219,872	219,872	.....	452,458	452,458	.....
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 1987						
	\$ 258,641	\$ 347,834	\$ 89,193	\$ 285,677	\$ 410,180	\$ 124,503

— See notes to financial statements. —

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

All Proprietary Fund Types and Pension Trust Funds

For the Fiscal Year Ended June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

	(Expressed in Thousands)			
	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Pension Trust (Note I)	
OPERATING REVENUES:				
Sales and services	\$ 942,872	\$ 65,416	\$	\$ 1,008,288
Investment income	164,692	. . . .	2,279,792	2,444,484
Interest on notes and loans	151,475	. . . .	. . . .	151,475
Pension contributions .....	. . . .	. . . .	1,676,514	1,676,514
Other	5,699	. . . .	. . . .	5,699
TOTAL OPERATING REVENUES	<u>1,264,738</u>	<u>65,416</u>	<u>3,956,306</u>	<u>5,286,460</u>
OPERATING EXPENSES:				
Cost of sales and services	963,429	55,536	14,055	1,033,020
Interest expense	169,803	. . . .	4,351	174,154
Depreciation	35,311	5,282	378	40,971
Bad debts	8,779	. . . .	. . . .	8,779
Benefit payments and refunds .....	. . . .	. . . .	1,282,037	1,282,037
Other	331	. . . .	. . . .	331
TOTAL OPERATING EXPENSES	<u>1,177,653</u>	<u>60,818</u>	<u>1,300,821</u>	<u>2,539,292</u>
OPERATING INCOME	<u>87,085</u>	<u>4,598</u>	<u>2,655,485</u>	<u>2,747,168</u>
NONOPERATING REVENUES (EXPENSES):				
Investment income	15,126	542	. . . .	15,668
Interest expense	(125)	(16)	. . . .	(141)
Other	(18,974)	. . . .	. . . .	(18,974)
NONOPERATING REVENUES, NET	<u>(3,973)</u>	<u>526</u>	<u>. . . .</u>	<u>(3,447)</u>
INCOME BEFORE OPERATING TRANSFERS	<u>83,112</u>	<u>5,124</u>	<u>2,655,485</u>	<u>2,743,721</u>
OPERATING TRANSFERS:				
Operating transfers in — Note H	151,316	. . . .	11,408	162,724
Operating transfers out — Note H	(32,033)	. . . .	(10,957)	(42,990)
TOTAL OPERATING TRANSFERS	<u>119,283</u>	<u>. . . .</u>	<u>451</u>	<u>119,734</u>
NET INCOME	<u>202,395</u>	<u>5,124</u>	<u>2,655,936</u>	<u>2,863,455</u>
RETAINED EARNINGS/FUND BALANCES,				
JULY 1, 1986 — AS RESTATED — NOTE C	<u>1,134,755</u>	<u>12,149</u>	<u>15,505,738</u>	<u>16,652,642</u>
RETAINED EARNINGS/FUND BALANCES,				
JUNE 30, 1987	<u>\$ 1,337,150</u>	<u>\$ 17,273</u>	<u>\$18,161,674</u>	<u>\$19,516,097</u>

— See notes to financial statements. —

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

For the Fiscal Year Ended June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

	(Expressed in Thousands)			
	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Pension Trust (Note I)	
CASH PROVIDED FROM (USED FOR) OPERATIONS:				
Net income	\$ 202,395	\$ 5,124	\$ 1,692,750	\$ 1,900,269
Items not using (providing) cash:				
Depreciation	35,311	5,282	367	40,960
Net amortization	940	.....	(1,962)	(1,022)
Net gain on sale of long-term investments	(16,196)	.....	(627,883)	(644,079)
	<u>222,450</u>	<u>10,406</u>	<u>1,063,272</u>	<u>1,296,128</u>
Increase in receivables	(61,443)	(42)	(39,878)	(101,363)
Increase in due from other funds	(5)	(991)	(6,471)	(7,467)
Decrease (increase) in due from other governments	(1,604)	33	11	(1,560)
Increase in inventory	(30,320)	(315)	.....	(30,635)
Increase in accounts payable and accrued liabilities	29,040	1,169	39,513	69,722
Decrease in due to other funds	(3,337)	(3,408)	(204)	(6,949)
Increase in due to other governments	249	23	.....	272
Increase in deferred revenue	5,266	.....	.....	5,266
Increase in insurance loss liability	25,062	.....	.....	25,062
TOTAL CASH PROVIDED FROM OPERATIONS	<u>185,358</u>	<u>6,875</u>	<u>1,056,243</u>	<u>1,248,476</u>
CASH PROVIDED FROM (USED FOR) INVESTMENT ACTIVITIES:				
Increase in other current assets	(4,612)	(4)	(342)	(4,958)
Proceeds from sale of long-term investments	165,648	.....	7,378,329	7,543,977
Purchase of long-term investments	(881,143)	.....	(8,080,023)	(8,961,166)
Increase (decrease) in other current liabilities	(5,275)	182	113,822	108,729
Additions to fixed assets	(175,909)	(14,938)	(1,696)	(192,543)
NET CASH USED FOR INVESTMENT ACTIVITIES	<u>(901,291)</u>	<u>(14,760)</u>	<u>(589,910)</u>	<u>(1,505,961)</u>
CASH PROVIDED FROM (USED FOR) FINANCING ACTIVITIES:				
Issuance of revenue bonds	1,323,908	.....	.....	1,323,908
Increase in contributed capital	57,135	7,953	.....	65,088
Decrease in notes payable	(8,721)	.....	.....	(8,721)
Increase in demand revenue bonds payable	202,000	.....	.....	202,000
Redemption of long-term obligations	(634,663)	.....	.....	(634,663)
NET CASH PROVIDED FROM FINANCING ACTIVITIES	<u>939,659</u>	<u>7,953</u>	<u>.....</u>	<u>947,612</u>
INCREASE IN CASH AND TEMPORARY INVESTMENTS	223,726	68	466,333	690,127
CASH AND TEMPORARY INVESTMENTS, JULY 1, 1986	<u>1,267,073</u>	<u>6,879</u>	<u>1,347,856</u>	<u>2,621,808</u>
CASH AND TEMPORARY INVESTMENTS, JUNE 30, 1987	<u>\$ 1,490,799</u>	<u>\$ 6,947</u>	<u>\$ 1,814,189</u>	<u>\$ 3,311,935</u>

— See notes to financial statements. —

COMBINED STATEMENT OF CHANGES IN FUND BALANCES
College and University Funds

For the Fiscal Year Ended June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds			Totals
	Unrestricted	Restricted			Unexpended	Renewal and Replacement	Retirement of Indebtedness		Investment in Plant
REVENUES AND OTHER ADDITIONS:								
Unrestricted current funds	\$ 247,000	\$	\$	\$	\$	\$	\$	\$ 247,000
Gifts and bequests		3,806		142	54		1,124	5,126
Grants and contracts		54,077	180		4,707	23		58,987
Federal advances			1,135					1,135
Endowment income		205	1					206
Investment income		133	149	10	1,862	14	247	2,415
Interest on loans receivable			363					363
Expended for plant facilities — Net of disposals (including \$13,461 charged to current funds expenditures)								
Other								
TOTAL REVENUES AND OTHER ADDITIONS	247,000	59,512	1,828	524	17,572	2,923	27,905	358,002
EXPENDITURES AND OTHER DEDUCTIONS:								
Educational and general	437,825	59,888						497,713
Auxiliary enterprise	68,932	121						69,053
Loan cancellations			1,028					1,028
Administrative and collection costs			451					451
Expended for plant facilities					17,412	6,041		23,453
Retirement of indebtedness							3,468	6,687
Interest on indebtedness					2,875		759	3,634
Other			92		604	1,833		3,282
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	506,757	60,632	1,571		20,891	7,874	4,357	605,301
TRANSFER AND ALLOCATION AMONG FUNDS — ADDITIONS (DEDUCTIONS):								
Mandatory:								
Loan funds matching grant		(2)	2					
Principal and interest	(4,657)				(166)			
Other	(2,833)	(42)		47	195	2,500	133	
Nonmandatory:								
Operating transfers in from General Fund	279,381	2,106				2,500		283,987
Other	(8,406)	(124)		106	4,166	3,432	826	
TOTAL TRANSFERS AND ALLOCATIONS	263,485	1,938	2	153	4,195	8,432	5,782	283,987
NET INCREASE FOR THE YEAR	3,728	818	259	677	876	3,481	2,163	36,688
FUND BALANCES, JULY 1, 1986	22,764	5,152	18,200	3,164	6,361	10,834		255,082
FUND BALANCES, JUNE 30, 1987	\$ 26,492	\$ 5,970	\$ 18,459	\$ 3,841	\$ 7,237	\$ 14,315	\$ 2,163	\$ 291,770

— See notes to financial statements. —

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

College and University Funds

For the Fiscal Year Ended June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Unrestricted	Restricted	Total
REVENUES:			
Tuition and fees	\$ 157,368	\$	\$ 157,368
Government grants and contracts:			
State	569	20,870	21,439
Federal	762	33,903	34,665
Private gifts, grants and contracts	1,093	3,014	4,107
Investment income	7,320	123	7,443
Endowment income	41	189	230
Activities of educational departments	1,303	. . . .	1,303
Other sources	6,239	129	6,368
Auxiliary enterprises	72,305	. . . .	72,305
TOTAL REVENUES	247,000	58,228	305,228
EXPENDITURES AND MANDATORY TRANSFERS:			
EXPENDITURES:			
Educational and general:			
Instruction	225,499	5,030	230,529
Research	715	868	1,583
Public service	2,670	6,755	9,425
Academic support	47,252	1,114	48,366
Student services	33,524	2,333	35,857
Operations and maintenance of plant	56,600	776	57,376
General institutional support	68,514	2,398	70,912
Student aid	3,051	40,614	43,665
TOTAL EDUCATIONAL AND GENERAL	437,825	59,888	497,713
Auxiliary enterprises	68,932	121	69,053
TOTAL EXPENDITURES	506,757	60,009	566,766
MANDATORY TRANSFERS:			
Renewal and replacement	2,500	. . . .	2,500
Retirement of indebtedness	4,657	. . . .	4,657
Loan funds matching grants .....	. . . .	2	2
Other	333	42	375
TOTAL MANDATORY TRANSFERS	7,490	44	7,534
TOTAL EXPENDITURES AND MANDATORY TRANSFERS	514,247	60,053	574,300
OPERATING TRANSFERS, OTHER TRANSFERS AND ADDITIONS:			
Operating transfers in from General Fund	279,381	2,106	281,487
Other transfers	(8,406)	(124)	(8,530)
Additions .....	. . . .	661	661
TOTAL OPERATING TRANSFERS, OTHER TRANSFERS AND ADDITIONS	270,975	2,643	273,618
TOTAL INCREASE IN FUND BALANCES	\$ 3,728	\$ 818	\$ 4,546

— See notes to financial statements. —

NOTES TO FINANCIAL STATEMENTS

COMMONWEALTH OF PENNSYLVANIA

June 30, 1987

NOTE A—FINANCIAL REPORTING ENTITY

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

- General State Authority
- Pennsylvania Higher Educational Facilities Authority
- Pennsylvania Higher Education Assistance Agency
- Pennsylvania Housing Finance Agency
- Pennsylvania Industrial Development Authority
- Pennsylvania Turnpike Commission
- Public School Employes' Retirement System
- State Employes' Retirement System
- State Highway and Bridge Authority
- State Public School Building Authority
- State System of Higher Education

Certain independent charitable foundations and affiliated organizations of the State System of Higher Education, including alumni associations, trusts, student government associations, bookstores and science and research centers are not included in the Commonwealth financial reporting entity. Such foundations and organizations are separate and distinct from the respective universities — they are separately incorporated, have their own charters and are governed by representatives from the private sector. The foundations and affiliated organizations are responsible for their own daily operations, debt service, personnel and financial management.

The State-Related Universities listed below are not considered part of the reporting entity since they determine their own budgets without review or modification by the Commonwealth, have the power to fix and collect charges for their services, have the responsibility to fund their own deficits, dispose of their own surpluses, exercise complete autonomy over fiscal and institutional matters and may issue debt which is neither a statutory nor moral obligation of the Commonwealth:

- Pennsylvania State University
- Temple University
- University of Pittsburgh
- Lincoln University

The Pennsylvania Municipal Retirement System is excluded from the reporting entity because the System independently fixes and collects charges for providing municipal pension benefits, receives no funds from the Commonwealth, has no continuing policy-making affiliation with the Commonwealth and exercises complete autonomy over financial, operational and personnel matters.

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.

NOTES TO FINANCIAL STATEMENTS

NOTE B—Summary of Significant Accounting Policies (continued)

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

Governmental Funds

General Fund — Accounts for all financial resources except those required to be accounted for in another fund. The General Fund is the Commonwealth's major operating fund.

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

Debt Service 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, 1986, and the Pennsylvania Turnpike Commission for its fiscal year ended May 31, 1987.

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

Fiduciary Funds

Trust and Agency Funds — Account for assets held by the Commonwealth in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include Expendable Trust Funds, Pension Trust Funds and Agency Funds. The State Employees' Retirement System, a Pension Trust Fund, is included for its fiscal year ended December 31, 1986.

Account Groups

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE B—Summary of Significant Accounting Policies (continued)

College and University Funds

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE B—Summary of Significant Accounting Policies (continued)

Revenues from other sources are recognized when received. Expenditures are generally recognized in the fiscal year the related fund liability is incurred. Principal and interest on general long-term obligations are recognized when due unless resources have been provided for payment early in the subsequent fiscal year. Prepaid items and inventory purchases are reported as current fiscal year expenditures, rather than allocating cost to the fiscal year when the items are used. Expenditures for claims, judgments, compensated absences and employer pension contributions are reported as the amount accrued during the fiscal year that normally would be liquidated with expendable available financial resources.

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

College and University Funds are reported on the accrual basis of accounting, except for depreciation expense which is not recorded. This treatment is in accordance with the National Association of College and University Business Officers' (NACUBO), *College and University Business Administration (1982)* and the American Institute of Certified Public Accountants' (AICPA) *Audits of Colleges and Universities (1975)* for institutions of higher education.

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

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

Budgetary control is exercised at the appropriation level (legislative spending authority level). Encumbrances and expenditures cannot exceed appropriated amounts. Appropriation transfers between departments and supplemental appropriations require both executive and legislative branch approval. Supplemental appropriations totalling \$61 million were approved for the fiscal year ended June 30, 1987. Unencumbered appropriations lapse at fiscal year end and are not available for appropriation until that time. The Commonwealth's *Status of Appropriations* for the fiscal year ended June 30, 1987 reports budgetary comparisons at the appropriation level for specific departmental programs and functions.

On the budgetary basis of accounting, certain revenues are accrued at fiscal year end. Accruals include sales and use taxes and personal income taxes which are owed to the Commonwealth but not collected at fiscal year end. Also, certain expenditures are accrued at fiscal year end including salaries, wages, travel and utilities which are due and payable at fiscal year end.

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE B—Summary of Significant Accounting Policies (continued)

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

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

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

Pooled Cash: In accordance with the Pennsylvania 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.

Investments: Investments are maintained separately by fund. Temporary investments are stated at cost, which approximates market. Long-term investments are stated at the lower of cost or market for equity securities and at amortized cost for debt securities, except for investments of the State Employees' Retirement System, which are stated at market value.

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

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

Fixed Assets and Depreciation: General fixed assets are reported at cost or estimated historical cost. Donated fixed assets are stated at fair market value at the time of donation. Public domain fixed assets (including highways, bridges, highway land and rights-of-way) are not capitalized. No depreciation is provided on general fixed assets. Land and buildings used by the State System of Higher Education (SSHE), which were acquired or constructed before July 1, 1983, the inception date for SSHE, are reported in the Commonwealth's General Fixed Assets Account Group. All general fixed assets acquired or constructed by SSHE subsequent to June 30, 1983 without the use of university funds or incurrence of SSHE debt are also reported in the Commonwealth's General Fixed Assets Account Group.

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

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE B—Summary of Significant Accounting Policies (continued)

Amounts Available in Commonwealth Funds: The amounts available for retirement of Other General Long-Term Obligations are reported as part of Fund Balance “Designated — Other” at June 30, 1987 as follows (expressed in thousands):

General Fund	
Workmen’s compensation claims	\$ 57,235
Tort claims	11,106
	68,341
Special Revenue Funds	
Motor License tort claims	490
Expendable Trust Funds	
Workmen’s Compensation Security Trust claims	12,201
Catastrophic Loss Trust claims	2,457
Interest on Federal advances for unemployment compensation	87,405
	102,063
Total Amounts Available in Commonwealth Funds for Other General Long-Term Obligations	\$ 170,894

Insurance Loss Liability: The insurance loss liability represents an estimate of the ultimate net costs of unpaid claims relating to policyholders of the State Workmen’s Insurance Fund, an Enterprise Fund. These loss reserves are discounted at a 6% rate.

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

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

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

Accumulated annual and sick leave liability payable in subsequent fiscal years from Governmental Funds 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 30 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.

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

The amount reserved for advances in the General Fund is applicable to a demand loan to the State Stores Fund, an advance to the State Workmen’s Insurance Fund, both Enterprise Funds, and the Motor License Fund, a Special Revenue Fund.

NOTES TO FINANCIAL STATEMENTS

NOTE B—Summary of Significant Accounting Policies (continued)

Reserves of retained earnings for Enterprise Funds (expressed in thousands) are provided principally for the retirement of debt relating to the Pennsylvania Turnpike Commission (\$581,377), insurance claims relating to the State Workmen's Insurance Fund (\$39,927), student loans relating to the Pennsylvania Higher Education Assistance Agency (\$49,191), housing loans relating to the Pennsylvania Housing Finance Agency (\$41,242) and other items (\$5,401).

Designations of unreserved fund balances reflect managerial plans for the future use of financial resources. At June 30, 1987 the Commonwealth has included the following amounts as "Designated — Other" for the General Fund, Special Revenue Funds and Expendable Trust Funds (expressed in thousands):

General Fund	
Workmen's compensation claims	\$ 57,235
Tort claims	11,106
	68,341
Group medical and life insurance	4,824
Tax stabilization	51,624
Restricted revenue	59,451
Continuing programs	87,419
Other	8,979
Total General Fund	\$ 280,638
Special Revenue Funds	
Loan programs	\$ 49,073
Solid waste grants	11,087
Economic development	8,261
Land reclamation	9,371
Senior citizens' programs	1,564
Tort claims	490
Other	142
Total Special Revenue Funds	\$ 79,988
Expendable Trust Funds	
Interest on Federal advances	
for unemployment compensation	\$ 87,405
Workmen's Compensation Security Trust Claims	12,201
Catastrophic Loss Trust Claims	2,457
Total Expendable Trust Funds	\$ 102,063

Unreserved/undesignated fund balances are available for future appropriation. The unreserved/undesignated deficit of \$203,020 in the Capital Projects Funds relates to the Capital Facilities Fund. In total this fund has a fund balance of \$107,143. All other Capital Project Funds have positive unreserved fund balances.

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

NOTES TO FINANCIAL STATEMENTS

NOTE B—Summary of Significant Accounting Policies (continued)

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

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

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

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

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

The composition of the Commonwealth’s interfund receivables and payables at June 30, 1987 is presented in Note H.

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

NOTES TO FINANCIAL STATEMENTS

NOTE C—RESTATEMENTS AND RECLASSIFICATIONS

Beginning fund balances, retained earnings and contributed capital have been restated to reflect changes in fund classifications and prior year adjustments. The Energy Conservation and Assistance Fund, now reported as a Special Revenue Fund and the Sunny Day Fund, now reported as an Enterprise Fund, have been reclassified from a designation of General Fund fund balance due to changes in the scope of operations. The Medical Professional Liability Catastrophe Loss Fund has been reclassified from an Expendable Trust Fund to an Agency Fund as a result of a fund classification review. Prior year amounts have been adjusted to reflect refinements in inventory and accounts payable for the Internal Service Funds. These restatements are summarized as follows (expressed in thousands):

	Balances (Deficits) At June 30, 1986, As Previously Reported	Fund Reclassification	Prior Years' Adjustment	Balances (Deficits) At July 1, 1986, As Restated
Fund Balances				
General	\$ 744,870	\$ (128,782)	\$	\$ 616,088
Special Revenue	958,125	103,777	. . . .	1,061,902
Expendable Trust	(96,157)	(80,153)	. . . .	(176,310)
Retained Earnings				
Enterprise	1,134,750	5	. . . .	1,134,755
Internal Service	9,286	. . . .	2,863	12,149
Contributed Capital				
Enterprise .....	. . . .	25,000	. . . .	25,000

During the fiscal year ended June 30, 1987 certain items qualifying for inclusion in the General Fixed Assets Account Group at June 30, 1986, but not reported at June 30, 1986, were identified. In addition to identifying these assets, adjustments were made to the carrying amounts of other fixed assets, resulting in a net increase of \$14,576 (expressed in thousands) in the General Fixed Assets Account Group at July 1, 1986.

Lease rental receivables and the related deferred revenues and principal payments on these receivables, relating to the Pennsylvania Higher Educational Facilities Authority and the State Public School Building Authority, reported in the Special Revenue Funds at June 30, 1987 had been reported in the Debt Service Funds at June 30, 1986.

Payments to bond escrow agents have been reclassified in the Debt Service Funds from Debt service expenditures — principal retirements in prior years to Other Financing Uses in 1987, in accordance with GASB Statement 7, *Advance Refundings Resulting in Defeasance of Debt*.

NOTES TO FINANCIAL STATEMENTS

NOTE D—DEPOSITS AND INVESTMENTS

The following information is provided as required by the Governmental Accounting Standards Board's Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

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

In some cases, deposit and investment policies of certain individual funds and component units are established by statutes other than the Fiscal Code; however, all deposits, investments and reverse repurchase agreements of Commonwealth component units are specifically authorized by law.

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.

Deposits: The following summary presents the amount of 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 (Category 3) at June 30, 1987 (expressed in thousands).

	Category 1	Category 2	Category 3	Total Bank Balance	Carrying Amount
Cash	\$217,639	\$161,219	\$ 12,507	\$391,365	\$144,200
Cash with fiscal agents	445,242	.....	90,188	535,430	535,430
Total	<u>\$662,881</u>	<u>\$161,219</u>	<u>\$102,695</u>	<u>\$926,795</u>	<u>\$679,630</u>

During the fiscal year ended June 30, 1987 the Pennsylvania Industrial Development Authority, an Enterprise Fund, did not obtain collateral to secure uninsured amounts on deposit. This is a violation of applicable statutes which require that collateral be held by the Authority for uninsured bank deposits. The Authority has taken steps to ensure that, in the future, adequate collateral is maintained for uninsured cash deposits.

Investments: The Commonwealth categorizes 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'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, 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 and mortgage and real estate pools and automobile loan pools. The summary below identifies the level of credit risk assumed by the Commonwealth and the total carrying amount and market value of Commonwealth investments (expressed in thousands).

NOTES TO FINANCIAL STATEMENTS

NOTE D—Deposits and Investments (continued)

	Carrying Amount				Market Value
	Category 1	Category 2	Category 3	Total	
Bankers' acceptances	\$ 51,047	\$	\$ 7,224	\$ 58,271	\$ 58,245
Commercial paper	1,823,497	57,164	21,049	1,901,710	1,901,581
Common and preferred stock	4,906,510	. . . .	. . . .	4,906,510	5,903,849
Corporate bonds and notes	1,958,696	. . . .	. . . .	1,958,696	1,975,861
Money market and related investments	347,463	69,095	69,284	485,842	485,877
Mortgage loans	979,736	. . . .	. . . .	979,736	971,594
Real estate	691,125	. . . .	. . . .	691,125	752,178
Repurchase agreements	667,990	66,387	378,783	1,113,160	1,113,160
U.S. Government obligations	7,641,115	260,391	512,635	8,414,141	8,499,315
U.S. Government agency obligations	750,464	20,000	. . . .	770,464	772,480
Other	73,565	. . . .	271	73,836	73,787
Totals	<u>\$19,891,208</u>	<u>\$ 473,037</u>	<u>\$ 989,246</u>	<u>21,353,491</u>	<u>22,507,927</u>

Add amounts not categorized because securities are not used as evidence of the investments:

Investment in Treasury pool at December 31, 1986 for State Employees' Retirement System and State Workmen's Insurance Fund	416,562	416,562
Investment pools in which State Employees' Retirement System participates at December 31, 1986:		
Mortgage loans	423,580	423,580
Mutual funds	1,322,297	1,322,297
Real estate	389,865	389,865
Venture capital	31,932	31,932
Investment pools in which the State System of Higher Education participates at June 30, 1987:		
Automobile loans	5,252	5,168
Mortgage loans	6,400	6,111
Mutual funds	16,830	16,830
Citicorp investment agreements in which the Pennsylvania Higher Education Assistance Agency participates at June 30, 1987	54,769	54,769
Total Investments	<u>\$24,020,978</u>	<u>\$25,175,041</u>

The Pension Trust Funds own approximately 100 percent of the common and preferred stock, 79 percent of the corporate bonds and notes, 99 percent of mortgage loans and 100 percent of the real estate reported in the above summary. During the fiscal year ended June 30, 1987 the Treasury Department entered into reverse repurchase agreements, but none were outstanding at June 30, 1987. Management is not aware of any violations of statutory authority or contractual provisions for investments during the year ended June 30, 1987.

NOTES TO FINANCIAL STATEMENTS

NOTE E—FIXED ASSETS

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

	Enterprise	Internal Service	Pension Trust	General Fixed Assets Account Group	College and University
Land	\$ 32,785	\$ 6	\$	\$ 201,223	\$ 2,045
Buildings	37,632	2,386	. . . .	1,855,909	22,620
Improvements other than buildings	906,193	170	. . . .	120,191	4,019
Furniture, machinery and equipment	63,023	26,211	4,564	372,339	196,423
Construction in progress	188,204	. . . .	. . . .	132,056	19,570
Total	<u>\$1,227,837</u>	<u>\$ 28,773</u>	<u>\$ 4,564</u>	<u>\$ 2,681,718</u>	<u>\$ 244,677</u>

Changes in general fixed assets as of June 30, 1987 are as follows (expressed in thousands):

	Balance July 1, 1986 (As Restated Note C)	Additions	Retirements	Balance June 30, 1987
Land	\$ 198,995	\$ 2,481	\$ 253	\$ 201,223
Buildings	1,643,664	213,995	1,750	1,855,909
Improvements other than buildings	79,882	40,314	5	120,191
Furniture, machinery and equipment	356,158	35,672	19,491	372,339
	2,278,699	292,462	21,499	2,549,662
Construction in progress	298,912	101,002	267,858	132,056
Totals	<u>\$2,577,611</u>	<u>\$ 393,464</u>	<u>\$ 289,357</u>	<u>\$2,681,718</u>

Interest costs of \$10 million and \$42.5 million were capitalized for Enterprise Funds and general fixed assets, respectively, for the fiscal year ended June 30, 1987.

The Commonwealth's initial valuation of general fixed assets was made as of June 30, 1986 using appraisal and historical cost reconstruction techniques. Subsequent to June 30, 1986 general fixed asset acquisitions are valued at cost. At June 30, 1987 the amount of general fixed assets related to the initial valuation amounts to \$2,257 million.

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

Project	Project Authorization	Expended Through June 30, 1987	Authorization Available
Department of Corrections Institutions	\$ 257,797	\$ 88,678	\$ 169,119
Department of Public Welfare Institutions	61,768	25,620	36,148
Colleges and Universities	51,351	7,589	43,762
Other Projects	46,824	10,169	36,655
Total	<u>\$ 417,740</u>	<u>\$ 132,056</u>	<u>\$ 285,684</u>

NOTE F—DUE FROM OTHER GOVERNMENTS

This receivable represents amounts due primarily from the Federal Government for various departmental programs.

NOTES TO FINANCIAL STATEMENTS

NOTE G — TAXES, NOTES AND LOANS AND LEASE RENTAL RECEIVABLES

Taxes Receivable: Taxes receivable at June 30, 1987 consisted of the following (expressed in thousands):

	General	Special Revenue	Trust and Agency	Total
Sales and use taxes	\$ 362,932	\$	\$	\$ 362,932
Corporation taxes	70,142	. . . . .	. . . . .	70,142
Personal income taxes	66,310	. . . . .	. . . . .	66,310
Liquid fuel taxes .....	. . . . .	78,317	3,378	81,695
Unemployment compensation taxes .....	. . . . .	. . . . .	344,877	344,877
Other taxes	17,023	41,565	. . . . .	58,588
	\$ 516,407	\$ 119,882	\$ 348,255	\$ 984,544

Notes and Loans Receivable: Notes and loans receivable at June 30, 1987 consisted of the following (expressed in thousands):

	Special Revenue	Enterprise	College and University	Total
Mortgage loan program	\$	\$1,181,768	\$	\$1,181,768
Business development loan program	6,016	448,632	. . . . .	454,648
Student loan program .....	. . . . .	234,371	23,294	257,665
Municipal water system loan program	41,424	. . . . .	. . . . .	41,424
Nursing home loan program	37,317	. . . . .	. . . . .	37,317
Other loan programs .....	. . . . .	35,942	. . . . .	35,942
	84,757	1,900,713	23,294	2,008,764
Less: Allowance for uncollectible accounts	155	50,031	6,463	56,649
Notes and loans receivable, net	\$ 84,602	\$1,850,682	\$ 16,831	\$1,952,115

Lease Rental Receivables: The Pennsylvania Higher Educational Facilities Authority and State Public School Building Authority finance construction projects for educational institutions through the issuance of bonds and other obligations, the principal and interest of which are paid through the collection of lease rental payments related to the projects. The General State Authority and the Capital Facilities Fund, Capital Projects Funds, also finance construction projects for educational institutions 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 their related debt service funds. 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 Special Revenue and Debt Service Funds relating to these arrangements. The total minimum lease payments to be received was \$2,259.4 million and the present value of the lease payments was \$1,261.8 million at June 30, 1987, the difference representing interest. Minimum lease payments for each of the five fiscal years succeeding June 30, 1987 are as follows (expressed in millions):

Fiscal Year Ending June 30	Amount
1988	\$176
1989	126
1990	120
1991	121
1992	109

NOTES TO FINANCIAL STATEMENTS

NOTE H--INTERFUND ACCOUNTS/OPERATING TRANSFERS/RESIDUAL EQUITY TRANSFERS/OTHER USES

The amounts shown as interfund accounts for the State Employees' Retirement System, a Pension Trust Fund, are as of its fiscal year end of December 31, 1986. The amounts shown for the State Workmen's Insurance Fund and Pennsylvania Turnpike Commission, Enterprise Funds, are as of their respective fiscal year ends of December 31, 1986 and May 31, 1987. The following presents a reconciliation of interfund accounts at June 30, 1987 (expressed in thousands):

Due from other funds - combined balance sheet at June 30, 1987	\$311,115
State Workmen's Insurance Fund increase in receivables from January 1, 1987 through June 30, 1987	1
State Employees' Retirement System increase in receivables from January 1, 1987 through June 30, 1987	4,168
	<hr/>
DUE FROM OTHER FUNDS AT JUNE 30, 1987	<u>\$315,284</u>
Due to other funds - combined balance sheet at June 30, 1987	\$314,145
State Employees' Retirement System increase in payables from January 1, 1987 through June 30, 1987	734
State Workmen's Insurance Fund increase in payables from January 1, 1987 through June 30, 1987	278
Pennsylvania Turnpike Commission increase in payables from June 1, 1987 through June 30, 1987	127
	<hr/>
DUE TO OTHER FUNDS AT JUNE 30, 1987	<u>\$315,284</u>

During the year, the Pennsylvania Higher Educational Facilities Authority (HEFA), a Capital Projects Fund, received sufficient cash from certain higher educational facilities which, when combined with HEFA funds, was used to defease certain HEFA obligations. The cash payment to HEFA fiscal agents approximated \$127 million. This transaction is not considered an advance refunding since no new HEFA debt was issued.

NOTES TO FINANCIAL STATEMENTS

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

A summary of interfund receivables and payables at June 30, 1987 is as follows (expressed in thousands):

FUND TYPE/FUND	DUE FROM	DUE TO
General	\$ 28,605	\$195,623
Special Revenue:		
Motor License Fund	11,991	14,334
Other Funds	1,385	7,560
	13,376	21,894
Debt Service	646	1
Capital Projects:		
Capital Facilities Fund	112	11,010
Other Funds .....	. . . .	247
	112	11,257
Enterprise:		
State Stores Fund .....	. . . .	18,496
Pennsylvania Turnpike Commission .....	. . . .	1,484
Other Funds	838	1,473
	838	21,453
Internal Service:		
Purchasing Fund	7,195	7,975
Manufacturing Fund	2,100	162
	9,295	8,137
Expendable Trust:		
Unemployment Compensation Fund	2,266	4
Other Funds	1	28
	2,267	32
Pension Trust:		
State Employees' Retirement System	95,585	1,243
Public School Employees' Retirement System	111,466	4,255
	207,051	5,498
Agency:		
Social Security Contribution Fund	9,700	. . . .
Other Funds	272	315
	9,972	315
College and University	43,122	51,074
TOTAL	\$315,284	\$315,284

Total operating transfers are for the year ended June 30, 1987, except for the State Employees' Retirement System (SERS), a Pension Trust Fund, whose transfers are for its year ended December 31, 1986. The reconciling amount of net transfers in for SERS during the period January 1, 1986 to June 30, 1986 and January 1, 1987 to June 30, 1987 amounted to approximately \$.5 million.

The Enterprise Funds received \$57 million in residual equity transfers that were reported as contributed capital for the fiscal year ended June 30, 1987.

NOTES TO FINANCIAL STATEMENTS

NOTE I—PENSION SYSTEMS AND OBLIGATIONS

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

The SERS follows the accounting and reporting requirements of the Financial Accounting Standards Board's (FASB) Statement 35 and the PSERS follows NCGA Statement 1. Both the SERS and the PSERS currently follow the disclosure requirements of the Governmental Accounting Standards Board's (GASB) Statement 5, "Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers". FASB Statement 35 provides authoritative guidance on accounting and financial reporting for defined benefit public employee retirement systems and GASB Statement 5 provides disclosure guidance. The following summaries present disclosure requirements for both the SERS and the PSERS for their fiscal years ended December 31, 1986 and June 30, 1987, respectively.

Since the SERS reports under the provisions of FASB Statement 35, a statement of changes in financial position is not presented for the SERS.

STATE EMPLOYEES' RETIREMENT SYSTEM

Plan Description: The State Employees' Retirement System (System) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Pennsylvania (Commonwealth) to provide pension benefits for employees of state government and certain independent agencies. At December 31, 1986 there were 109 participating state and independent agencies. The System is considered part of the Commonwealth financial reporting entity and is included in the Commonwealth's financial statements as a Pension Trust Fund. For the year ended December 31, 1986 the Commonwealth's covered payroll was \$2,518 million and the Commonwealth's total payroll was substantially the same, except for payroll expense for certain persons identified below.

Membership in the System is mandatory for most state employees, members and employees of the legislature and certain elected persons in the executive branch. Certain other employees are not required but are given the option to participate. At December 31, 1986 the System membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits	70,666
Current employees:	
Vested	62,750
Nonvested	46,704
Total members	<u>180,120</u>

The System provides retirement, death, and disability benefits. Retirement benefits vest after 10 years of credited service. Employees who retire at age 60, or with 35 years of service, if under age 60, are entitled to an unreduced annual retirement benefit. Members of the legislature and certain law enforcement officers can retire with full benefits at age 50.

The general annual benefit is 2 percent of the member's high-three year average salary times years of service. Members of the legislature who were members of the System before March 1, 1974 are entitled to a benefit of 7.5 percent of average salary for each year of legislative service. Judges who were members of the System before March 1, 1974 are entitled to a benefit of 3 percent to 4 percent of average salary for each year of judicial service.

Covered employees are required by statute to contribute to the System at a rate of 5 percent of their gross pay except for employees hired on or after July 22, 1983 who contribute at a rate of 6.25 percent of their gross pay. Increased contributions are required of the previously noted legislators and judges (18.75 percent and 7.5 percent to 10.0 percent of gross pay, respectively) who are entitled to increased benefits. The contributions are recorded in an individually identified account which is also credited with interest, calculated quarterly to yield 4 percent per annum, as mandated by statute. Accumulated employee contributions and credited interest, which amounted to \$1,388 million as of December 31, 1986, vest immediately and are returned upon termination of service if the employee is not eligible for other benefits.

NOTES TO FINANCIAL STATEMENTS

NOTE I—Pension Systems and Obligations (continued)

Participating agency contributions are also mandated by statute and are based upon an actuarially determined percentage of gross pay that is necessary to provide the System with assets sufficient to meet the benefits to be paid to System members. According to the retirement code, all obligations of the System will be assumed by the Commonwealth should the System terminate.

At December 31, 1986 the System owned 26,091,255 units of the Wells Fargo Bank Equity Index Fund, with a carrying amount of \$1,113 million. This investment represents approximately 16 percent of the System's net assets at December 31, 1986. The System owned no securities issued by the Commonwealth or related parties and made no loans to the Commonwealth or related parties during the year ended December 31, 1986.

Funding Status and Progress: The amount shown as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employe service to date. The measure is the actuarial present value of credited projected benefits and is intended, on an ongoing basis, to facilitate the assessment of System funding status and progress made in accumulating sufficient assets to pay benefits when due and to allow for appropriate comparisons of this data among public employe retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the System as discussed below.

The pension benefit obligation was determined as part of an actuarial valuation at December 31, 1986. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8.75 percent per year compounded annually, (b) projected salary increases of 4 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases of 1.5 percent per year, attributable to merit/promotion, and (d) no postretirement benefit increases.

Assets in excess of the pension benefit obligation at December 31, 1986 totalled \$136.2 million as calculated below (expressed in thousands):

Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employes entitled to benefits but not yet receiving benefits	\$2,848,786
Current employes:	
Accumulated employe contributions including allocated investment income	1,388,102
Employer-financed vested	2,553,354
Employer-financed nonvested	193,733
Total pension benefit obligation	<u>6,983,975</u>
Net assets available for benefits (at market value)	<u>7,120,216</u>
Assets in excess of pension benefit obligation	<u>\$ 136,241</u>

There were no changes in either actuarial assumptions or benefit provisions used in calculating the pension benefit obligation during 1986.

Contributions: The System funding policy provides for periodic member contributions at statutory rates and employer contributions at actuarially determined rates (expressed as a percentage of annual gross pay) that are sufficient to accumulate assets to pay benefits when due. All required 1986 contributions were made.

NOTES TO FINANCIAL STATEMENTS

NOTE I—Pension Systems and Obligations (continued)

Employer contribution rates are determined using the entry age normal actuarial cost method, with amortization of the unfunded actuarial liability (\$2,063 million) and of the supplemental annuities arising from cost of living and other adjustments over varying periods ending June 30, 2004. These rates are computed on a Commonwealth fiscal year basis such that employer contribution rates in effect for the System for 1986 reflect a blended average of those in effect through June 30, 1986 and subsequent to that date, as calculated based upon actuarial valuations prepared as of December 31, 1984 and December 31, 1985, respectively. The actuarially determined contribution for December 31, 1986 consisted of (expressed in thousands):

	<u>Amount</u>	<u>% of Current Covered Payroll</u>
Employer normal cost	\$131,134	5.01
Amortization of unfunded actuarial accrued liability	231,121	8.83
Amortization of supplemental annuities	<u>45,020</u>	<u>1.72</u>
Total employer cost	<u>\$407,275</u>	<u>15.56</u>

Member contributions amounted to \$139 million for the year ended December 31, 1986 and Commonwealth contributions amounted to \$379 million for the fiscal year ended June 30, 1987.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the pension benefit obligation as described above, except for an assumed rate of return on investments of 5.5 percent per annum and certain revisions to salary increase assumptions.

THREE-YEAR HISTORICAL TREND INFORMATION (expressed in millions)

Fiscal Year Ended December 31	(1) Net Assets Available for Benefits	(2) Pension Benefit Obligation	(3) Percentage Funded (1)÷(2)	(4) Unfunded (Assets in Excess of) Pension Benefit Obligation as a Percentage of Covered Payroll (4)÷(5)	(5) Annual Covered Payroll	(6) Unfunded (Assets in Excess of) Pension Benefit Obligation as a Percentage of Covered Payroll (4)÷(5)
1984	\$4,922	\$6,896	71.4	\$1,974	\$2,464	80.1
1985	6,157	6,565	93.8	408	2,427	16.8
1986	7,120	6,984	101.9	(136)	2,518	(5.4)

Ten-year historical trend information is available in separate financial reports issued by the System. These separately issued reports include information about progress made in accumulating sufficient assets to pay benefits when due.

NOTES TO FINANCIAL STATEMENTS

NOTE I—Pension Systems and Obligations (continued)

The following information is presented in accordance with the reporting requirements of the Financial Accounting Standards Board's (FASB) Statement 35.

The calculation of actuarial liabilities under GASB Statement 5 (the pension benefit obligation presented above) differs principally by the consideration of future salary increases from the calculation required under FASB Statement 35 of the actuarial present value of accumulated plan benefits presented below.

The accumulated plan benefit information as of December 31, 1986 is as follows (expressed in thousands):

Actuarial present value of accumulated plan benefits:	
Vested benefits:	
Participants currently receiving payments	\$3,117,029
Other participants	<u>3,326,952</u>
	6,443,981
Nonvested benefits	<u>170,184</u>
Total	<u><u>\$6,614,165</u></u>

Changes in accumulated plan benefits as of December 31, 1986 are as follows (expressed in thousands):

Actuarial present value of accumulated plan benefits at beginning of year	\$5,398,172
Increase during the year attributable to:	
Benefits accumulated, net of benefits paid	598,568
Change in interest rate from 8.5% in 1985 to 7.0% in 1986	<u>617,425</u>
Net increase	<u>1,215,993</u>
Actuarial present value of accumulated plan benefits at end of year	<u><u>\$6,614,165</u></u>

The significant actuarial assumptions used in the valuations of the actuarial present value of accumulated plan benefits as of December 31, 1986 are as follows:

Superannuation (normal retirement) and early retirement	The 1971 Group Annuity Mortality Table
Disability	Modifications of the 1965 Railroad Retirement Board Mortality among Totally Disabled Annuitants
Assumed rate of return on investments ...	7%

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Plan Description: The Commonwealth of Pennsylvania Public School Employees' Retirement System (System) was established as of July 18, 1917 under the provision of P.L. 1043, No. 343. The System is a cost-sharing multiple-employer plan and its designated purpose is to provide retirement allowances and other benefits, including disability and death benefits, to members. As defined by GASB Statement 5, the Commonwealth is a non-employer contributor to the System.

Membership in the System is mandatory for substantially all full-time public school employes in the Commonwealth. At June 30, 1987 there were 632 reporting units, generally school districts, and membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employes entitled to benefits, but not yet receiving benefits	90,000
Current employes:	
Vested	120,000
Nonvested	<u>80,000</u>
Total members	<u><u>290,000</u></u>

NOTES TO FINANCIAL STATEMENTS

NOTE I—Pension Systems and Obligations (continued)

During the fiscal year ended June 30, 1986 the covered payroll for public school employes was \$4,159 million. Total payroll for public school employes was substantially the same.

Benefit provisions are established under Act 96 of 1975. After completion of ten years of service, a member's rights to the defined benefit is vested and early retirement benefits may be elected. Members are eligible for full monthly retirement benefits upon reaching (a) age 62; (b) age 60 and 30 or more years of service; or (c) 35 or more years of service. Act 91, enacted for a period of one year from July 1, 1986 to June 30, 1987 (and extended through June 30, 1989 by Act 69), permits school employes with at least 30 years of credited service to retire without a reduction in benefits. This law does not require a minimum age in conjunction with length of service to be eligible for full benefits. During the fiscal year ended June 30, 1987 there were no changes in benefit provisions.

Funding Status and Progress: The amount shown as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employe service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employe retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the System.

The pension benefit obligation was determined as part of an actuarial valuation at June 30, 1986, the most recent actuarial report. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 5.50 percent per year compounded annually, (b) projected salary increases ranging from 6.99 percent per year at age 25 to 1.89 percent per year at age 69, and (c) no postretirement benefit increases.

At June 30, 1986 the unfunded pension benefit obligation was \$5,522 million as follows (expressed in thousands):

Pension benefit obligation:	
Annuitants and survivor annuitants currently receiving benefits, and terminated members not yet receiving benefits	\$ 5,363,200
Current members:	
Accumulated member contributions with interest	2,450,400
System-financed vested	3,707,100
System-financed nonvested	<u>3,350,200</u>
Total pension benefit obligation	14,870,900
Net assets available for benefits, at cost (market value is \$10,551,700)	<u>9,348,500</u>
Unfunded pension benefit obligation	<u>\$ 5,522,400</u>

Ten-year historical trend information is available in separate financial reports issued by the System. These separately issued reports include information about progress made in accumulating sufficient assets to pay benefits when due.

NOTES TO FINANCIAL STATEMENTS

NOTE I—Pension Systems and Obligations (continued)

Contributions: The contribution policy is set by Act 96 and requires contributions by active members, employers and the Commonwealth. The rate of contribution for most active members is set by law at 5.25 percent of the member's compensation. For members joining the system on or after July 22, 1983 the rate of contribution is 6.25 percent. The contributions required of employers and the Commonwealth are based upon an actuarial valuation, using the "entry age normal" method, computed as a percentage of the total compensation of all active members during the period for which the amount is determined. The combined amounts required from the employers and Commonwealth were 19.90 percent of active member payroll for the year ended June 30, 1987 and consisted of (expressed in thousands):

	Amount	% of Current Covered Payroll
Employer normal cost	\$407,528	9.13
Amortization of unfunded actuarial accrued liability	316,917	7.10
Amortization of supplemental annuities	163,815	3.67
	\$888,260	19.90

The employer and the Commonwealth share such cost equally and all required contributions were made. For the fiscal year ended June 30, 1987 Commonwealth school districts contributed \$445 million and the Commonwealth contributed \$443 million to the System. The difference between these two amounts results from timing differences in cash payments to the System. The Commonwealth contribution approximates 10 percent of current covered payroll. Covered payroll was \$4,159 million for the year ended June 30, 1986, the most recent year for which actual amounts are available. At June 30, 1986 the unfunded actuarial liability is \$6,647 million and the average funding period to amortize this liability is 19.6 years.

During the fiscal year ended June 30, 1987 there were no changes in actuarial funding method or other significant factors in calculating employe or employer contributions. There were two changes in actuarial assumptions which affected both the pension benefit obligation and the unfunded actuarial liability at June 30, 1986. These changes are summarized below (expressed in thousands):

Change from using 1979 mortality tables to using 1984 mortality table	\$337,600
1985 "Early Retirement Window" program (enacted through Act 95 and effective through July 1, 1986) ..	37,000
Total increase in unfunded pension benefit obligation	\$374,600

The effect of the above changes is being amortized over 30 years.

During the fiscal year ended June 30, 1987, the PSERS owned no securities issued by school districts, the Commonwealth or any related parties and made no loans to school districts, the Commonwealth or any related party.

Postretirement Health Care Benefits: In addition to providing pension benefits, the Commonwealth provides certain health care benefits for retired employes that meet specified length-of-service and age requirements. These benefits are provided through insurance companies whose premiums are based on the benefits paid during the fiscal year. The Commonwealth recognizes the cost of providing these benefits as incurred, which totalled \$62.2 million for the fiscal year ended June 30, 1987.

NOTES TO FINANCIAL STATEMENTS

NOTE J—NOTES AND DEMAND REVENUE BONDS PAYABLE

The Pennsylvania Housing Finance Agency (PHFA), an Enterprise Fund, issued various notes for construction financing which are secured by the full faith and credit of the PHFA, the underlying construction mortgages, the undisbursed note proceeds and all funds received in repayment of construction advances. The notes bear an interest rate of 7.8%. The scheduled principal payments for the notes outstanding at June 30, 1987 follow (expressed in thousands):

	Amount Outstanding
1988.....	\$ 573
1989.....	619
1990.....	550
1991.....	520
1992.....	233
Thereafter	119
Total	\$ 2,614

The State System of Higher Education, College and University Funds, has \$4.1 million of notes payable as of June 30, 1987 that are collateralized by an equivalent amount of equipment. The notes bear interest at rates ranging from 5% to 9.6% and mature in varying amounts through 1996. The scheduled principal payments for the notes outstanding at June 30, 1987 follow (expressed in thousands):

	Amount Outstanding
1988.....	\$ 1,187
1989.....	1,288
1990.....	1,203
1991.....	298
1992.....	56
Thereafter	76
Total	\$ 4,108

The Pennsylvania Higher Education Assistance Agency (PHEAA), an Enterprise Fund, has demand revenue bonds outstanding at June 30, 1987 as follows (dollars expressed in thousands):

	Student Loan Adjustable Rate Tender Revenue Refunding Bonds 1985 Series A	Student Loan Revenue Bonds 1984 Series A
Amount issued	\$202,000	\$100,000
Date issued	9/26/85	7/19/84
Interest rate.....	7.0%	4.0%
Date due	—	12/1/00
Letter of credit:		
Principal amount.....	\$ 3,500	\$103,082
Fee 1986-87	\$ 43	\$ 773
Expiration date	11/1/90	12/15/00
Agency.....	Mellon Bank	Student Loan Marketing Association

NOTES TO FINANCIAL STATEMENTS

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

The 1984 bonds bear interest at a fluctuating rate based on the remarketing rate of the J.J. Kenny Index and is reset weekly. The 1985 bonds bear interest at 7% through June 1, 1988. After that date, they will bear interest at an adjusted rate determined by the PHEAA and their Remarketing Agent based upon prevailing market conditions. The 1984 bonds, and the 1985 bonds (after June 1, 1988) are subject to purchase, at par plus accrued interest, by the PHEAA on the demand of the bondholders upon seven days prior irrevocable written notice. The letter of credit for the 1984 bonds may be used to pay principal and interest due on bonds tendered by the bondholders. The PHEAA has agreed to reimburse the Student Loan Marketing Association (SLMA) within 180 days for any amount paid by the SLMA under the letter of credit. The letter of credit for the 1985 bonds may be used to pay principal and interest due on bonds tendered by the bondholders. The terms of the letter of credit require repayment on demand. Neither letter of credit has been used as of June 30, 1987. The PHEAA has also entered into a Standby Bond Purchase Agreement whereby a financial institution has agreed to purchase bonds tendered to the extent that they have not been resold as of June 1, 1988.

During the fiscal year ended June 30, 1987 the Commonwealth issued \$490 million of Tax Anticipation Notes which matured on June 30, 1987. The interest related to these notes is shown as an expenditure in the General Fund.

NOTES TO FINANCIAL STATEMENTS

NOTE K—LONG-TERM OBLIGATIONS

Long-term obligations of the Commonwealth at June 30, 1987 (May 31, 1987 for the Pennsylvania Turnpike Commission) and changes for the fiscal year then ended are as follows (expressed in thousands):

	Issue Dates	Interest Rates	Maturity Dates Through	Bonds Authorized But Unissued	Balance July 1, 1986	Additions	Reductions	Balance June 30, 1987
ENTERPRISE FUNDS								
Revenue Bonds Payable From User Charges:								
Pennsylvania Higher Education								
Assistance Agency	1986	5.50%	2016	\$	\$ 202,000	\$ 50,000	\$ 202,000	\$ 50,000
Pennsylvania Housing Finance Agency	1976-87	4.00-14.50%	2029	. . . .	1,519,555	479,754	354,068	1,645,241
Pennsylvania Industrial Development Authority								
Authority	1975-84	4.90-12.50%	2004	. . . .	137,485	. . . .	17,195	120,290
Pennsylvania Turnpike Commission	1986	4.40-7.87%	2001	. . . .	65,088	807,605	65,088	807,605
				. . . .	1,924,128	1,337,359	638,351	2,623,136
Less: Bond discounts				. . . .	73,497	13,451	3,688	83,260
TOTAL ENTERPRISE FUNDS				\$	\$1,850,631	\$1,323,908	\$ 634,663	\$2,539,876
GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP								
General Obligation Bonds Payable From Tax Revenues:								
Capital Facilities	1968-87	4.15-10.75%	2007	\$4,532,945	\$3,263,015	\$ 311,000	\$ 204,000	\$3,370,015
Disaster Relief	1973-85	4.91- 8.56%	2004	24,708	128,960	. . . .	21,885	107,075
Land and Water Development	1969-84	5.13-10.75%	2004	25,000	331,625	. . . .	17,920	313,705
Nursing Home Loan Development	1975-86	5.30- 8.89%	2006	31,000	48,305	3,000	3,245	48,060
Project 70 Land Acquisition	1965-70	3.03- 6.26%	2000	. . . .	8,800	. . . .	1,920	6,880
Volunteer Companies Loan	1977-83	5.32-10.75%	2002	. . . .	20,115	. . . .	1,260	18,855
Vietnam Conflict Veterans Compensation								
Compensation	1969-74	5.36- 6.11%	2003	3,000	42,080	. . . .	2,095	39,985
Water Facilities Loan	1983-87	6.25- 9.83%	2007	178,000	99,220	12,000	5,780	105,440
Pennsylvania Economic Revitalization	1984-85	7.69- 8.86%	2004	117,000	64,110	. . . .	8,200	55,910
General State Authority	1960-68	1.10- 6.00%	1997	. . . .	225,226	. . . .	39,559	185,667
State Highway and Bridge Authority	1966-68	2.00- 4.60%	1991	. . . .	107,520	. . . .	24,365	83,155
State Public School Building Authority	1968	5.06%	1990	. . . .	1,715	. . . .	450	1,265
Refunding Bonds—Note L	1985-87	6.70- 7.85%	2003	. . . .	188,702	35,415	1,290	222,827
					4,911,653	4,529,393	361,415	4,558,839
Revenue Bonds Payable From Lease Rentals:								
Pennsylvania Higher Educational Facilities Authority								
Facilities Authority	1969-87	5.50- 9.00%	2025	. . . .	1,091,388	494,383	486,286	1,099,485
State Public School Building Authority	1986-87	5.58- 8.91%	2024	. . . .	283,070	19,410	42,965	259,515
					1,374,458	513,793	529,251	1,359,000
Other General Long-Term Obligations Payable From Tax Revenues:								
Capital Lease and Installment Purchase Obligations								
Purchase Obligations					219,822	7,073	92,436	134,459
Self-Insurance — Note O					479,362	24,445	27,446	476,361
Compensated Absences					196,101	172,039	166,447	201,693
Catastrophic Motor Vehicle Losses					33,940	254,574	24,468	264,046
Other					130,110	284,642	120,668	294,084
					1,059,335	742,773	431,465	1,370,643
TOTAL GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP				\$4,911,653	\$6,963,186	\$1,617,981	\$1,292,685	\$7,288,482

NOTES TO FINANCIAL STATEMENTS

NOTE K—Long-Term Obligations (continued)

The Pennsylvania Housing Finance Agency (PHFA), the Pennsylvania Higher Education Assistance Agency (PHEAA), the Pennsylvania Industrial Development Authority, and the Pennsylvania Turnpike Commission (PTC), Enterprise Funds, have pledged 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, 1987 (May 31, 1987 for the PTC) include bond discounts of \$83.3 million. PHFA has bank letters of credit which expire in the year 2000, securing certain bond issues totalling approximately \$1.9 million.

PHEAA Student Loan Adjustable Rate Tender Revenue Bonds, 1986 Series A, in the amount of \$50 million bear an initial interest rate of 5.5% through October 1, 1989. Thereafter, the bonds will bear an adjusted rate as determined by PHEAA and its remarketing agent, based upon prevailing market conditions. After October 1, 1989, the bonds are subject to purchase, at par plus accrued interest, by PHEAA on the demand of the bondholders upon seven days prior irrevocable written notice.

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

The Pennsylvania Higher Educational Facilities Authority and the State Public School Building Authority have revenue bonds outstanding, reported as General Long-Term Obligations, as of June 30, 1987, which are payable from the lease rentals of the projects financed. The lease rentals are pledged as collateral for the revenue bonds outstanding.

The Commonwealth of Pennsylvania by enactment of the General Assembly created the Pennsylvania Energy Development Authority (PEDA) to finance 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 to the entity served by the bond issuance. The PEDA has \$162.3 million in revenue bonds outstanding at June 30, 1987. The Commonwealth has no obligation for this debt. Accordingly, these bonds are not included in the accompanying financial statements.

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

Included in "Other" for Other General Long-Term Obligations Payable from Tax Revenues are the following (expressed in thousands):

Public Utility Realty Tax Act (PURTA)	\$ 88,138
Workmen's Compensation Claims	12,201
Unemployment Compensation Interest	87,405
Litigation — Note P	<u>106,340</u>
	<u>\$294,084</u>

The PURTA provides for a tax on utility realty property which is available for appropriation as a general revenue source. The Act also provides for payment of a tax distribution to local taxing authorities. The Workmen's Compensation Security Trust Fund provides for payment of valid claims under the Workmen's Compensation Law to individuals whose employments are insured by insolvent insurance carriers. The long-term obligation for these claims is reported as a designation of unreserved fund balance in the Workmen's Compensation Security Trust Fund. Interest payable to the Federal government is reported as a designation of unreserved fund balance in the Unemployment Compensation Fund. This long-term obligation represents the interest portion of funds borrowed from the Federal government for payment of unemployment compensation benefits under the Unemployment Compensation Law. Amounts included in the General Long-Term Obligations Account Group at June 30, 1987 relating to the PURTA, Workmen's Compensation Claims, Litigation and Unemployment Compensation Interest Payable are not payable with currently expendable available financial resources.

The constitutional debt limit, which allows for the incurrence of debt to be used for capital projects without electorate approval as specifically itemized in a capital budget, was \$19.8 billion as of August 31, 1987, with net debt outstanding of \$4.5 billion.

NOTES TO FINANCIAL STATEMENTS

NOTE K —Long-Term Obligations (continued)

The following table presents annual principal and interest payments for long-term debt outstanding at June 30, 1987 (May 31, 1987 for the Pennsylvania Turnpike Commission) (expressed in thousands):

	1988	1989	1990	1991	1992	1993 Through Maturity	Total
ENTERPRISE FUNDS							
Revenue Bonds:							
Pennsylvania Higher Education							
Assistance Agency	\$ 3,560	\$ 2,750	\$ 2,750	\$ 2,750	\$ 2,750	\$ 117,375	\$ 131,935
Pennsylvania Housing Finance Agency	299,865	142,763	142,664	142,485	141,280	3,447,191	4,316,248
Pennsylvania Industrial Development							
Authority	19,580	18,905	18,625	17,474	14,555	134,644	223,783
Pennsylvania Turnpike Commission	119,025	171,678	164,405	96,830	148,436	704,002	1,404,376
	<u>442,030</u>	<u>336,096</u>	<u>328,444</u>	<u>259,539</u>	<u>307,021</u>	<u>4,403,212</u>	<u>6,076,342</u>
Less: Interest Payments	191,550	184,165	174,657	164,651	153,117	2,585,066	3,453,206
	<u>\$ 250,480</u>	<u>\$ 151,931</u>	<u>\$ 153,787</u>	<u>\$ 94,888</u>	<u>\$ 153,904</u>	<u>\$ 1,818,146</u>	<u>\$ 2,623,136</u>
GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP							
General Obligation Bonds:							
Capital Facilities	\$ 431,221	\$ 462,839	\$ 455,441	\$ 398,711	\$ 382,949	\$ 2,837,107	\$ 4,968,268
Disaster Relief	13,734	13,590	13,450	10,361	10,351	99,051	160,537
Land and Water Development	38,778	38,527	38,277	36,021	35,842	275,572	463,017
Nursing Home Loan Development	6,563	6,498	6,441	6,376	6,319	35,962	68,159
Project 70 Land Acquisition	761	763	764	763	770	6,219	10,040
Volunteer Companies Loan	2,720	2,650	2,578	2,509	2,436	16,278	29,171
Vietnam Conflict Veterans							
Compensation	4,565	4,560	4,562	4,558	4,560	34,540	57,345
Water Facilities Loan	15,423	14,990	14,536	14,069	13,591	119,717	192,326
Pennsylvania Economic Revitalization	11,964	11,445	10,623	8,430	7,983	24,084	74,529
General State Authority	43,874	39,721	35,763	29,116	23,225	39,824	211,523
State Highway and Bridge Authority	26,395	24,609	18,513	12,630	7,062	.....	89,209
State Public School Building Authority	385	383	341	277	.....	.....	1,386
Refunding Bonds—Note L	17,990	17,990	18,265	26,360	29,634	260,508	370,747
	<u>614,373</u>	<u>638,565</u>	<u>619,554</u>	<u>550,181</u>	<u>524,722</u>	<u>3,748,862</u>	<u>6,696,257</u>
Less: Interest Payments	290,429	270,990	249,426	221,251	196,091	909,231	2,137,418
	<u>323,944</u>	<u>367,575</u>	<u>370,128</u>	<u>328,930</u>	<u>328,631</u>	<u>2,839,631</u>	<u>4,558,839</u>
Revenue Bonds:							
Pennsylvania Higher Educational							
Facilities Authority	146,799	92,475	88,058	92,881	82,020	1,487,285	1,989,518
State Public School Building Authority	45,351	43,498	40,951	37,961	35,247	168,523	371,531
	<u>192,150</u>	<u>135,973</u>	<u>129,009</u>	<u>130,842</u>	<u>117,267</u>	<u>1,655,808</u>	<u>2,361,049</u>
Less: Interest Payments	79,257	74,811	71,466	67,836	63,771	644,908	1,002,049
	<u>112,893</u>	<u>61,162</u>	<u>57,543</u>	<u>63,006</u>	<u>53,496</u>	<u>1,010,900</u>	<u>1,359,000</u>
TOTAL GENERAL OBLIGATION AND REVENUE BONDS	436,837	428,737	427,671	391,936	382,127	3,850,531	5,917,839
Other General Long-Term Obligations	168,166	63,740	52,968	45,272	43,477	997,020	1,370,643
TOTAL GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP	\$ 605,003	\$ 492,477	\$ 480,639	\$ 437,208	\$ 425,604	\$ 4,847,551	\$ 7,288,482

NOTES TO FINANCIAL STATEMENTS

NOTE K—Long-Term Obligations (continued)

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

The following is a schedule by fiscal year of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 1987 (expressed in thousands):

	<u>General Long-Term Obligations</u>	<u>College and University Funds</u>
Fiscal year ending June 30:		
1988	\$ 13,871	\$ 9,733
1989	11,036	11,229
1990	9,171	10,641
1991	7,837	10,187
1992	7,520	10,107
Later years	<u>172,717</u>	<u>21,220</u>
Total minimum lease payments	222,152	73,117
Less: amount representing estimated executory costs included in total minimum lease payments	<u>24,335</u>	.....
Net minimum lease payments	197,817	73,117
Less: amount representing interest	<u>100,854</u>	<u>17,532</u>
Present value of net minimum lease payments	96,963	55,585
Installment purchase obligations	<u>37,496</u>	.....
TOTAL CAPITAL LEASE AND INSTALLMENT PURCHASE OBLIGATIONS	<u>\$134,459</u>	<u>\$ 55,585</u>

At June 30, 1987 general fixed assets included \$97.4 million of buildings and \$78.5 million of equipment under capital lease.

Capital lease obligations outstanding as of June 30, 1987 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 \$8.6 million of construction in progress related to capital leases at June 30, 1987.

NOTES TO FINANCIAL STATEMENTS

NOTE L—REFUNDED DEBT

For June 30, 1987 the Commonwealth is reporting financial and other disclosures required by the Governmental Accounting Standards Board's Statement No. 7, "Advance Refundings Resulting in Defeasance of Debt". The various component units of the Commonwealth have also reported in accordance with these requirements.

During the fiscal year ended June 30, 1987, the Commonwealth issued bonds accounted for in the General Long-Term Obligations Account Group, to advance refund \$201.2 million of previously issued bonds as follows (dollars expressed in thousands):

	First Series A 1987	School Lease Revenue Bonds Series A, B & C 1987	Temple University Revenue Bonds First Series 1986	College Revenue Bonds Fourteenth Series	Drexel University Revenue Bonds First Series 1987
Issuing Authority	Commonwealth	SPSBA	HEFA	HEFA	HEFA
Bond Type	G.O.	Revenue	Revenue	Revenue	Revenue
Date Issued	4-15-87	3-15-87	11-19-86	11-20-86	6-29-87
Refunding Bonds Principal	\$ 35,415	\$ 5,600	\$ 81,020	\$ 90,590	\$ 37,310
Interest Rate (Refunding)	6.7%	5.6-6.7%	7.4%	6.8%	7.7%
Series Refunded	Second Series S 1980 Fifth Series D	School Lease Revenue Bonds Subseries BE1, BE2 BE4 1985	Temple University Revenue Bonds 1985	Thirteenth Series Refunding Bonds	Drexel University Refunding Bonds 1985
Refunded Bonds Principal	\$ 32,490	\$ 4,965	\$ 69,131	\$ 81,075	\$ 13,560
Interest Rate (Refunded)	8.6%	8.9%	9.8%	9.2%	9.8%
Payment to Escrow Agent	\$ 35,032	\$ 5,234	\$ 74,990	\$ 87,131	\$ 15,431
Debt Service Savings	\$ 1,332	\$ 1,398	\$ 22,561	\$ 40,311	\$ 701
Economic Gain	\$ 1,548	\$ 273	\$ 6,574	\$ 12,480	\$ 601

The net 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.

In prior years the Commonwealth defeased certain general obligation and other bonds by placing the proceeds of the new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, these assets and liabilities are not included in the Commonwealth's financial statements. As of June 30, 1987 \$1 billion of bonds outstanding have been defeased through advance refundings.

During the fiscal year ended May 31, 1987 the Pennsylvania Turnpike Commission, an Enterprise Fund, issued \$325 million of 1986 Series A Revenue Bonds. Pursuant to an Escrow Deposit Agreement dated July 1, 1986 the Commission deposited \$22.4 million from the proceeds of this Series with an escrow agent to advance refund their 1954 (\$8.1 million) and 1966 (\$13.8 million) Series Bonds. In addition, the Commission deposited \$42.3 million of other funds with the escrow agent to advance refund their 1978 (\$41.5 million) Series Bonds. All funds so deposited were used to purchase U.S. government securities which were deposited into an irrevocable trust to provide for all future debt service payments on the bonds. As a result, the 1954, 1966 and 1978 Series Bonds are considered to be defeased and the liability for those bonds has been removed from the Commission's financial statements.

This advance refunding will reduce the Commission's future debt service payments by \$13.3 million over the next 30 years. However, the primary objective of the advance refunding was to defease the 1954, 1966 and 1978 Series Bonds and eliminate certain restrictions contained in the 1952 indenture (the trust indenture dated September 1, 1952 comprised the Commission's three refunded series). Accordingly, the Commission incurred an accounting loss of \$2.4 million for the year ended May 31, 1987 and an economic loss of \$18.4 million as a result of the transaction.

Actual redemption of the 1978 Series Bonds occurred on June 1, 1987 and will occur June 1, 1988. Accordingly, \$41.5 million of the 1978 Series Defeased Bonds, which are not included in the Commission's financial statements, were still outstanding as of May 31, 1987.

NOTES TO FINANCIAL STATEMENTS

NOTE M—RECONCILIATION OF BUDGETARY AND GAAP BASIS AMOUNTS

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

The Combined 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 beginning unreserved/undesignated fund balances for the General Fund and the State Public School Building Authority, a Budgeted Special Revenue Fund, have been restated to reflect changes in annual budgets effected subsequent to the fiscal year ended June 30, 1986. The restatements are summarized as follows (expressed in thousands):

	General Fund	Budgeted Special Revenue Funds
Unreserved/Undesignated Fund Balances (Budgetary Basis) July 1, 1986, as previously reported	\$ 212,772	\$ 453,491
Adjustments:		
Cancellation of authorized spending authority to the General Fund ..	7,100	. . . .
Accounting change to State Public School Building Authority budget .....	. . . .	(1,033)
Unreserved/Undesignated Fund Balances (Budgetary Basis), July 1, 1986, as restated	\$ 219,872	\$ 452,458

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

	General Fund	Special Revenue Funds
BUDGETED FUNDS:		
Budgetary basis — revenues and other sources over (under) expenditures	\$ 127,962	\$ (42,278)
Adjustments:		
To adjust revenues, other financing sources and related receivables and deferred revenue	25,178	222,354
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities	(695,456)	(447,057)
To adjust encumbrances	787,690	218,954
Net adjustments	117,412	(5,749)
NONBUDGETED FUNDS:		
GAAP basis — revenues and other sources over expenditures and other uses .....	. . . .	73,346
TOTAL ALL FUNDS:		
GAAP basis — revenues and other sources over expenditures and other uses	\$ 245,374	\$ 25,319

NOTES TO FINANCIAL STATEMENTS

NOTE N—SEGMENT INFORMATION—ENTERPRISE FUNDS

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

Segment information for the fiscal year ended June 30, 1987, unless otherwise noted, was as follows (expressed in thousands):

	Pennsylvania Turnpike Commission (May 31, 1987)	Pennsylvania Industrial Development Authority	State Workmen's Insurance Fund (Dec. 31, 1986)	State Stores Fund	Pennsylvania Higher Education Assistance Agency	Pennsylvania Housing Finance Agency	Sunny Day Fund	Other Enterprise Funds	Total Enterprise Funds
Operating revenues	\$ 168,851	\$ 23,370	\$ 178,447	\$ 621,881	\$ 95,356	\$ 159,034	\$ 1,587	\$ 16,212	\$1,264,738
Depreciation	29,640	.....	383	1,817	2,795	219	.....	457	35,311
Operating income (loss)	37,519	7,494	91,230	44,424	(106,521)	10,506	1,540	893	87,085
Operating transfers in .....	.....	.....	.....	.....	125,566	25,750	.....	.....	151,316
Operating transfers out .....	.....	.....	.....	32,000	.....	.....	.....	33	32,033
Net income	43,965	7,494	90,288	4,807	19,809	33,075	1,540	1,417	202,395
Capital contributions .....	.....	15,000	.....	.....	.....	.....	25,000	17,135	57,135
Fixed asset additions	150,598	.....	246	3,224	10,622	62	10,493	664	175,909
Net increase (decrease) in cash and temporary investments	249,200	(2,793)	26,270	(27,008)	(34,544)	(10,085)	15,393	7,293	223,726
Total assets	1,479,803	543,005	878,872	155,901	572,822	1,887,817	54,927	104,159	5,677,306
Bonds and other long-term liabilities payable from operating revenues	795,131	115,164	560,446	.....	50,000	1,579,581	.....	.....	3,100,322
Total fund equity	628,102	421,998	304,968	7,689	143,914	198,283	51,545	100,534	1,857,033

NOTES TO FINANCIAL STATEMENTS

NOTE O—SELF-INSURANCE

The Commonwealth is substantially uninsured for property losses.

The Commonwealth is self-insured through the creation of reserves in the General Fund for losses occurring after July 1, 1983 for all statutory workmen's compensation and medical payments to its employees injured on the job. A loss reserve analysis is prepared annually by an independent consulting actuarial firm using standard actuarial techniques to estimate required reserve liability levels. This reserve is recorded in the General Fund.

The Commonwealth is self-insured for tort liability claims through the creation of reserves in the General Fund. Major tort self-insurance areas include automobile, general tort, employe and transportation-related liability claims. Tort liabilities were determined as of June 30, 1987 based on reserves computed from the Commonwealth's claim experience.

At June 30, 1987 the following amounts are reported as General Fund and Motor License Fund, a Special Revenue Fund, accrued liabilities representing the estimate of payments to be made from currently expendable available financial resources for accidents occurring on or before June 30, 1987 (expressed in thousands):

General Fund

Workmen's compensation	\$ 17,810
Automobile	1,777
General tort	1,500
Employe	<u>2,000</u>
Total	<u>\$ 23,087</u>

Motor License Fund

Transportation-related	<u>\$ 17,000</u>
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The portion of these liabilities that will not be liquidated with currently expendable available financial resources at June 30, 1987 is reported in the General Long-Term Obligations Account Group as follows (expressed in thousands):

Workmen's compensation	\$208,531
Transportation-related	206,476
Automobile	3,981
General tort	33,256
Employe	<u>24,117</u>
Total	<u>\$476,361</u>

The following amounts are reported as designations in the General Fund and Motor License Fund at June 30, 1987 for future payments of self-insurance losses (expressed in thousands):

General Fund

Workmen's compensation	\$ 57,235
Automobile	1,736
General tort	4,431
Employe	<u>4,939</u>
Total	<u>\$ 68,341</u>

Motor License Fund

Transportation-related	<u>\$ 490</u>
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NOTES TO FINANCIAL STATEMENTS

NOTE P—COMMITMENTS AND CONTINGENCIES

Construction and Other Commitments: At June 30, 1987 the Department of Transportation and the Pennsylvania Turnpike Commission have contractual commitments of approximately \$1.2 billion for various highway construction and mass transit projects. Financing for these future expenditures will be primarily from approved federal grants and general obligation bond sales. In addition, the Commonwealth has certain contractual commitments for future purchases of various goods and services approximating \$1.6 billion at June 30, 1987. These commitments are contingent upon availability of financial resources.

At June 30, 1987, the Pennsylvania Industrial Development Authority had \$101 million in approved loans that had not been disbursed.

Operating Lease Commitments: The Commonwealth has commitments to lease certain buildings and equipment. Future minimum rental commitments for noncancelable operating leases as of June 30, 1987 were as follows (expressed in thousands):

Fiscal year ending June 30:	
1988	\$ 86,529
1989	59,528
1990	47,958
1991	40,175
1992	16,906
Later years	48,377
Total Minimum Lease Payments	<u>\$299,473</u>

Rental expenditures/expenses for all operating leases for the fiscal year ended June 30, 1987 amounted to \$78.3 million.

Litigation: The Commonwealth, its affiliates and employees are defendants in numerous legal proceedings pertaining to matters normally incidental to routine operations. Such litigation includes, but is not limited to, claims asserted against the Commonwealth arising from alleged torts, alleged breaches of contracts, condemnation proceedings and other alleged violations of Commonwealth and Federal laws. The Commonwealth has recorded accrued liabilities at June 30, 1987 with respect to torts as presented in Note O and as follows with respect to other matters of litigation for which the likelihood of an unfavorable outcome is probable (expressed in thousands):

General Fund	\$ 586
Motor License Fund (a Special Revenue Fund)	2,335
Other General Long-Term Obligations	106,340

Additionally, the Commonwealth has been involved over the past several years in certain legal proceedings relative to banking and highway tax matters, and employee negligence which continue into the present year. The Commonwealth is vigorously contesting these cases but if unsuccessful the Commonwealth could be required to make settlements and refund certain bank taxes and highway taxes of approximately \$805 million (General Fund) and \$384 million (Motor License Fund), respectively. Other cases that the Commonwealth is currently vigorously contesting could result in approximately \$73 million and \$86 million of additional liabilities, for the General Fund and Special Revenue Fund, respectively.

The Commonwealth has also been involved and is vigorously contesting various tort cases in which the potential loss could range from \$28 to \$39 million in the General Fund and from \$19 to \$195 million in the Motor License Fund.

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.

NOTES TO FINANCIAL STATEMENTS

NOTE P—Commitments and Contingencies (continued)

Federal Grants: The Commonwealth receives significant financial assistance from the Federal government in the form of grants and entitlements, including several non-cash programs (which are not included in the general purpose financial statements). Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit Act or to financial and compliance audits by the grantor agencies of the Federal government or their designees. Disallowances and sanctions as a result of these audits may become liabilities of the Commonwealth. The Commonwealth is currently involved in administrative and legal proceedings, with certain Federal agencies, contesting various disallowances and sanctions related to Federal Assistance Programs, totalling approximately \$106 million. 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), an Enterprise Fund, guarantees loans made by private lenders to certain resident students. Total outstanding guarantees issued by PHEAA approximated \$4 billion at June 30, 1987. The U.S. Department of Education reinsures losses under these guarantees up to 100% until losses are in excess of 5% or 9% of the total loans in repayment status, then the reinsurance rate decreases to 90% and 80%, respectively.

Other Contingency: The State Lottery Fund, a Special Revenue Fund, has entered into agreements with insurance companies under which the Lottery purchases annuities under group contracts which provide payments corresponding to the State Lottery Fund's obligation to prize winners. The Commonwealth would be liable for such future payments if the insurance companies would default on their payment. At June 30, 1987 the State Lottery has purchased annuity contracts of approximately \$483.5 million to fund future installment payments.

NOTES TO FINANCIAL STATEMENTS

NOTE Q—MEDICAL PROFESSIONAL LIABILITY CATASTROPHE LOSS FUND

The Medical Professional Liability Catastrophe Loss Fund, an Agency Fund, acts primarily as an agent to facilitate the payment of claims covering excess liability of health care providers practicing in the Commonwealth. The Fund levies surcharges to health care providers to pay settled claims and administrative expenses paid on behalf of health care providers during the prior year. The actuarially computed liability to the health care providers for claims outstanding at June 30, 1987 totals \$1,144.6 million (\$820.2 million at present value based on the expected payment pattern and an assumed long-term interest rate of 7.5%). At June 30, 1987, \$121.1 million is payable with expendable available financial resources and is shown as a fund liability. The remaining claims are assessable to health care providers in future years as claims are settled and paid and, therefore, do not represent liabilities of the Commonwealth. The following is a summary of the increases and decreases of the Fund's assets for the year ended June 30, 1987 (expressed in thousands):

Fund assets, July 1, 1986.....	\$ 80,832
Surcharges to health care providers.....	174,658
Investment income.....	6,533
Payments to claimants.....	(136,098)
Administrative expenses.....	(4,102)
Fund assets, June 30, 1987.....	<u>\$121,823</u>

NOTES TO FINANCIAL STATEMENTS

NOTE R—SUBSEQUENT EVENTS

Subsequent to June 30, 1987 the Commonwealth issued the following bonds (dollars expressed in millions):

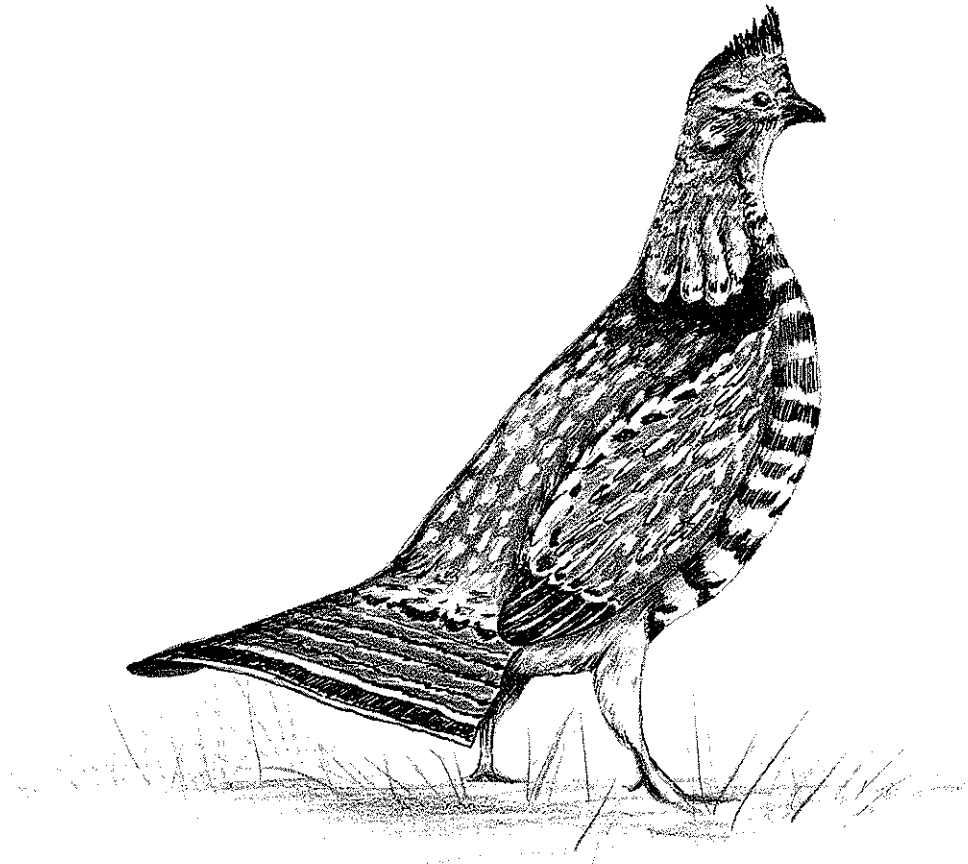
	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount</u>
COLLEGE AND UNIVERSITY FUNDS			
Revenue Bonds:			
State System of Higher Education	July 29, 1987	6.78%	\$ 38
GENERAL LONG-TERM OBLIGATIONS			
ACCOUNT GROUP			
General Obligation Bonds	September 14, 1987	7.45%	152

On July 2, 1987 the Pennsylvania Housing Finance Agency (PHFA), an Enterprise Fund, retired Single Family Mortgage Revenue Bonds, Series M through refunding and the use of Series O bond proceeds.

During October 1987 the Commonwealth issued \$550 million of Tax Anticipation Notes, First Series of 1987-88. The notes are payable from and secured by the pledge of revenues to be received in the General Fund during the fiscal year ending June 30, 1988. This obligation is due and payable not later than June 30, 1988.

On December 7, 1987 the Pennsylvania Supreme Court handed down a decision in *County of Allegheny v. Commonwealth of Pennsylvania*, in which it held that the statutory scheme for county funding of the judicial system is in conflict with the Pennsylvania Constitution. However, the Supreme Court stayed its judgment to afford the General Assembly an opportunity to enact appropriate funding legislation consistent with its opinion and ordered that until this is done, the prior system of county funding shall remain in place.

Combining Financial Statements and Schedules



State Bird :
Ruffed Grouse

The **Ruffed Grouse** is the state game bird by an act of the General Assembly of June 22, 1931. The Pennsylvania ruffed grouse, sometimes called the partridge, is distinguished by its plump body, feathered legs, and mottled reddish-brown color. This protective coloring makes it possible for the ruffed grouse to conceal itself in the wilds.

Special Revenue Funds



State Animal :
Whitetail Deer

The **Whitetail Deer** is the official state animal by an act of the General Assembly of October 2, 1959. This deer with forward arching antlers has a rather long tail which is white on the undersurface.

SPECIAL REVENUE FUNDS DESCRIPTIONS

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

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

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

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

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

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

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

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

Energy Conservation and Assistance Fund — to account for monies received from oil overcharge settlements to finance supplemental low income weatherization and assistance programs, energy conservation activities and solid waste resource recovery programs.

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

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

Other — to account for programs related to conservation and protection of natural resources, the preservation of historical landmarks, administrative and regulatory activities of various departmental programs, and other miscellaneous Commonwealth activities.

**COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS**

June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Budgeted Funds										Total	
	State Lottery	Motor License	Workmen's Compensation Administration	State Public School Building Authority	Pharmaceutical Assistance	Water Facilities Loan	Pennsylvania Economic Revitalization	Energy Conservation and Assistance	Fish and Game	Pennsylvania Higher Educational Facilities Authority		Other
ASSETS												
Cash	\$ 4,253	\$ 36,846	\$ 38	\$ 149	\$ 4	\$ 59	\$ 128	\$ 909	\$ 503	\$ 1,700	\$ 3,357	\$ 47,946
Temporary investments	355,820	185,390	8,992	11,408	122,452	76,545	76,040	125,375	45,413	13,573	98,942	1,119,950
Long-term investments				1,864						2,459		4,323
Receivables, net:												
Taxes		119,882										119,882
Accounts	34,413		144								2,597	37,154
Accrued interest	4,884	1,183	170	420	362	396	97	667	239	176	765	9,359
Notes and loans						41,424	5,861				37,317	84,602
Lease rental				238,063						970,310		1,208,373
Other		4,926										4,926
Due from other funds		11,991	4	1							711	13,376
Due from other governments	2,996	89,029									5,196	98,022
TOTAL ASSETS	\$ 402,366	\$ 449,247	\$ 9,348	\$ 251,905	\$ 122,818	\$ 118,424	\$ 82,126	\$ 126,951	\$ 47,625	\$ 988,218	\$ 148,885	\$ 2,747,913

LIABILITIES AND FUND BALANCES

Liabilities:												
Accounts payable and accrued liabilities	\$ 188,672	\$ 197,393	\$ 588	\$ 201	\$ 12,094	\$ 93	\$ 2,300	\$ 3,664	\$ 3,866	\$ 2,353	\$ 14,106	\$ 425,330
Due to other funds	630	14,334	304	2	14	396	195	541	1,037		4,441	21,894
Due to other governments	743	10,435	13		1		18		61		589	11,860
Deferred revenue	3,178	52		238,063						970,310	2,830	1,214,433
Advances from other funds		2,175										2,175
TOTAL LIABILITIES	193,223	224,389	905	238,266	12,109	489	2,513	4,205	4,964	972,663	21,966	1,675,692
Fund Balance:												
Reserved for:												
Encumbrances	9,692	127,858	310	55	11	27,382	45,717		3,914		24,100	239,039
Notes and loans						41,424	5,861				37,317	84,602
Unreserved:												
Designated for:												
Highways		44,471										44,471
Other	1,637	490				49,073	8,261	5,000	11		15,516	79,988
Undesignated	197,814	52,039	8,133	13,584	110,698	56	19,774	117,746	38,736	15,555	49,986	624,121
TOTAL FUND BALANCES	209,143	224,858	8,443	13,639	110,709	117,935	79,613	122,746	42,661	15,555	126,919	1,072,221
TOTAL LIABILITIES AND FUND BALANCES	\$ 402,366	\$ 449,247	\$ 9,348	\$ 251,905	\$ 122,818	\$ 118,424	\$ 82,126	\$ 126,951	\$ 47,625	\$ 988,218	\$ 148,885	\$ 2,747,913

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

For the Fiscal Year Ended June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Budgeted Funds										Total	
	State Lottery	Motor License	Workmen's Compensation Administration	State Public School Building Authority	Pharmaceutical Assistance	Water Facilities Loan	Pennsylvania Economic Revitalization	Energy Conservation and Assistance	Fish and Game	Pennsylvania Higher Educational Facilities Authority		Other
REVENUES:												
Taxes, penalties and interest	\$ 104	\$ 1,007,325	\$ 61	\$ 2,225	\$ 6,695	\$ 8,785	\$ 41,108	\$ 37,785	\$ 55	\$ 12,689	\$ 3,434	\$ 1,020,069
Licenses and fees	47,952	431,795	89	2,225								475,343
Intergovernmental	3,805	654,995	10,970	17,236		303		7,069		51,283		761,602
Charges for sales and services	26,341	58,846	482	1,256		3,723	10,001	8,985		15,517		150,345
Investment income		13,590			6,695	5,062	944	2,980		2,393		76,641
Lottery revenues (net of \$713,778 in prizes and commissions)	627,853											627,853
Other	589	53,195	61	94			17			249		118,800
TOTAL REVENUES	706,644	2,219,746	11,513	20,811	6,695	8,785	51,109	57,845	145	112,336	33,798	3,230,653
EXPENDITURES:												
Current:												
General government	43,521	53,420	10,693	1,270			31,816			24,281		165,295
Protection of persons and property										272		272
Public health and welfare	564,988				138,961					73,143		777,092
Public education										7,751		7,751
Conservation of natural resources						7,724				27		75,696
Economic development and assistance						300		57,575		10,783		21,181
Transportation		1,915,653								1,741		1,915,653
Debt Service:												
Interest and fiscal charges	966	428			138	180	324			237		2,368
TOTAL EXPENDITURES	609,475	1,969,501	10,693	1,270	139,099	480	32,140	57,651	145	110,484	33,653	2,965,308
REVENUES OVER (UNDER) EXPENDITURES	97,169	250,245	820	19,541	(132,404)	8,305	18,969	194	33,653	1,852	33,653	265,345
OTHER FINANCING SOURCES (USES):												
Bond proceeds						11,874				2,957		14,831
Operating transfers in		64,735		59,782	100,000	(8,523)		1,299	64,509	17,270		412,628
Operating transfers out	(116,080)	(347,920)		(116,345)				(64)	(191,142)	(7,221)		(791,262)
Lease principal payments				40,026					84,126			124,152
Other									(40)	(325)		(375)
NET OTHER FINANCING SOURCES (USES)	(116,080)	(283,185)		(16,537)	100,000	3,351	101,066	1,225	(42,547)	12,681	(42,547)	(240,026)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(18,911)	(32,940)	820	3,004	(32,404)	11,656	18,969	1,419	(8,894)	14,533	(8,894)	25,319
FUND BALANCES, JULY 1, 1986 - AS RESTATED	228,054	257,798	7,623	10,635	143,113	106,279	26,546	103,777	41,242	112,386	24,449	1,061,902
RESIDUAL EQUITY TRANSFER												(15,000)
FUND BALANCES, JUNE 30, 1987	\$ 209,143	\$ 224,858	\$ 8,443	\$ 13,639	\$ 110,709	\$ 117,935	\$ 122,746	\$ 42,661	\$ 15,555	\$ 126,919	\$ 15,555	\$ 1,072,221

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

COMMONWEALTH OF PENNSYLVANIA

	(Expressed in Thousands)					
	State Lottery			Motor License		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
State Programs:						
Taxes, net of refunds	\$	\$	\$	\$ 880,700	\$ 895,045	\$ 14,345
Lottery receipts	720,598	764,261	43,663	. . . . .	. . . . .	. . . . .
Licenses and fees .....	. . . . .	. . . . .	. . . . .	401,500	428,618	27,118
Departmental services	3,710	3,710	. . . . .	21,387	21,387	. . . . .
Other	27,476	28,407	931	58,200	66,065	7,865
TOTAL STATE PROGRAMS	751,784	796,378	44,594	1,361,787	1,411,115	49,328
Federal Programs	56,631	51,314	(5,317)	809,914	595,135	(214,779)
TOTAL REVENUES	808,415	847,692	39,277	2,171,701	2,006,250	(165,451)
EXPENDITURES:						
State Programs:						
General government	402,769	382,614	20,155	221,033	217,160	3,873
Protection of persons and property .....	. . . . .	. . . . .	. . . . .	152,018	151,885	133
Public health and welfare	358,420	356,769	1,651	. . . . .	. . . . .	. . . . .
Public education .....	. . . . .	. . . . .	. . . . .	2,598	1,975	623
Transportation	117,986	115,721	2,265	1,059,381	1,057,646	1,735
TOTAL STATE PROGRAMS	879,175	855,104	24,071	1,435,030	1,428,666	6,364
Federal Programs	56,631	51,314	5,317	809,914	595,135	214,779
TOTAL EXPENDITURES	935,806	906,418	29,388	2,244,944	2,023,801	221,143
REVENUES OVER (UNDER) EXPENDITURES	(127,391)	(58,726)	68,665	(73,243)	(17,551)	55,692
OTHER FINANCING SOURCES:						
Prior year lapses	17,090	17,090	. . . . .	14,024	14,024	. . . . .
TOTAL OTHER FINANCING SOURCES	17,090	17,090	. . . . .	14,024	14,024	. . . . .
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	(110,301)	(41,636)	68,665	(59,219)	(3,527)	55,692
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JULY 1, 1986—AS RESTATED						
	355,950	355,950	. . . . .	81,632	81,632	. . . . .
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 1987						
	\$ 245,649	\$ 314,314	\$ 68,665	\$ 22,413	\$ 78,105	\$ 55,692

For the Fiscal Year Ended June 30, 1987

(Expressed in Thousands)

Workmen's Compensation Administration			State Public School Building Authority			Total		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 11,000	\$ 11,000	\$	\$	\$	\$	\$ 891,700	\$ 906,045	\$ 14,345
. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	720,598	764,261	43,663
. . . . .	. . . . .	. . . . .	1,180	2,225	1,045	402,680	430,843	28,163
. . . . .	. . . . .	. . . . .	1,015	1,015	. . . . .	26,112	26,112	. . . . .
1,361	411	(950)	1,419	700	(719)	88,456	95,583	7,127
12,361	11,411	(950)	3,614	3,940	326	2,129,546	2,222,844	93,298
. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	866,545	646,449	(220,096)
12,361	11,411	(950)	3,614	3,940	326	2,996,091	2,869,293	(126,798)
. . . . .	. . . . .	. . . . .	1,492	1,208	284	625,294	600,982	24,312
. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	152,018	151,885	133
12,240	11,754	486	. . . . .	. . . . .	. . . . .	370,660	368,523	2,137
. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	2,598	1,975	623
. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	1,177,367	1,173,367	4,000
12,240	11,754	486	1,492	1,208	284	2,327,937	2,296,732	31,205
. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	866,545	646,449	220,096
12,240	11,754	486	1,492	1,208	284	3,194,482	2,943,181	251,301
121	(343)	(464)	2,122	2,732	610	(198,391)	(73,888)	124,503
496	496	. . . . .	. . . . .	. . . . .	. . . . .	31,610	31,610	. . . . .
496	496	. . . . .	. . . . .	. . . . .	. . . . .	31,610	31,610	. . . . .
617	153	(464)	2,122	2,732	610	(166,781)	(42,278)	124,503
7,082	7,082	7,794	7,794	452,458	452,458
\$ 7,699	\$ 7,235	\$ (464)	\$ 9,916	\$ 10,526	\$ 610	\$ 285,677	\$ 410,180	\$ 124,503

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Debt Service Funds



State Tree :
Hemlock

The **Hemlock**, an evergreen related to the pines, is the state tree by an act of the General Assembly of June 23, 1931.

DEBT SERVICE FUNDS DESCRIPTIONS

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

Pennsylvania Economic Revitalization Sinking Fund — to account for the payment of principal and interest upon bonds issued for the promotion of economic redevelopment throughout Pennsylvania. Funding consists of transfers from the General Fund and the Pennsylvania Economic Revitalization Fund.

Water Facilities Loan Redemption Fund — to account for payment of the principal and interest upon 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 Water Facilities Loan Fund.

Capital Debt Fund — to account for payments 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.

Pennsylvania Higher Educational Facilities Authority — to account for the payment of the principal and interest upon bonds issued by the Pennsylvania Higher Educational Facilities Authority (PHEFA). The PHEFA acts as the financing authority for the construction and improvement of higher educational institutions. Funding consists of rental payments collected for the use of the facilities.

State Public School Building Authority — to account for the payment of the principal and interest on bonds issued by the State Public School Building Authority (SPSBA). The SPSBA acts as a financing authority for the construction and improvement of public school facilities. Funding consists of rental payments collected for the use of the facilities and transfers from the SPSBA Special Revenue Fund.

General State Authority — to account for the payment of the principal and interest upon bonds issued by the General State Authority (GSA). The GSA financed the acquisition and construction of facilities from 1949-1968, to be leased to the Commonwealth of Pennsylvania. In 1975, the function, power and duties of GSA were transferred, by law, to the Commonwealth of Pennsylvania, except for the servicing of the debt. Funding consists of rental payments collected for the use of the facilities.

Other — to account for the payment of principal and interest upon bonds issued for loans to nursing homes and volunteer fire companies, for disaster relief grants and for compensation to Vietnam Veterans. Funding consists of transfers from the General Fund.

**COMBINING BALANCE SHEET
DEBT SERVICE FUNDS**

June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Capital Debt	Pennsylvania Higher Educational Facilities Authority	State Public School Building Authority	General State Authority	Other	Total
ASSETS								
Cash	\$ 3	\$ 2	\$ 4	\$ 10,859	\$ 77	\$ 130	\$ 26	\$ 11,101
Cash with fiscal agents			44,484			2,605	5,711	52,800
Temporary investments	1,085	796	5,478	52,365	8,957	41,535	987	111,203
Long-term investments				64,338	11,877			76,215
Receivables, net:								
Accrued interest		3	14	1,613	541	1,390	1	3,562
Lease rental			48,020			5,396		53,416
Due from other funds	157	396					93	646
TOTAL ASSETS	\$ 1,245	\$ 1,197	\$ 98,000	\$ 129,175	\$ 21,452	\$ 51,056	\$ 6,818	\$ 308,943
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable and accrued liabilities	\$	\$	\$ 34	\$	\$	\$	\$	\$ 34
Matured debt principal and interest payable			44,484			41,586	5,711	91,781
Due to other funds							1	1
Deferred revenue			48,020			5,396		53,416
Other liabilities		66	1,251				11	1,328
TOTAL LIABILITIES		66	93,789			46,982	5,723	146,560
Fund Balance:								
Unreserved:								
Designated for:								
Debt Service:			4,211			4,074	1,095	11,756
Retirement of general obligation bonds	1,245	1,131		129,175	21,452			150,627
Retirement of revenue bonds				129,175	21,452	4,074	1,095	162,383
TOTAL FUND BALANCES	1,245	1,131	4,211	129,175	21,452	4,074	1,095	308,943
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,245	\$ 1,197	\$ 98,000	\$ 129,175	\$ 21,452	\$ 51,056	\$ 6,818	\$ 308,943

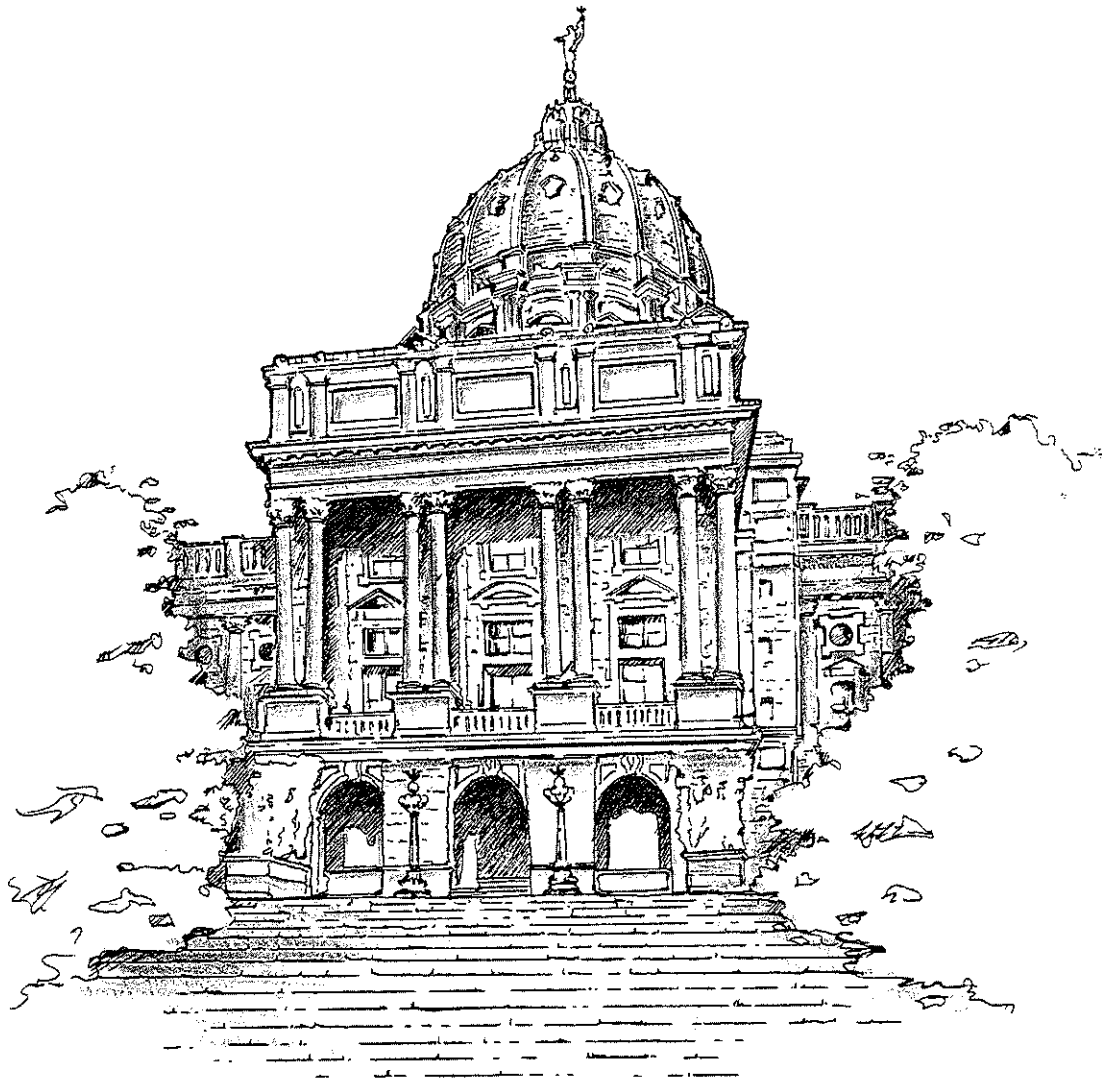
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
DEBT SERVICE FUNDS
For the Fiscal Year Ended June 30, 1987**

COMMONWEALTH OF PENNSYLVANIA

	(Expressed in Thousands)								Total
	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Capital Debt	Pennsylvania Higher Educational Facilities Authority	State Public School Building Authority	General State Authority	Other		
REVENUES:									
Investment income	\$ 52	\$ 63	\$ 105	\$ 23,119	\$ 2,604	\$ 1,612	\$ 506	\$	\$ 28,061
Other	35	.....	7,344	7,316	.....	1	.....	.....	14,696
TOTAL REVENUES	87	63	7,449	30,435	2,604	1,613	506	.....	42,757
EXPENDITURES:									
Debt Service:									
Principal retirement	8,200	5,780	188,580	322,519	38,000	39,559	56,910	.....	659,548
Interest and fiscal charges	4,247	8,091	215,548	89,459	20,647	10,154	38,779	.....	386,925
TOTAL EXPENDITURES	12,447	13,871	404,128	411,978	58,647	49,713	95,689	.....	1,046,473
REVENUES (UNDER) EXPENDITURES	(12,360)	(13,808)	(396,679)	(381,543)	(56,043)	(48,100)	(95,183)	.....	(1,003,716)
OTHER FINANCING SOURCES (USES):									
Refunding bond proceeds .....	.....	.....	35,032	189,560	5,600	.....	.....	.....	230,192
Operating transfers in	9,754	13,186	398,049	411,652	59,031	44,564	93,910	.....	1,030,146
Operating transfers out .....	.....	.....	(32,841)	(32,841)	(1,832)	.....	(9)	.....	(34,682)
Payment to refunded bond escrow agent .....	.....	.....	(35,032)	(177,552)	(5,234)	.....	.....	.....	(217,818)
Other .....	.....	.....	.....	(5,244)	.....	(939)	.....	.....	(6,183)
NET OTHER FINANCING SOURCES	9,754	13,186	398,049	385,575	57,565	43,625	93,901	.....	1,001,655
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(2,606)	(622)	1,370	4,032	1,522	(4,475)	(1,282)	.....	(2,061)
FUND BALANCES, JULY 1, 1986	3,851	1,753	2,841	125,143	19,930	8,549	2,377	164,444
FUND BALANCES, JUNE 30, 1987	\$ 1,245	\$ 1,131	\$ 4,211	\$ 129,175	\$ 21,452	\$ 4,074	\$ 1,095	\$	\$ 162,383

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Capital Projects Funds



State Capitol Building
Harrisburg, Pennsylvania

MAIN CAPITOL BUILDING — Dedicated on October 4, 1906 by President Theodore Roosevelt, this richly ornamented Capitol building was designed by Joseph M. Huston in the classic style adapted from the architecture of the Italian Renaissance. The five-story exterior is of Vermont granite, and the roof of green glazed tile. The building measures 520 feet long and 254 feet wide and covers two acres of ground. Within its one-half mile circumference are more than 600 rooms.

DOMES — Inspired by the Cathedral of St. Peter's in Rome, the magnificent Capitol Dome designed by Huston continues to dominate Harrisburg's skyline. Towering to a height of 272 feet and weighing 52 million pounds, it is a combination of two shells; an inner dome and an outer dome. Rising above the Rotunda floor, the inner dome contains four Edwin Austin Abbey murals.

CAPITAL PROJECTS FUNDS DESCRIPTIONS

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 the proceeds of general obligation bonds issued to meet the financing costs of capital projects specifically itemized and authorized by Capital Budget Acts.

Higher Educational Facilities Authority — to account for proceeds of bonds issued to finance the construction and improvement of higher educational authorities.

State Public School Building Authority — to account for the proceeds of bonds issued to finance the construction and improvement of public school facilities.

Other — to account for the proceeds of bonds issued to meet the financing costs for the acquisition, development and improvement to Commonwealth land and facilities.

**COMBINING BALANCE SHEET
CAPITAL PROJECTS FUNDS**

June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	<u>Capital Facilities</u>	<u>Pennsylvania Higher Educational Facilities Authority</u>	<u>State Public School Building Authority</u>	<u>Other</u>	<u>Total</u>
ASSETS					
Cash	\$ 35	\$ 626	\$ 34	\$ 48	\$ 743
Temporary investments	141,387	134,513	22,598	18,270	316,768
Long-term investments		24,101	2,009		26,110
Receivables, net:					
Accrued interest	859	545	122	222	1,748
Other			1,080		1,080
Due from other funds	112				112
TOTAL ASSETS	<u>\$ 142,393</u>	<u>\$ 159,785</u>	<u>\$ 25,843</u>	<u>\$ 18,540</u>	<u>\$ 346,561</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 24,240	\$ 87	\$ 1,771	\$ 380	\$ 26,478
Due to other funds	11,010			247	11,257
Due to other governments				9	9
TOTAL LIABILITIES	<u>35,250</u>	<u>87</u>	<u>1,771</u>	<u>636</u>	<u>37,744</u>
Fund Balance:					
Reserved for:					
Encumbrances	310,163			509	310,672
Unreserved:					
Designated for:					
Capital Projects		159,698	24,072	13,109	196,879
Other				4,286	4,286
Undesignated (Deficit)	(203,020)				(203,020)
TOTAL FUND BALANCES	<u>107,143</u>	<u>159,698</u>	<u>24,072</u>	<u>17,904</u>	<u>308,817</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 142,393</u>	<u>\$ 159,785</u>	<u>\$ 25,843</u>	<u>\$ 18,540</u>	<u>\$ 346,561</u>

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

For the Fiscal Year Ended June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Capital Facilities	Pennsylvania Higher Educational Facilities Authority	State Public School Building Authority	Other	Total
REVENUES:					
Intergovernmental	\$ 3,505	\$	\$	\$	\$ 3,505
Investment income	8,859	21,443	1,151	1,187	32,640
Other	494	4,004	9,333	510	14,341
TOTAL REVENUES	<u>12,858</u>	<u>25,447</u>	<u>10,484</u>	<u>1,697</u>	<u>50,486</u>
EXPENDITURES:					
Capital outlay	257,684	188,514	18,433	4,414	469,045
Debt service:					
Interest and fiscal charges	378	. . . .	. . . .	10	388
TOTAL EXPENDITURES	<u>258,062</u>	<u>188,514</u>	<u>18,433</u>	<u>4,424</u>	<u>469,433</u>
REVENUES (UNDER) EXPENDITURES	<u>(245,204)</u>	<u>(163,067)</u>	<u>(7,949)</u>	<u>(2,727)</u>	<u>(418,947)</u>
OTHER FINANCING SOURCES (USES):					
Bond proceeds	307,553	292,102	13,810	. . . .	613,465
Operating transfers in .....	. . . .	104,625	868	. . . .	105,493
Operating transfers out	(61,191)	(356,803)	(1,504)	(331)	(419,829)
Other .....	. . . .	(127,152)	. . . .	(32)	(127,184)
NET OTHER FINANCING SOURCES (USES)	<u>246,362</u>	<u>(87,228)</u>	<u>13,174</u>	<u>(363)</u>	<u>171,945</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>1,158</u>	<u>(250,295)</u>	<u>5,225</u>	<u>(3,090)</u>	<u>(247,002)</u>
FUND BALANCES, JULY 1, 1986	<u>105,985</u>	<u>409,993</u>	<u>18,847</u>	<u>20,994</u>	<u>555,819</u>
FUND BALANCES, JUNE 30, 1987	<u>\$ 107,143</u>	<u>\$ 159,698</u>	<u>\$ 24,072</u>	<u>\$ 17,904</u>	<u>\$ 308,817</u>

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Enterprise Funds



State Flower :
Mountain Laurel

The **Mountain Laurel** is the state flower as approved by the General Assembly on May 5, 1933. The mountain laurel is in full bloom in mid-June, when Pennsylvania's woodlands are filled with its distinctive pink flower.

ENTERPRISE FUNDS DESCRIPTIONS

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

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

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

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

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

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

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

Sunny Day Fund — to account for loans and grants issued to attract industrial, manufacturing or research and development enterprises to the Commonwealth of Pennsylvania.

Other — to account for enterprise operations including activities associated with low interest loans to manufacturers, minority business loans, vocational rehabilitation services, and loans to volunteer fire, ambulance and rescue companies.

**COMBINING BALANCE SHEET
ENTERPRISE FUNDS**

June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Pennsylvania Turnpike Commission (May 31, 1987)	Pennsylvania Industrial Development Authority	State Workmen's Insurance (Dec. 31, 1986)	State Stores	Pennsylvania Higher Education Assistance Agency	Pennsylvania Housing Finance Agency	Sunny Day	Other	Total
ASSETS									
Cash	\$ 2,136	\$ 402	\$ 824	\$ 15,572	\$ 11,219	\$ 2,052	\$ 30	\$ 477	\$ 32,712
Temporary investments	438,960	129,982	53,119	17,387	236,275	501,825	40,363	40,176	1,458,087
Long-term investments	414,054	20,010	791,022		31,029	197,969		190	1,454,274
Receivables, net:									
Accounts	2,658		7,439	795	4,188			44	15,124
Accrued interest	3,627	1,812	22,127	130	11,335	8,874		347	48,346
Notes and loans		388,739			234,371	1,163,552	3,947	60,073	1,850,682
Due from other funds			3					834	837
Due from other governments					9,210			19	9,229
Inventory	4,894			111,158				387	116,439
Fixed assets	1,160,339		2,809	21,429	25,073	1,995		5,699	1,227,837
Less: accumulated depreciation	(557,418)		(1,738)	(10,907)	(2,136)	(885)		(4,087)	(577,171)
Other assets	10,553	2,060	3,267	337	12,258	12,435			40,910
TOTAL ASSETS	\$ 1,479,803	\$ 543,005	\$ 878,872	\$ 155,901	\$ 572,822	\$ 1,887,817	\$ 54,927	\$ 104,159	\$ 5,677,306

LIABILITIES AND FUND EQUITY

Liabilities:									
Accounts payable and accrued liabilities	\$ 54,983	\$ 207	\$ 527	\$ 61,505	\$ 10,624	\$ 46,249	\$ 3,382	\$ 2,286	\$ 179,763
Due to other funds	1,357	9	170	18,496	723	26		267	21,048
Due to other governments	230		13	167	2,342			9	2,761
Deferred revenue		20	7,774		25,484			1,043	34,977
Notes payable						2,614			2,614
Demand revenue bonds payable					302,000				302,000
Advances from other fund			1,300	66,000					67,300
Other liabilities		5,607	3,674	2,044	37,735	60,408		20	109,488
Insurance loss liability	795,131	115,164	560,446						560,446
Revenue bonds payable					50,000	1,579,581			2,539,876
TOTAL LIABILITIES	851,701	121,007	573,904	148,212	428,908	1,689,534	3,382	3,625	3,820,273
Fund Equity:									
Contributed capital	46,725	327,990				1,960	50,000	93,208	519,883
Retained earnings:									
Reserved	581,377		39,927		49,191	41,242	4,216	1,185	717,138
Unreserved		94,008	265,041	7,689	94,723	155,081	(2,671)	6,141	620,012
TOTAL FUND EQUITY	628,102	421,998	304,968	7,689	143,914	198,283	51,545	100,534	1,857,033
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,479,803	\$ 543,005	\$ 878,872	\$ 155,901	\$ 572,822	\$ 1,887,817	\$ 54,927	\$ 104,159	\$ 5,677,306

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

For the Fiscal Year Ended June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Pennsylvania Turnpike Commission (May 31, 1987)	Pennsylvania Industrial Development Authority	State Workmen's Insurance (Dec. 31, 1986)	State Stores	Pennsylvania Higher Education Assistance Agency	Pennsylvania Housing Finance Agency	Sunny Day	Other	Total
OPERATING REVENUES:									
Sales and services	\$ 164,290	\$	\$ 82,941	\$ 621,881	\$ 57,442	\$ 3,278	\$	\$ 13,040	\$ 942,872
Investment income	. . . . .	8,403	95,142	. . . . .	21,360	36,323	1,553	1,911	164,692
Interest on notes and loans	. . . . .	14,206	. . . . .	. . . . .	16,554	119,433	34	1,248	151,475
Other	4,561	761	364	. . . . .	. . . . .	. . . . .	. . . . .	13	5,699
TOTAL OPERATING REVENUES	168,851	23,370	178,447	621,881	95,356	159,034	1,587	16,212	1,264,738
OPERATING EXPENSES:									
Cost of sales and services	101,692	1,574	85,710	575,057	178,902	8,088	. . . . .	12,406	963,429
Interest expense	. . . . .	12,445	. . . . .	. . . . .	20,180	137,054	47	77	169,803
Depreciation	29,640	. . . . .	383	1,817	2,795	219	. . . . .	457	35,311
Bad debts	. . . . .	1,857	793	583	. . . . .	3,167	. . . . .	2,379	8,779
Other	. . . . .	. . . . .	331	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	331
TOTAL OPERATING EXPENSES	131,332	15,876	87,217	577,457	201,877	148,528	47	15,319	1,177,653
OPERATING INCOME (LOSS)	37,519	7,494	91,230	44,424	(106,521)	10,506	1,540	893	87,085
NONOPERATING REVENUES (EXPENSES):									
Investment income	11,841	. . . . .	. . . . .	2,706	. . . . .	. . . . .	. . . . .	579	15,126
Interest expense	. . . . .	. . . . .	. . . . .	(103)	. . . . .	. . . . .	. . . . .	(22)	(125)
Other	(5,395)	. . . . .	(942)	(10,220)	764	(3,181)	. . . . .	. . . . .	(18,974)
NONOPERATING REVENUES (EXPENSES)	6,446	. . . . .	(942)	(7,617)	764	(3,181)	. . . . .	557	(3,973)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	43,965	7,494	90,288	36,807	(105,757)	7,325	1,540	1,450	83,112
OPERATING TRANSFERS:									
Operating transfers in	. . . . .	. . . . .	. . . . .	. . . . .	125,566	25,750	. . . . .	. . . . .	151,316
Operating transfers out	. . . . .	. . . . .	. . . . .	(32,000)	. . . . .	. . . . .	. . . . .	(33)	(32,033)
TOTAL OPERATING TRANSFERS	. . . . .	. . . . .	. . . . .	(32,000)	125,566	25,750	. . . . .	(33)	119,283
NET INCOME	43,965	7,494	90,288	4,807	19,809	33,075	1,540	1,417	202,395
RETAINED EARNINGS, JULY 1, 1986--AS RESTATED	537,412	86,514	214,680	2,882	124,105	163,248	5	5,909	1,134,755
RETAINED EARNINGS, JUNE 30, 1987	\$ 581,377	\$ 94,008	\$ 304,968	\$ 7,689	\$ 143,914	\$ 196,323	\$ 1,545	\$ 7,326	\$ 1,337,150

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

For the Fiscal Year Ended June 30, 1987

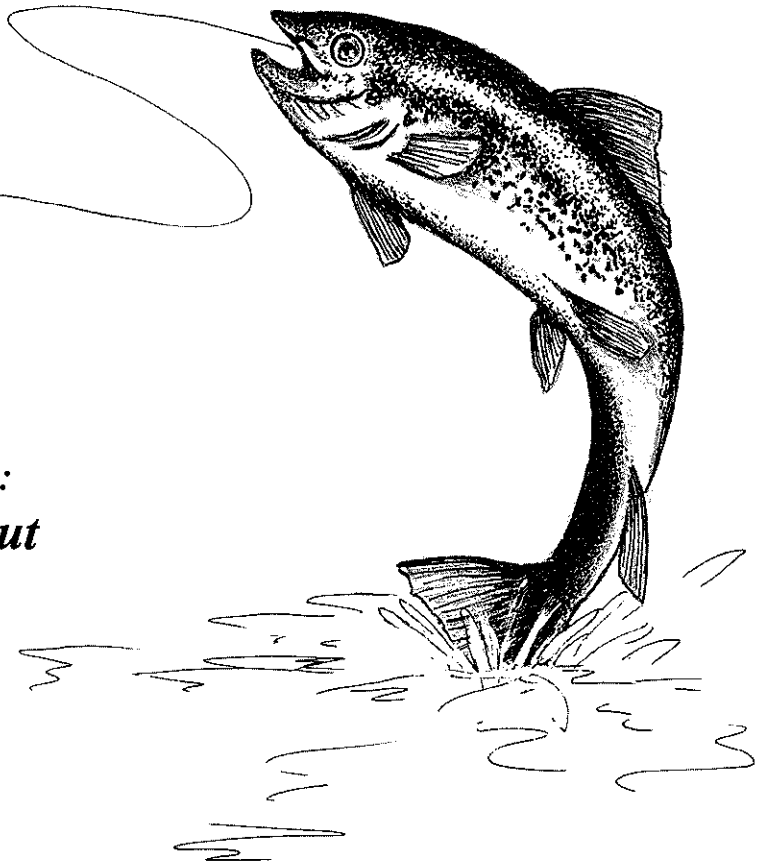
COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Pennsylvania Turnpike Commission (May 31, 1987)	Pennsylvania Industrial Development Authority	State Workmen's Insurance (Dec. 31, 1986)	State Stores	Pennsylvania Higher Education Assistance Agency	Pennsylvania Housing Finance Agency	Sunny Day	Other	Total
CASH PROVIDED FROM (USED FOR) OPERATIONS:									
Net income	\$ 43,965	\$ 7,494	\$ 90,288	\$ 4,807	\$ 19,809	\$ 33,075	\$ 1,540	\$ 1,417	\$ 202,395
Items not using (providing) cash:									
Depreciation	29,640		383	1,817	2,795	219		457	35,311
Net amortization			940						940
Net gain on sale of long-term investments			(16,196)						(16,196)
	73,605	7,494	75,415	6,624	22,604	33,294	1,540	1,874	222,450
Decrease (increase) in receivables	(2,959)	9,737	(5,922)	(261)	(97,131)	49,976	(4,036)	(10,847)	(61,443)
Decrease (increase) in due from other funds			1					(6)	(5)
Increase in due from other governments					(1,585)			(19)	(1,604)
Decrease (increase) in inventory	(151)			(30,216)				47	(30,320)
Increase (decrease) in accounts payable and accrued liabilities		(126)	(828)	478	3,238	(1,442)	3,382	20	29,040
Increase (decrease) in due to other funds	24,318	8	(221)	(2,109)	(219)	6		(121)	(3,337)
Increase (decrease) in due to other governments	(681)		13	167	(170)			9	249
Increase (decrease) in deferred revenue	230	(33)	3,199		2,007	225		(132)	5,266
Increase in insurance loss liability			25,062						25,062
TOTAL CASH PROVIDED FROM (USED FOR) OPERATIONS	94,362	17,080	96,719	(25,317)	(71,256)	82,059	886	(9,175)	185,358
CASH PROVIDED FROM (USED FOR) INVESTMENT ACTIVITIES:									
Decrease (increase) in other current assets	(10,553)	2,164	3,272	78	(17)	444			(4,612)
Proceeds from sale of long-term investments			158,303		7,345				165,648
Purchase of long-term investments	(414,054)	(20,010)	(234,236)		(14,874)	(197,969)			(881,143)
Increase (decrease) in other current liabilities		(703)	2,458	1,455	4,880	(13,362)		(3)	(5,275)
Additions to fixed assets	(150,598)		(246)	(3,224)	(10,622)	(62)	(10,493)	(664)	(175,909)
NET CASH PROVIDED FROM (USED FOR) INVESTMENT ACTIVITIES	(575,205)	(18,549)	(70,449)	(1,691)	(13,288)	(210,949)	(10,493)	(667)	(901,291)
CASH PROVIDED FROM (USED FOR) FINANCING ACTIVITIES:									
Issuance of revenue bonds					50,000	500,648			1,323,908
Increase in contributed capital	773,260	15,000					25,000	17,135	57,135
Increase (decrease) in notes payable						(8,721)			(8,721)
Increase in demand revenue bonds payable					202,000				202,000
Redemption of long-term obligations	(43,217)	(16,324)			(202,000)	(373,122)			(634,663)
NET CASH PROVIDED FROM (USED FOR) FINANCING ACTIVITIES	730,043	(1,324)			50,000	118,805	25,000	17,135	939,659
INCREASE (DECREASE) IN CASH AND TEMPORARY INVESTMENTS	249,200	(2,793)	26,270	(27,008)	(34,544)	(10,085)	15,393	7,293	223,726
CASH AND TEMPORARY INVESTMENTS, JULY 1, 1986	191,896	133,177	27,673	59,967	282,038	513,962	25,000	33,360	1,267,073
CASH AND TEMPORARY INVESTMENTS, JUNE 30, 1987	\$ 441,096	\$ 130,384	\$ 53,943	\$ 32,959	\$ 247,494	\$ 503,877	\$ 40,393	\$ 40,653	\$ 1,490,799

Internal Service Funds

State Fish :
Brook Trout



The **Brook Trout** is the state fish as adopted by the General Assembly on March 9, 1970. This fish, which is not really a trout, is a member of the Char family and native to Pennsylvania. Commonly found in cold mountain streams, it is identified by white edges on the lower fins. Stream bred brook trout are slow growing in reaching their adult size of seven to eight inches.

INTERNAL SERVICE FUNDS DESCRIPTIONS

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

Purchasing Fund — to account for the purchase of materials, supplies, motor vehicles and other equipment by the Department of General Services for the sale of or lease to other Commonwealth departments, boards and commissions.

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

**COMBINING BALANCE SHEET
INTERNAL SERVICE FUNDS**

June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

	(Expressed in Thousands)		
	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
ASSETS			
Cash	\$ 234	\$ 237	\$ 471
Temporary investments	4,340	2,136	6,476
Receivables, net:			
Accounts	21	.	21
Accrued interest	21	11	32
Other .....	.	72	72
Due from other funds	7,195	2,100	9,295
Due from other governments	1,122	49	1,171
Inventory	1,375	8,447	9,822
Fixed assets	19,218	9,555	28,773
Less: accumulated depreciation	(10,311)	(6,225)	(16,536)
Other assets .....	.	14	14
TOTAL ASSETS	<u>\$ 23,215</u>	<u>\$ 16,396</u>	<u>\$ 39,611</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable and accrued liabilities	\$ 3,123	\$ 1,956	\$ 5,079
Due to other funds	7,975	162	8,137
Due to other governments	14	9	23
Other liabilities .....	.	182	182
TOTAL LIABILITIES	<u>11,112</u>	<u>2,309</u>	<u>13,421</u>
Fund Equity:			
Contributed capital	8,917	.	8,917
Retained earnings:			
Unreserved	3,186	14,087	17,273
TOTAL FUND EQUITY	<u>12,103</u>	<u>14,087</u>	<u>26,190</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 23,215</u>	<u>\$ 16,396</u>	<u>\$ 39,611</u>

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

For the Fiscal Year Ended June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

	(Expressed in Thousands)		
	Purchasing	Manufacturing	Total
OPERATING REVENUES:			
Sales and services	\$ 48,374	\$ 17,042	\$ 65,416
TOTAL OPERATING REVENUES	<u>48,374</u>	<u>17,042</u>	<u>65,416</u>
OPERATING EXPENSES:			
Cost of sales and services	41,043	14,493	55,536
Depreciation	4,805	477	5,282
TOTAL OPERATING EXPENSES	<u>45,848</u>	<u>14,970</u>	<u>60,818</u>
OPERATING INCOME	<u>2,526</u>	<u>2,072</u>	<u>4,598</u>
NONOPERATING REVENUES (EXPENSES):			
Investment income	431	111	542
Interest expense	(11)	(5)	(16)
TOTAL NONOPERATING REVENUES, NET	<u>420</u>	<u>106</u>	<u>526</u>
NET INCOME	2,946	2,178	5,124
RETAINED EARNINGS, JULY 1, 1986—			
AS RESTATED	240	11,909	12,149
RETAINED EARNINGS, JUNE 30, 1987	<u>\$ 3,186</u>	<u>\$ 14,087</u>	<u>\$ 17,273</u>

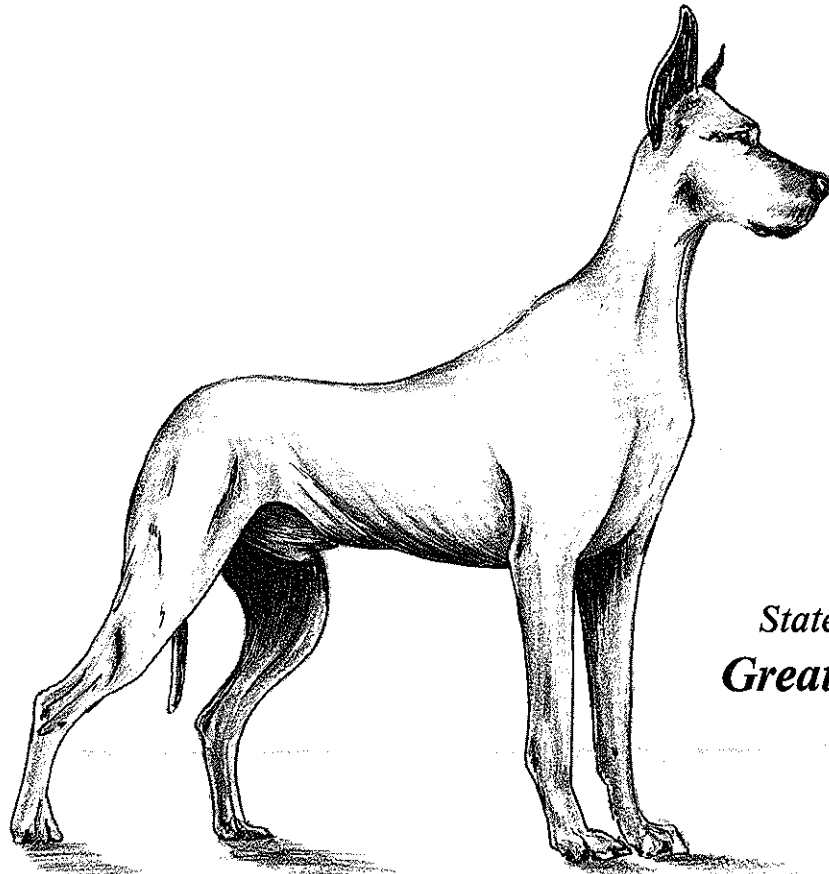
**COMBINING STATEMENT OF CHANGES IN FINANCIAL POSITION
INTERNAL SERVICE FUNDS**

For the Fiscal Year Ended June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

	(Expressed in Thousands)		
	Purchasing	Manufacturing	Total
CASH PROVIDED FROM (USED FOR) OPERATIONS:			
Net income	\$ 2,946	\$ 2,178	\$ 5,124
Items not using cash:			
Depreciation	4,805	477	5,282
	<u>7,751</u>	<u>2,655</u>	<u>10,406</u>
Increase in receivables		(42)	(42)
Increase in due from other funds	(277)	(714)	(991)
Decrease (increase) in due from other governments	46	(13)	33
Decrease (increase) in inventory	121	(436)	(315)
Increase in accounts payable and accrued liabilities	843	326	1,169
Decrease in due to other funds	(3,347)	(61)	(3,408)
Increase in due to other governments	14	9	23
TOTAL CASH PROVIDED FROM OPERATIONS ...	<u>5,151</u>	<u>1,724</u>	<u>6,875</u>
CASH PROVIDED FROM (USED FOR) INVESTMENT ACTIVITIES:			
Increase in other current assets		(4)	(4)
Increase in other current liabilities		182	182
Additions to fixed assets	(13,712)	(1,226)	(14,938)
NET CASH USED FOR INVESTMENT ACTIVITIES	<u>(13,712)</u>	<u>(1,048)</u>	<u>(14,760)</u>
CASH PROVIDED FROM FINANCING ACTIVITIES:			
Increase in contributed capital	7,953		7,953
NET CASH PROVIDED FROM FINANCING ACTIVITIES	<u>7,953</u>		<u>7,953</u>
INCREASE (DECREASE) IN CASH AND TEMPORARY INVESTMENTS	<u>(608)</u>	<u>676</u>	<u>68</u>
CASH AND TEMPORARY INVESTMENTS, JULY 1, 1986	<u>5,182</u>	<u>1,697</u>	<u>6,879</u>
CASH AND TEMPORARY INVESTMENTS, JUNE 30, 1987	<u>\$ 4,574</u>	<u>\$ 2,373</u>	<u>\$ 6,947</u>

Trust and Agency Funds



*State Dog :
Great Dane*

The **Great Dane** is the state dog as approved by the General Assembly on August 15, 1965. It is known for its power and short smooth hair.

TRUST AND AGENCY FUNDS DESCRIPTIONS

Trust and Agency Funds account for assets held by the Commonwealth in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include Expendable Trust Funds, Pension Trust Funds and Agency Funds.

EXPENDABLE TRUST FUNDS

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

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

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

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

PENSION TRUST FUNDS

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

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

TRUST AND AGENCY FUNDS DESCRIPTIONS

AGENCY FUNDS

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

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

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

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

Medical Professional Liability Catastrophe Loss Fund — to collect annual surcharges levied on health care providers to make available professional liability insurance at a reasonable cost to health care providers.

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

**COMBINING BALANCE SHEET
TRUST AND AGENCY FUNDS**

June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Expendable Trust Funds	Pension Trust Funds	Agency Funds	Total
ASSETS				
Cash	\$ 572	\$ 67	\$ 6,489	\$ 7,128
Cash with fiscal agents	445,242	.....	.....	445,242
Temporary investments	235,844	2,218,522	317,170	2,771,536
Long-term investments	183,994	15,466,626	14,057	15,664,677
Receivables, net:				
Taxes	344,877	.....	3,378	348,255
Accounts	3,940	.....	2,586	6,526
Accrued interest	6,830	229,924	2,209	238,963
Pension contributions .....	.....	196,350	.....	196,350
Other .....	.....	149,353	.....	149,353
Due from other funds	2,267	202,883	9,972	215,122
Due from other governments	23,102	12,821	580	36,503
Fixed assets .....	.....	4,564	.....	4,564
Less: accumulated depreciation .....	.....	(1,421)	.....	(1,421)
Other assets .....	.....	2,173	1,352	3,525
TOTAL ASSETS	\$ 1,246,668	\$ 18,481,862	\$ 357,793	\$ 20,086,323
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 119,043	\$ 55,668	\$ 1,967	\$ 176,678
Unsettled investment purchases .....	.....	259,756	.....	259,756
Due to other funds	32	4,764	315	5,111
Due to other governments	2,319	.....	167,343	169,662
Other liabilities .....	.....	.....	188,168	188,168
Federal advances for unemployment compensation benefits	604,937	.....	.....	604,937
TOTAL LIABILITIES	726,331	320,188	357,793	1,404,312
Fund Balance:				
Reserved for:				
Encumbrances	165	.....	.....	165
Pension benefits .....	.....	18,161,674	.....	18,161,674
Other	530	.....	.....	530
Unreserved:				
Designated for:				
Other	102,063	.....	.....	102,063
Undesignated	417,579	.....	.....	417,579
TOTAL FUND BALANCES	520,337	18,161,674	.....	18,682,011
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,246,668	\$ 18,481,862	\$ 357,793	\$ 20,086,323

**COMBINING BALANCE SHEET
EXPENDABLE TRUST FUNDS**

June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

	(Expressed in Thousands)				
	Unemployment Compensation	Workmen's Compensation Security Trust	Catastrophic Loss Trust	Other	Total
ASSETS					
Cash	\$	\$ 167	\$ 388	\$ 17	\$ 572
Cash with fiscal agents	445,242	. . . . .	. . . . .	. . . . .	445,242
Temporary investments	127,136	33,000	73,745	1,963	235,844
Long-term investments .....	. . . . .	183,415	. . . . .	579	183,994
Receivables, net:					
Taxes	344,877	. . . . .	. . . . .	. . . . .	344,877
Accounts .....	. . . . .	. . . . .	3,940	. . . . .	3,940
Accrued interest	687	5,755	379	9	6,830
Due from other funds	2,266	. . . . .	. . . . .	1	2,267
Due from other governments	23,102	. . . . .	. . . . .	. . . . .	23,102
TOTAL ASSETS	<u>\$ 943,310</u>	<u>\$ 222,337</u>	<u>\$ 78,452</u>	<u>\$ 2,569</u>	<u>\$ 1,246,668</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 40,407	\$ 2,745	\$ 75,876	\$ 15	\$ 119,043
Due to other funds	4	. . . . .	28	. . . . .	32
Due to other governments	2,318	. . . . .	1	. . . . .	2,319
Federal advances for unemployment compensation benefits	604,937	. . . . .	. . . . .	. . . . .	604,937
TOTAL LIABILITIES	<u>647,666</u>	<u>2,745</u>	<u>75,905</u>	<u>15</u>	<u>726,331</u>
Fund Balance:					
Reserved for:					
Encumbrances .....	. . . . .	. . . . .	90	75	165
Other .....	. . . . .	. . . . .	. . . . .	530	530
Unreserved:					
Designated for:					
Other	87,405	12,201	2,457	. . . . .	102,063
Undesignated	208,239	207,391	. . . . .	1,949	417,579
TOTAL FUND BALANCES	<u>295,644</u>	<u>219,592</u>	<u>2,547</u>	<u>2,554</u>	<u>520,337</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 943,310</u>	<u>\$ 222,337</u>	<u>\$ 78,452</u>	<u>\$ 2,569</u>	<u>\$ 1,246,668</u>

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

For the Fiscal Year Ended June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Unemployment Compensation	Workmen's Compensation Security Trust	Catastrophic Loss Trust	Other	Total
REVENUES:					
Taxes, penalties and interest	\$ 7,057	\$	\$	\$ 99	\$ 7,156
Unemployment taxes	1,859,497	. . . .	. . . .	. . . .	1,859,497
Charges for sales and services .....	. . . .	47	40,192	. . . .	40,239
Investment income	8,526	23,122	4,505	162	36,315
Other	449	26	. . . .	. . . .	475
TOTAL REVENUES	<u>1,875,529</u>	<u>23,195</u>	<u>44,697</u>	<u>261</u>	<u>1,943,682</u>
EXPENDITURES:					
Current:					
General government .....	. . . .	551	6,486	48	7,085
Protection of persons and property .....	. . . .	3,717	74,668	65	78,450
Public health and welfare	1,102,977	. . . .	. . . .	. . . .	1,102,977
Public education .....	. . . .	. . . .	. . . .	25	25
Debt service:					
Interest and fiscal charges	58,328	. . . .	174	4	58,506
TOTAL EXPENDITURES	<u>1,161,305</u>	<u>4,268</u>	<u>81,328</u>	<u>142</u>	<u>1,247,043</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>714,224</u>	<u>18,927</u>	<u>(36,631)</u>	<u>119</u>	<u>696,639</u>
OTHER FINANCING SOURCES:					
Operating transfers in .....	. . . .	. . . .	. . . .	8	8
NET OTHER FINANCING SOURCES .....	. . . .	. . . .	. . . .	8	8
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	<u>714,224</u>	<u>18,927</u>	<u>(36,631)</u>	<u>127</u>	<u>696,647</u>
FUND BALANCES (DEFICIT), JULY 1, 1986 —					
AS RESTATED	(418,580)	200,665	39,178	2,427	(176,310)
FUND BALANCES, JUNE 30, 1987	<u>\$ 295,644</u>	<u>\$ 219,592</u>	<u>\$ 2,547</u>	<u>\$ 2,554</u>	<u>\$ 520,337</u>

**COMBINING BALANCE SHEET
PENSION TRUST FUNDS**

June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	State Employes' Retirement System (December 31, 1986)	Public School Employes' Retirement System	Total
ASSETS			
Cash	\$ 4	\$ 63	\$ 67
Temporary investments	404,396	1,814,126	2,218,522
Long-term investments	6,543,174	8,923,452	15,466,626
Receivables, net:			
Accrued interest	72,134	157,790	229,924
Pension contributions .....	.....	196,350	196,350
Other	3,901	145,452	149,353
Due from other funds	91,417	111,466	202,883
Due from other governments	12,813	8	12,821
Fixed assets	74	4,490	4,564
Less: accumulated depreciation	(16)	(1,405)	(1,421)
Other assets .....	.....	2,173	2,173
TOTAL ASSETS	<u>\$ 7,127,897</u>	<u>\$11,353,965</u>	<u>\$18,481,862</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 7,114	\$ 48,554	\$ 55,668
Unsettled investment purchases .....	.....	259,756	259,756
Due to other funds	509	4,255	4,764
TOTAL LIABILITIES	<u>7,623</u>	<u>312,565</u>	<u>320,188</u>
Fund Balance:			
Reserved for:			
Pension benefits	7,120,274	11,041,400	18,161,674
TOTAL FUND BALANCES	<u>7,120,274</u>	<u>11,041,400</u>	<u>18,161,674</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 7,127,897</u>	<u>\$11,353,965</u>	<u>\$18,481,862</u>

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

For the Fiscal Year Ended June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

	(Expressed in Thousands)		
	State Employees' Retirement System (December 31, 1986)	Public School Employees' Retirement System	Total
OPERATING REVENUES:			
Investment income	\$ 916,323	\$ 1,363,469	\$ 2,279,792
Pension contributions	538,000	1,138,514	1,676,514
TOTAL OPERATING REVENUES	<u>1,454,323</u>	<u>2,501,983</u>	<u>3,956,306</u>
OPERATING EXPENSES:			
Cost of sales and services	4,915	9,140	14,055
Interest expense	11	4,351	4,351
Depreciation	11	367	378
Benefit payments and refunds	493,320	788,717	1,282,037
TOTAL OPERATING EXPENSES	<u>498,246</u>	<u>802,575</u>	<u>1,300,821</u>
OPERATING INCOME	<u>956,077</u>	<u>1,699,408</u>	<u>2,655,485</u>
OPERATING TRANSFERS:			
Operating transfers in	8,730	2,678	11,408
Operating transfers out	(1,621)	(9,336)	(10,957)
TOTAL OPERATING TRANSFERS	<u>7,109</u>	<u>(6,658)</u>	<u>451</u>
NET INCOME	<u>963,186</u>	<u>1,692,750</u>	<u>2,655,936</u>
FUND BALANCES, JULY 1, 1986	<u>6,157,088</u>	<u>9,348,650</u>	<u>15,505,738</u>
FUND BALANCES, JUNE 30, 1987	<u>\$ 7,120,274</u>	<u>\$11,041,400</u>	<u>\$18,161,674</u>

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

For the Fiscal Year Ended June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Balance July 1, 1986	Additions	Deductions	Balance June 30, 1987
SOCIAL SECURITY CONTRIBUTION FUND				
ASSETS				
Cash	\$ 1,080	\$1,415,839	\$1,416,917	\$ 2
Temporary investments	19,950	600,817	604,496	16,271
Receivables, net:				
Accounts	2,539	.....	2,539	.....
Accrued interest	4	2,420	2,339	85
Due from other funds	31,978	641,235	663,513	9,700
Due from other governments	24,918	76,300	100,638	580
TOTAL ASSETS	<u>\$ 80,469</u>	<u>\$2,736,611</u>	<u>\$2,790,442</u>	<u>\$ 26,638</u>
LIABILITIES				
Due to other funds	\$ 4	\$	\$ 4	\$
Due to other governments	80,465	684,918	738,745	26,638
TOTAL LIABILITIES	<u>\$ 80,469</u>	<u>\$ 684,918</u>	<u>\$ 738,749</u>	<u>\$ 26,638</u>
STATUTORY LIQUIDATOR FUND				
ASSETS				
Cash	\$ 8	\$ 2,365	\$ 2,372	\$ 1
Temporary investments	26,642	68,777	60,041	35,378
Long-term investments	17,800	617	4,870	13,547
Receivables, net:				
Accounts	276	.....	77	199
Accrued interest	976	799	976	799
Other assets	233	3	168	68
TOTAL ASSETS	<u>\$ 45,935</u>	<u>\$ 72,561</u>	<u>\$ 68,504</u>	<u>\$ 49,992</u>
LIABILITIES				
Other liabilities	\$ 45,935	\$ 5,717	\$ 1,660	\$ 49,992
TOTAL LIABILITIES	<u>\$ 45,935</u>	<u>\$ 5,717</u>	<u>\$ 1,660</u>	<u>\$ 49,992</u>

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

For the Fiscal Year Ended June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Balance July 1, 1986	Additions	Deductions	Balance June 30, 1987
FIRE INSURANCE TAX FUND				
ASSETS				
Cash	\$ 21	\$ 112,166	\$ 112,185	\$ 2
Temporary investments	32,804	86,395	79,994	39,205
Receivables, net:				
Accrued interest	157	686	640	203
TOTAL ASSETS	<u>\$ 32,982</u>	<u>\$ 199,247</u>	<u>\$ 192,819</u>	<u>\$ 39,410</u>
LIABILITIES				
Due to other funds	\$ 157	\$ 203	\$ 157	\$ 203
Due to other governments	32,825	39,171	32,789	39,207
TOTAL LIABILITIES	<u>\$ 32,982</u>	<u>\$ 39,374</u>	<u>\$ 32,946</u>	<u>\$ 39,410</u>
MUNICIPAL PENSION AID FUND				
ASSETS				
Cash	\$ 12	\$ 263,815	\$ 263,822	\$ 5
Temporary investments	75,949	178,327	162,622	91,654
Receivables, net:				
Accrued interest	287	2,893	2,708	472
Due from other funds	316	98,164	98,208	272
TOTAL ASSETS	<u>\$ 76,564</u>	<u>\$ 543,199</u>	<u>\$ 527,360</u>	<u>\$ 92,403</u>
LIABILITIES				
Due to other governments	\$ 76,564	\$ 99,828	\$ 83,989	\$ 92,403
TOTAL LIABILITIES	<u>\$ 76,564</u>	<u>\$ 99,828</u>	<u>\$ 83,989</u>	<u>\$ 92,403</u>
MEDICAL PROFESSIONAL LIABILITY CATASTROPHE LOSS FUND				
ASSETS				
Cash	\$ 40	\$ 441,751	\$ 439,106	\$ 2,685
Temporary investments	78,872	264,312	226,827	116,357
Receivables, net:				
Accounts	786	2,189	786	2,189
Accrued interest	1,134	6,836	7,378	592
TOTAL ASSETS	<u>\$ 80,832</u>	<u>\$ 715,088</u>	<u>\$ 674,097</u>	<u>\$ 121,823</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 625	\$ 3,579	\$ 3,535	\$ 669
Due to other funds	54	53	54	53
Due to other governments .....	.....	2	.....	2
Other liabilities	80,153	170,603	129,657	121,099
TOTAL LIABILITIES	<u>\$ 80,832</u>	<u>\$ 174,237</u>	<u>\$ 133,246</u>	<u>\$ 121,823</u>

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

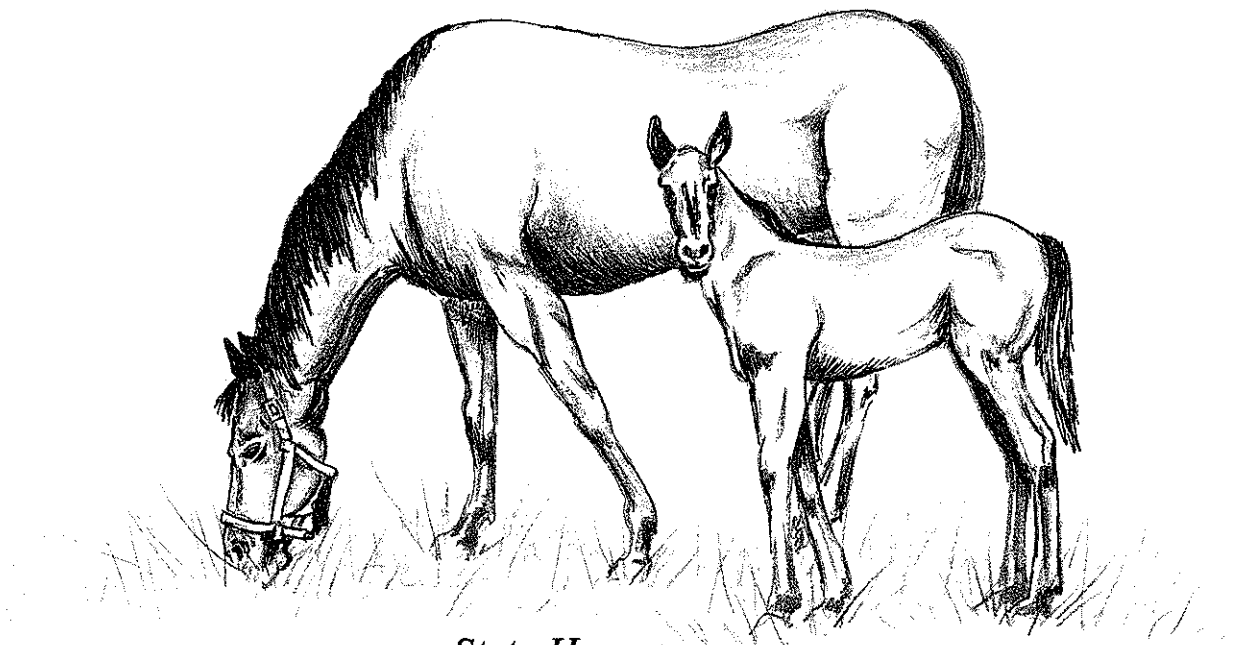
For the Fiscal Year Ended June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Balance July 1, 1986	Additions	Deductions	Balance June 30, 1987
OTHER FUNDS				
ASSETS				
Cash	\$ 5,243	\$ 97,894	\$ 99,343	\$ 3,794
Temporary investments	18,397	58,891	58,983	18,305
Long-term investments	349	211	50	510
Receivables, net:				
Taxes	2,261	26,081	24,964	3,378
Accounts	412	198	412	198
Accrued interest	17	629	588	58
Other assets	1,237	505	458	1,284
TOTAL ASSETS	<u>\$ 27,916</u>	<u>\$ 184,409</u>	<u>\$ 184,798</u>	<u>\$ 27,527</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 1,114	\$ 1,298	\$ 1,114	\$ 1,298
Due to other funds	32	1,950	1,923	59
Due to other governments	8,778	29,630	29,315	9,093
Other liabilities	17,992	28,148	29,063	17,077
TOTAL LIABILITIES	<u>\$ 27,916</u>	<u>\$ 61,026</u>	<u>\$ 61,415</u>	<u>\$ 27,527</u>
TOTAL — ALL FUNDS				
ASSETS				
Cash	\$ 6,404	\$2,333,830	\$2,333,745	\$ 6,489
Temporary investments	252,614	1,257,519	1,192,963	317,170
Long-term investments	18,149	828	4,920	14,057
Receivables, net:				
Taxes	2,261	26,081	24,964	3,378
Accounts	4,013	2,387	3,814	2,586
Accrued interest	2,575	14,263	14,629	2,209
Due from other funds	32,294	739,399	761,721	9,972
Due from other governments	24,918	76,300	100,638	580
Other assets	1,470	508	626	1,352
TOTAL ASSETS	<u>\$ 344,698</u>	<u>\$4,451,115</u>	<u>\$4,438,020</u>	<u>\$ 357,793</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 1,739	\$ 4,877	\$ 4,649	\$ 1,967
Due to other funds	247	2,206	2,138	315
Due to other governments	198,632	853,549	884,838	167,343
Other liabilities	144,080	204,468	160,380	188,168
TOTAL LIABILITIES	<u>\$ 344,698</u>	<u>\$1,065,100</u>	<u>\$1,052,005</u>	<u>\$ 357,793</u>

General Fixed Assets Account Group



*State Horse :
Standardbred*

The **Standardbred** is the state horse as proposed by House Bill 814 of the Agricultural Affairs committee. These trotting and pacing horses are bred for speed and stamina. They are excellent competitors in harness racing events.

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 and College and University Funds.

SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS BY SOURCES *For the Fiscal Year Ended June 30, 1987*

COMMONWEALTH OF PENNSYLVANIA

	Balance July 1, 1986 <u>(As Restated)</u>	<u>Additions</u>	<u>Retirements</u>	Balance June 30, 1987
GENERAL FIXED ASSETS:				
Land	\$ 198,995	\$ 2,481	\$ 253	\$ 201,223
Buildings	1,643,664	213,995	1,750	1,855,909
Improvements other than buildings	79,882	40,314	5	120,191
Furniture, machinery and equipment	356,158	35,672	19,491	372,339
	2,278,699	292,462	21,499	2,549,662
Construction in progress	298,912	101,002	267,858	132,056
Total General Fixed Assets	<u>\$2,577,611</u>	<u>\$ 393,464</u>	<u>\$ 289,357</u>	<u>\$2,681,718</u>
INVESTMENT IN GENERAL FIXED ASSETS:				
Acquired on or before June 30, 1986	\$2,278,699	\$	\$ 21,410	\$2,257,289
Acquired after June 30, 1986 from:				
General fund revenues .....	. . . .	10,625	50	10,575
General obligation bonds .....	. . . .	239,051	31	239,020
Federal grants .....	. . . .	8,383	. . . .	8,383
Special revenue funds .....	. . . .	34,403	8	34,395
Total Sources	2,278,699	292,462	21,499	2,549,662
Construction in progress	298,912	101,002	267,858	132,056
Total Investment in General Fixed Assets .	<u>\$2,577,611</u>	<u>\$ 393,464</u>	<u>\$ 289,357</u>	<u>\$2,681,718</u>

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

SCHEDULE OF GENERAL FIXED ASSETS BY FUNCTION AND ACTIVITY

June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

	Land	Buildings	Improvements Other Than Buildings	Furniture, Machinery And Equipment	Total
FUNCTION AND ACTIVITY					
General government	\$ 5,993	\$ 368,350	\$ 22,837	\$ 40,004	\$ 437,184
Protection of persons and property	6,158	279,871	24,420	32,567	343,016
Public health and welfare	3,163	571,479	16,663	76,973	668,278
Public education	17,453	539,392	39,353	6,563	602,761
Conservation of natural resources	165,780	43,999	10,289	16,245	236,313
Economic development and assistance ..	.....	.....	.....	144	144
Transportation	2,676	52,818	6,629	199,843	261,966
TOTALS ALLOCATED TO FUNCTIONS AND ACTIVITIES ..	<u>\$ 201,223</u>	<u>\$1,855,909</u>	<u>\$ 120,191</u>	<u>\$ 372,339</u>	<u>\$2,549,662</u>
Construction in progress					132,056
TOTAL GENERAL FIXED ASSETS					<u>\$2,681,718</u>

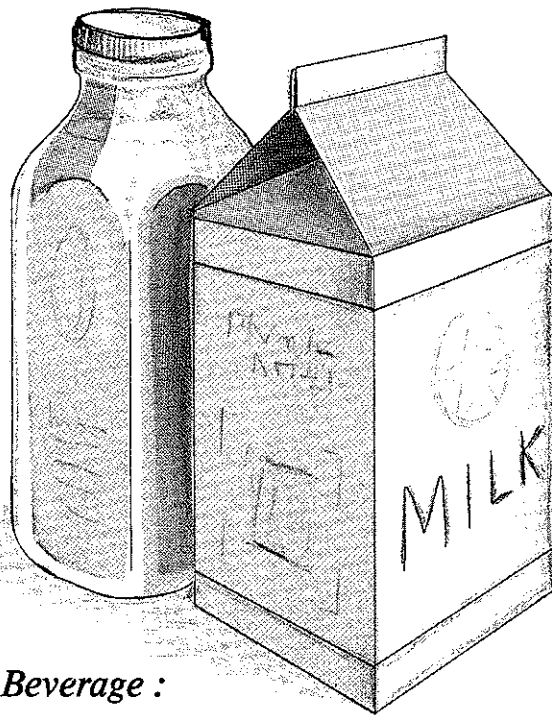
SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS BY FUNCTION AND ACTIVITY

For the Fiscal Year Ended June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

	Balance July 1, 1986 (As Restated)	Additions	Retirements	Transfers In	Transfers Out	Balance June 30, 1987
General government	\$ 308,205	\$ 129,597	\$ 2,463	\$ 4,428	\$ 2,583	\$ 437,184
Protection of persons and property	249,378	88,765	7,566	12,688	249	343,016
Public health and welfare	669,766	11,535	523	21	12,521	668,278
Public education	595,339	7,503	103	22	.....	602,761
Conservation of natural resources	224,972	10,991	16	366	.....	236,313
Economic development and assistance	116	56	28	.....	.....	144
Transportation	230,923	44,015	10,800	.....	2,172	261,966
	<u>2,278,699</u>	<u>292,462</u>	<u>21,499</u>	<u>17,525</u>	<u>17,525</u>	<u>2,549,662</u>
Construction in progress	298,912	101,002	267,858	.....	.....	132,056
TOTALS	<u>\$2,577,611</u>	<u>\$ 393,464</u>	<u>\$ 289,357</u>	<u>\$ 17,525</u>	<u>\$ 17,525</u>	<u>\$2,681,718</u>

College and University Funds



State Beverage :

Milk

Milk is the official state beverage by an act of the General Assembly of April 29, 1982. Pennsylvania ranks fifth in the nation in the production of milk, the soft, soft drink. A glass of milk contains some of every nutrient needed to build and maintain good health.

COLLEGE AND UNIVERSITY FUNDS DESCRIPTION

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

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

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

COMBINING BALANCE SHEET
College and University Funds

June 30, 1987

COMMONWEALTH OF PENNSYLVANIA

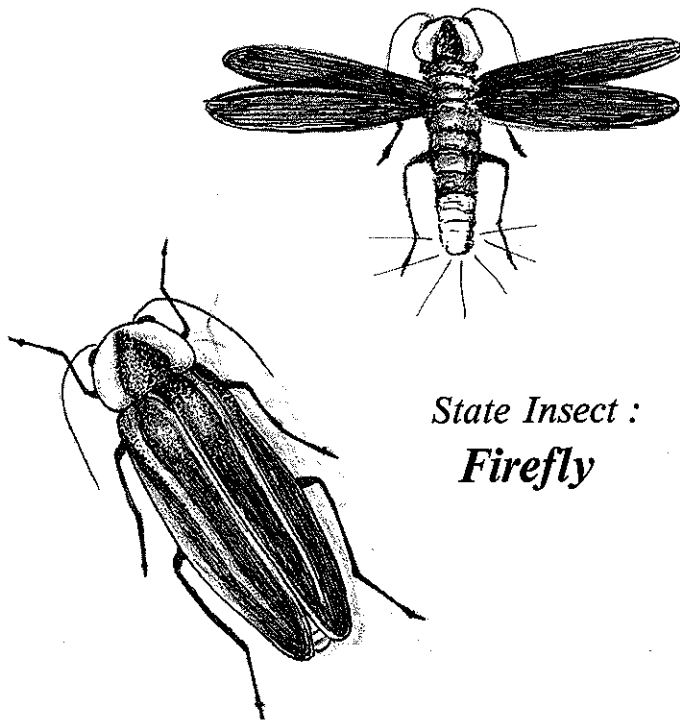
(Expressed in Thousands)

	Current Funds		Endowment and Similar Funds	Plant Funds				Agency	Totals
	Unrestricted	Restricted		Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant		
ASSETS									
Cash	\$ 1,287	\$	\$	\$ 264	\$ 58	\$	\$	\$	\$ 1,609
Temporary investments	117,284			24,552					141,836
Long-term investments		179	479		8,549				11,422
Receivables, net:									
Accounts	4,358	5,265					101	120	9,844
Accrued interest				173					174
Notes and loans			16,831						16,831
Other	1,315								1,315
Due from other funds	75	2,246	1,625	19,590	14,673			3,763	43,122
Inventory	3,725								3,725
Fixed assets				19,570					244,677
Other assets	11,994			334			32		12,360
TOTAL ASSETS	\$ 140,038	\$ 7,690	\$ 18,460	\$ 64,483	\$ 8,607	\$ 225,107	\$ 3,883	\$	\$ 486,915

LIABILITIES AND FUND EQUITY

Liabilities:									
Accounts payable and accrued liabilities	\$ 38,944	\$ 1,014	\$	\$ 3,397	\$ 491	\$ 88	\$ 4,402	\$ 36	\$ 48,372
Due to other funds	44,718					6,356			51,074
Deferred revenue	14,538								14,538
Notes payable							4,108		4,108
Other liabilities	15,346	706	1	1,568				3,847	21,468
Capital lease obligations				52,281			3,304		55,585
TOTAL LIABILITIES	113,546	1,720	1	57,246	491	6,444	11,814	3,883	195,145
Fund Equity:									
Investment in fixed assets							213,293		213,293
Fund Balance:									
Reserved for:									
Encumbrances	10,362	463							10,825
Notes and loans			18,459						18,459
Endowment and similar funds	3,696		3,841						7,537
Restricted fund balance		5,507		1,478	9,519	841			17,345
Other	5,863								5,863
Unreserved:									
Undesignated	6,571			5,759	4,796	1,322			18,448
TOTAL FUND EQUITY	26,492	5,970	18,459	7,237	14,315	2,163	213,293		291,770
TOTAL LIABILITIES AND FUND EQUITY	\$ 140,038	\$ 7,690	\$ 18,460	\$ 64,483	\$ 14,806	\$ 8,607	\$ 225,107	\$ 3,883	\$ 486,915

Statistical Section



State Insect :
Firefly

The **Firefly** is the state insect as enacted by the General Assembly on April 10, 1974. The firefly is a winged beetle whose abdomen glows intermittently with a luminescent light.

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

TABLE 1

For the Last Ten Fiscal Years Ended June 30 (2)

COMMONWEALTH OF PENNSYLVANIA

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
	(Expressed in Thousands)									
REVENUES BY SOURCE										
Taxes, penalties and interest	\$ 5,818,646	\$ 6,321,208	\$ 6,780,404	\$ 7,084,529	\$ 7,584,306	\$ 7,854,895	\$ 9,122,306	\$ 9,551,576	\$ 9,970,214	\$ 10,652,020
Licenses and fees	376,071	388,316	391,929	436,152	507,829	477,592	504,439	524,927	540,234	564,781
Intergovernmental	1,820,587	1,971,400	2,121,994	2,370,695	2,739,962	2,895,041	3,071,788	3,490,865	3,745,396	3,751,334
Charges for sales and services	564,953	426,245	493,535	535,380	486,248	597,431	343,062	480,759	530,519	486,243
Investment income	59,346	84,668	146,873	139,928	139,723	99,689	134,141	203,872	195,202	194,900
Lottery receipts, net of prizes	124,892	155,612	173,330	188,509	240,727	394,697	540,017	593,115	557,481	627,853
Other	184,958	251,544	229,729	299,741	124,218	135,678	129,727	122,191	231,346	185,341
TOTAL REVENUES	\$ 8,949,453	\$ 9,598,993	\$ 10,337,794	\$ 11,054,934	\$ 11,823,013	\$ 12,455,023	\$ 13,845,480	\$ 14,967,305	\$ 15,770,392	\$ 16,462,472
EXPENDITURES BY FUNCTION										
General government	\$ 649,796	\$ 711,389	\$ 963,915	\$ 858,193	\$ 692,970	\$ 798,991	\$ 906,842	\$ 829,609	\$ 803,909	\$ 802,607
Protection of persons and property	520,015	616,507	659,468	680,383	499,306	627,369	693,043	778,897	911,957	948,562
Public health and welfare	3,258,944	3,570,060	3,953,183	4,248,058	4,954,202	5,228,634	5,295,688	5,686,873	6,231,705	6,360,862
Public education	2,879,486	2,990,594	3,067,323	3,357,128	3,456,007	3,632,541	3,720,818	4,063,157	4,122,935	4,395,740
Conservation of natural resources	121,891	134,623	139,899	143,215	164,196	179,201	179,604	257,112	299,010	305,599
Economic development and assistance	61,537	74,565	70,565	98,099	94,021	113,304	164,791	158,107	187,614	206,355
Transportation	1,039,578	895,423	908,364	1,263,048	1,427,393	1,501,886	1,474,704	1,843,703	2,053,335	2,114,625
Capital outlay	180,791	137,717	78,595	104,102	173,074	175,401	157,946	345,881	463,671	476,118
Debt Service	314,595	.....	.....	.....	.....	.....	.....	.....	.....	.....
Principal retirement ⁽³⁾	106,510	115,505	123,745	317,397	490,096	386,310	759,471	1,186,619	659,548
Interest and fiscal charges ⁽³⁾	227,228	245,862	244,209	350,224	178,987	346,924	358,358	407,066	405,701
TOTAL EXPENDITURES	\$ 9,026,633	\$ 9,464,616	\$ 10,202,679	\$ 11,120,180	\$ 12,128,790	\$ 12,926,410	\$ 13,326,670	\$ 15,081,168	\$ 16,667,821	\$ 16,675,717

(1) Includes General, Special Revenue, Debt Service and Capital Projects Funds
 (2)(a) 1978 - 1981 data is on non-GAAP budgetary basis
 (b) 1982 - 1987 data is on GAAP basis
 (3) Breakdown of principal, interest and fiscal charges not available for 1978

NET BONDED DEBT PER CAPITA

TABLE 2

For the Last Ten Fiscal Years

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands Except Debt Per Capita)

<u>For The Fiscal Year Ended June 30</u>	<u>Net Bonded Debt</u>	<u>Population</u>	<u>Debt Per Capita</u>
1977	\$4,667,600	11,882	\$393
1978	4,808,295	11,865	405
1979	4,721,474	11,874	398
1980	4,623,848	11,864	390
1981	4,578,163	11,878	385
1982	4,450,236	11,879	375
1983	4,487,011	11,889	377
1984	4,483,573	11,901	377
1985	4,535,008	11,853	383
1986	4,529,393	11,888	381

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

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

TABLE 3

For the Last Ten Fiscal Years

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands Except Percentage)

<u>For The Fiscal Year Ended June 30</u>	<u>Debt Service Requirements Funded by General Fund</u>	<u>Budgetary Basis General Fund Expenditures</u>	<u>%</u>
1978	\$213,001	\$ 6,950,186	3.07
1979	243,483	7,439,007	3.27
1980	264,145	8,005,039	3.30
1981	275,056	8,595,628	3.20
1982	303,713	9,361,800	3.24
1983	301,727	10,038,371	3.00
1984	341,413	10,436,777	3.27
1985	359,200	11,223,622	3.20
1986	350,195	11,781,951	2.97
1987	371,702	12,395,674	3.00

COMPUTATION OF LEGAL DEBT MARGIN

TABLE 4

August 31, 1987

COMMONWEALTH OF PENNSYLVANIA

Average annual tax revenues deposited in the previous five fiscal years	\$11,313,536,681
Constitutional factor	x 1.75
<hr/>	
Constitutional debt limit for debt incurred without the approval of the electors	19,798,689,192
Less outstanding net debt (non electorate approved)	4,517,166,148
<hr/>	
Legal debt margin	<u>\$15,281,523,044</u>

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

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

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

The figures above are abstracted from a certification of the Auditor General dated August 31, 1987 contained in the Official Statement for \$152,000,000 Commonwealth of Pennsylvania General Obligation Bonds issued September 14, 1987.

SCHEDULE OF REVENUE BOND COVERAGE

TABLE 5

For the Last Ten Fiscal Years

COMMONWEALTH OF PENNSYLVANIA

Pennsylvania Industrial Development Authority							
(Expressed in Thousands)							
For the Fiscal Year Ended June 30	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1978	\$ 7,717	\$ 564	\$ 7,153	\$ 3,750	\$ 4,679	\$ 8,429	.85
1979	10,057	666	9,391	4,500	5,448	9,948	.94
1980	13,981	515	13,466	5,500	5,464	10,964	1.23
1981	15,872	884	14,988	5,755	5,119	10,874	1.38
1982	16,064	1,009	15,055	5,800	4,756	10,556	1.43
1983	19,058	1,211	17,847	5,655	8,933	14,588	1.22
1984	21,775	1,662	20,113	5,630	9,537	15,167	1.33
1985	24,658	1,783	22,875	6,735	13,167	19,902	1.15
1986	23,320	1,897	21,423	7,910	13,359	21,269	1.01
1987	23,370	1,574	21,796	8,620	12,433	21,053	1.04

Pennsylvania Turnpike Commission							
(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	
1978	\$ 90,333	\$ 47,657	\$ 42,676	\$ 18,434	\$ 3,542	\$ 21,976	1.94
1979	110,927	52,457	58,470	19,570	5,450	25,020	2.34
1980	115,427	54,469	60,958	22,948	5,450	28,398	2.15
1981	121,622	60,898	60,724	5,978	4,627	10,605	5.73
1982	132,046	67,625	64,421	9,680	4,381	14,061	4.58
1983	131,083	72,985	58,098	7,349	4,120	11,469	5.07
1984	144,815	78,287	66,528	5,352	3,812	9,164	7.26
1985	154,542	82,230	72,312	6,451	3,604	10,055	7.19
1986	162,539	93,648	68,891	4,662	3,381	8,043	8.57
1987	180,692	107,087	73,605	2,299	46,500	48,799	1.51

Pennsylvania Housing Finance Agency							
(Expressed in Thousands)							
For the Fiscal Year Ended June 30	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest ^(a)	Total	
1978	\$ 28,686	\$ 7,190	\$ 21,496	\$	\$ 16,497	\$ 16,497	1.30
1979	41,330	8,610	32,720	814	25,468	26,282	1.25
1980	57,839	10,998	46,841	1,237	31,341	32,578	1.44
1981	68,427	15,223	53,204	1,951	37,785	39,736	1.34
1982	77,773	18,068	59,705	3,522	42,347	45,869	1.30
1983	109,023	18,793	90,230	3,440	77,010	80,450	1.12
1984	119,389	12,160	107,229	8,293	94,305	102,598	1.05
1985	146,205	10,686	135,519	8,180	119,420	127,600	1.06
1986	168,441	8,438	160,003	13,386	142,332	155,918	1.03
1987	159,034	8,088	150,946	14,987	136,625	151,522	1.00

(a) Excludes interest on notes payable.

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

TABLE 6

For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands Except Percentage)

<u>Calendar Year</u>	<u>United States</u>	<u>Pennsylvania</u>	<u>%</u>
1977	216,332	11,882	5.5
1978	218,228	11,865	5.4
1979	220,099	11,874	5.4
1980	226,505	11,864	5.3
1981	229,307	11,878	5.2
1982	231,786	11,879	5.1
1983	234,023	11,889	5.1
1984	236,158	11,901	5.1
1985	238,740	11,853	5.0
1986	241,078	11,888	4.9

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

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

TABLE 7

For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

<u>Calendar Year</u>	<u>Demand Deposits</u>	<u>Time and Savings Deposits</u>
1977	\$5,939,237	\$23,201,743
1978	6,071,285	25,246,714
1979	6,387,518	27,374,973
1980	7,734,878	32,192,294
1981	6,673,295	34,871,097
1982	6,489,537	38,144,921
1983	6,606,723	42,982,476
1984	5,263,282	39,356,857
1985	5,728,297	42,322,007
1986	6,632,325	45,351,526

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

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
(Expressed in Thousands)										
COMMONWEALTH OF PENNSYLVANIA										
PENNSYLVANIA										
Civilian labor force	5,207	5,306	5,360	5,435	5,484	5,489	5,505	5,479	5,528	5,634
Employment	4,806	4,938	4,990	5,010	5,026	4,889	4,855	4,981	5,084	5,248
Unemployment	401	368	370	425	458	600	650	498	443	386
Rate %	7.7	6.9	6.9	7.8	8.4	10.9	11.8	9.1	8.0	6.8
UNITED STATES										
Civilian labor force	99,009	102,251	104,962	106,940	108,670	110,204	111,550	113,544	115,461	117,835
Employment	92,017	96,048	98,824	99,303	100,397	99,526	100,834	105,005	107,150	109,598
Unemployment	6,992	6,203	6,138	7,637	8,273	10,678	10,716	8,539	8,311	8,237
Rate %	7.1	6.1	5.8	7.1	7.6	9.7	9.6	7.5	7.2	7.0

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	%
1977	1,601,840	86,785	5.4	7,289	7,304	100.2
1978	1,806,210	95,602	5.3	8,133	8,058	99.1
1979	2,026,680	106,087	5.2	9,025	8,935	99.0
1980	2,252,021	116,815	5.2	9,910	9,840	99.3
1981	2,512,327	128,264	5.1	10,940	10,798	98.7
1982	2,660,940	135,184	5.1	11,470	11,378	99.2
1983	2,833,184	141,508	5.0	12,093	11,898	98.4
1984	3,101,402	151,020	4.9	13,114	12,701	96.9
1985	3,310,545	159,276	4.8	13,867	13,426	96.8
1986	3,486,206	165,774	4.8	14,461	13,944	96.4

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

THIRTY LARGEST NONGOVERNMENTAL EMPLOYERS

TABLE 10

For the Calendar Year 1986

COMMONWEALTH OF PENNSYLVANIA

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

AMP Incorporated	Mack Truck, Inc.
Air Products and Chemicals, Inc.	Mellon National
Alco Standard	Meridian Bancorp, Inc.
Allegheny International	Meritor Financial Group
Aluminum Company of America	National Intergroup
Armstrong World Industries	PPG Industries, Inc.
Atlantic Financial Federation	Pennbancorp
Bayer USA	Pennsylvania Power & Light Company
Bell Atlantic Corporation	Pennwalt Corporation
Bethlehem Steel Corporation	Philadelphia Electric Company
Carpenter Technology Corporation	PNC Financial Corporation
CertainTeed Corporation	Quaker State Oil Refining Corporation
Charming Shoppes	Rite Aid Corporation
Cigna Corporation	Rochester & Pittsburgh Steel Corporation
Consolidated Natural Gas	Rockwell International Corporation
CoreStates Financial Corporation	Rohm and Haas Company
Crown Cork and Seal Company, Inc.	Rorer Group
Cyclops Corporation	Scott Paper Company
Dauphin Deposit Corporation	Shared Medical Systems Incorporated
Diamond—Bathurst	SmithKline Beckman
Duquesne Light Company	Sun Company, Inc.
Fidelcor	USX Corporation
First Pennsylvania	Union National
H.J. Heinz Company	US Health Care Systems
H.H. Robertson Company	VF Corporation
Hershey Foods Corporation	Weis Markets, Inc.
Joy Manufacturing Company	Westinghouse Electric Corporation
Koppers Company, Inc.	Westmoreland Coal
L.B. Foster	Wheeling-Pittsburgh Steel Corporation
	York International

SOURCE: The *Fortune* 500 and the *Forbes* 500 listings, published April 1987.

MISCELLANEOUS STATISTICS

TABLE 12

JUNE 30, 1987

COMMONWEALTH OF PENNSYLVANIA

Date of Ratification of U.S. Constitution	December 12, 1787
Form of Government	Legislative-Executive-Judicial
Miles of State Highway	43,333
Land Area - in square miles	44,888
State Police Protection:	
Number of Stations	106
Number of State Police	3,964
Higher Education (Universities, Colleges and Community Colleges):	
Number of campuses in state	232
Number of educators	20,967
Number of students	548,757
Recreation:	
Number of State Parks	113
Area of State Parks	282,160 Acres
Area of State Forests	2,071,137 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 Environmental Resources, Bureau of Forestry