

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

For Fiscal Year Ended June 30, 1996



**Commonwealth of Pennsylvania**  
**Tom Ridge**  
**Governor**

Prepared By:

**Office of the Budget**  
*Robert A. Bittenbender, Secretary*

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

**Commonwealth of Pennsylvania  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 1996**

**TABLE OF CONTENTS**

**INTRODUCTORY SECTION**

	<u>Page</u>
<b>Title Page</b> .....	i
<b>Table of Contents</b> .....	ii
<b>Budget Secretary's Letter of Transmittal</b> .....	v
<b>Deputy Secretary's Letter of Transmittal</b> .....	viii
<b>Certificate of Achievement</b> .....	xvii
<b>Organization and Officials Chart</b> .....	xviii

**FINANCIAL SECTION**

<b>Independent Auditors' Report</b> .....	2
<b>General Purpose Financial Statements:</b>	
<b>Combined Balance Sheet—All Fund Types, Account Groups and Discretely Presented     Component Units</b> .....	6
<b>Combined Statement of Revenues, Expenditures and Changes in Fund Balances—     All Governmental Fund Types, Expendable Trust Funds and Discretely Presented     Component Units</b> .....	8
<b>Combined Statement of Revenues, Expenditures and Changes in Unreserved/     Undesignated Fund Balances—Budget and Actual (Budgetary Basis)—     General and Budgeted Special Revenue Funds</b> .....	9
<b>Combined Statement of Revenues, Expenses and Changes in Retained Earnings/     Fund Balances—All Proprietary Fund Types, Pension Trust Fund and Discretely     Presented Component Units</b> .....	10
<b>Combined Statement of Cash Flows—All Proprietary Fund Types and Discretely     Presented Component Units</b> .....	11
<b>Combining Balance Sheet—Discretely Presented Component Units</b> .....	12
<b>Combining Balance Sheet—Governmental Funds—Discretely Presented Component Units</b> .....	13
<b>Combining Statement of Revenues, Expenditures and Changes in Fund Balances—     Governmental Funds—Discretely Presented Component Units</b> .....	14
<b>Combining Balance Sheet—Proprietary Funds—Discretely Presented Component Units</b> .....	15
<b>Combining Statement of Revenues, Expenses and Changes in Retained Earnings —     Proprietary Funds —Discretely Presented Component Units</b> .....	16
<b>Combining Statement of Cash Flows—Proprietary Funds—Discretely Presented     Component Units</b> .....	17
<b>Combining Statement of Changes in Plan Net Assets — Pension Trust Fund — Discretely     Presented Component Unit</b> .....	18
<b>Combining Balance Sheet—College and University Funds—Discretely Presented     Component Unit</b> .....	19
<b>Combined Statement of Changes in Fund Balances—College and University Funds—     Discretely Presented Component Unit</b> .....	20
<b>Combined Statement of Current Funds Revenues, Expenditures and Changes in Fund     Balances—College and University Funds—Discretely Presented Component Unit</b> .....	21
<b>Notes to Financial Statements</b> .....	22
<b>Combining Financial Statements and Schedules:</b>	
<b>Special Revenue Funds</b>	
<b>Special Revenue Funds—Description</b> .....	79
<b>Combining Balance Sheet—Special Revenue Funds</b> .....	80
<b>Combining Statement of Revenues, Expenditures and Changes in Fund Balances—         Special Revenue Funds</b> .....	81

	<u>Page</u>
Combining Schedule of Revenues, Expenditures and Changes in Unreserved/ Undesignated Fund Balances—Budget and Actual (Budgetary Basis)— Budgeted Special Revenue Funds .....	82
<b>Debt Service Funds</b>	
Debt Service Funds—Description .....	84
Combining Balance Sheet—Debt Service Funds .....	85
Combining Statement of Revenues, Expenditures and Changes in Fund Balances— Debt Service Funds .....	86
<b>Capital Projects Funds</b>	
Capital Projects Funds—Description .....	88
Combining Balance Sheet—Capital Projects Funds .....	89
Combining Statement of Revenues, Expenditures and Changes in Fund Balances— Capital Projects Funds .....	90
<b>Enterprise Funds</b>	
Enterprise Funds—Description .....	93
Combining Balance Sheet—Enterprise Funds .....	94
Combining Statement of Revenues, Expenses and Changes in Retained Earnings— Enterprise Funds .....	95
Combining Statement of Cash Flows—Enterprise Funds .....	96
<b>Internal Service Funds</b>	
Internal Service Funds—Description .....	98
Combining Balance Sheet—Internal Service Funds .....	99
Combining Statement of Revenues, Expenses and Changes in Retained Earnings— Internal Service Funds .....	100
Combining Statement of Cash Flows—Internal Service Funds .....	101
<b>Trust and Agency Funds</b>	
Trust and Agency Funds—Description .....	104
Combining Balance Sheet—Trust and Agency Funds .....	105
Combining Balance Sheet—Expendable Trust Funds .....	106
Combining Statement of Revenues, Expenditures and Changes in Fund Balances— Expendable Trust Funds .....	107
Combining Statement of Changes in Assets and Liabilities—Agency Funds .....	108
<b>General Fixed Assets Account Group</b>	
General Fixed Assets Account Group—Description .....	112
Schedule of Changes in General Fixed Assets by Source .....	112
Schedule of General Fixed Assets by Function .....	113
Schedule of Changes in General Fixed Assets by Function .....	113

## STATISTICAL SECTION

	<u>Table</u>	<u>Page</u>
Revenues by Source and Expenditures by Function—All Governmental Fund Types .....	1	115
Net Bonded Debt Per Capita .....	2	116
Ratio of Annual Debt Service Requirements for General Bonded Debt to Total General Fund Expenditures .....	3	117
Computation of Legal Debt Margin .....	4	118
Schedule of Revenue Bond Coverage .....	5	119
Annual Estimates of the Resident Population—Pennsylvania Compared to the United States ..	6	120
State Banking Institutions Demand Deposits and Time and Savings Deposits .....	7	121
Resident Employment, Unemployment and Unemployment Rate—Pennsylvania Compared to the United States .....	8	122
Total Personal Income and Per Capita Personal Income—Pennsylvania Compared to the United States .....	9	123
Thirty Largest Nongovernmental Employers .....	10	124
List of Major Corporations that Maintain their Corporate Headquarters in the Commonwealth .....	11	125
Miscellaneous Statistics .....	12	126

**(THIS PAGE INTENTIONALLY LEFT BLANK)**

COMMONWEALTH OF PENNSYLVANIA  
GOVERNOR'S OFFICE  
HARRISBURG

December 13, 1996

ROBERT A. BITTENBENDER  
SECRETARY  
OFFICE OF THE BUDGET

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

This Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Pennsylvania represents our continued commitment to sound and effective fiscal management and to responsible financial reporting based on nationally recognized standards. This CAFR, which includes the Commonwealth's independently audited general purpose financial statements as of and for the fiscal year ended June 30, 1996, will provide you and the financial community with all the information required to fully assess the Commonwealth's financial position, results of operations and the management of its financial resources.

Continued growth in the national economy has aided the economic gains achieved in Pennsylvania through the fiscal year ended June 30, 1996. As of the fiscal year ended June 30, 1996, the unemployment rate had declined to 5.1 percent, down from the prior fiscal year end rate of 5.9 percent. For the fiscal year ended June 30, 1996 employment in Pennsylvania has risen 0.3 percent, while personal income increased by 3.9 percent for the twelve month period ended March 31, 1996. These economic improvements have been achieved despite several adverse conditions. First, in the winter of 1996 the Commonwealth suffered from severe weather including a blizzard, followed by heavy rains and flooding. The destruction of buildings, roads and bridges caused by ice and flooding, severely disrupted commerce within the Commonwealth. Second, some structural changes in business occurring nationwide are particularly affecting industries important to the Pennsylvania economy. A contraction of the apparel industry, a restructuring of utility companies to prepare for greater competition, and cost-cutting efforts in the health-care industry, especially by hospitals, are examples of important Pennsylvania industries contending with national trends.

On a budgetary basis, the Commonwealth's General Fund ended the 1995-96 fiscal year with a \$184 million unreserved/undesignated fund balance prior to reserving \$28 million for transfer to the Tax Stabilization Reserve (Rainy Day) Fund.

Economic development continues to be a long-term commitment of the Commonwealth as evidenced by the significant funds appropriated for loans and grants to employers. Among these loans and grants were \$36.0 million to Ben Franklin/Industrial Resource Centers to create jobs through the development and application of technology and advanced production techniques and \$26.2 million for infrastructure development of industrial sites, both from the General Fund; \$9.0 million from the Sunny Day Fund to help industries expand and attract new businesses to Pennsylvania; \$22.8 million from the Capital Loan Fund for small business loans for the purchase of equipment and working capital; and \$21.4 million from the Machinery and Equipment Loan Fund to provide low interest loans for machinery and equipment purchases.

Tax cuts enacted resulted in savings of \$283.4 million to Pennsylvania taxpayers through reductions in the Corporate Net Income, Capital Stock and Foreign Franchise, Inheritance, Insurance Premium and other tax rates.

Pennsylvania is further working to create jobs in other ways. It recognizes that success begins with a well trained workforce by increasing funds for customized job training to \$9.0 million and it recognizes the opportunity to capitalize on the global marketplace by providing a new \$2.8 million appropriation for developing international trade.

The Commonwealth continued its commitment to its communities by providing \$27 million for the Housing and Redevelopment program to rebuild neighborhoods and to rehabilitate low income housing, and additional funds to expand local tourism efforts.

Education is essential to Pennsylvania's future. Nearly \$3.4 billion was provided to our public schools through the Basic Education Funding program. This represented a 4.5 percent increase over the funding provided in the prior fiscal year for this program. Total funding for basic education was nearly \$5.7 billion, including funding for special education, pupil transportation, teacher retirement and social security, and special programs to address the needs of economically and educationally challenged students. Also, new funding was provided for grants to school districts to develop strategies to address the increase in violence in our schools and to support alternative programs for students that disrupt the learning environment. In addition, almost \$1.5 billion was provided for higher education institutions and students.

The need for additional correctional facilities continued. During the fiscal year ended June 30, 1996, capacity for incarcerated offenders increased by 1,146 beds with the opening of a 1,000 cell correctional institution in Clearfield County and the addition of cell blocks at two facilities. The conversion of a state mental hospital to a correctional institution that will eventually house 1,000 offenders was initiated and construction continued on a 640 cell prison in Chester County.

During the 1995-96 fiscal year, several major laws were enacted that created new programs or modified existing programs:

- Act 1995-72 provided a funding mechanism for the settlement of a lawsuit caused by the repeal of the automobile centralized emission inspection program. The Act provided that certain prior year appropriations for hazardous waste control and certain moneys in the Catastrophic Loss Benefit Continuation Fund could be used to provide necessary funding.
- Act 1996-10 increased the amount of the General Fund budgetary basis fiscal year end surplus to be transferred to the Tax Stabilization Reserve Fund (Rainy Day Fund) from 10 percent to 15 percent. It also provided for an additional \$30 million transfer, above the 15 percent, from the 1994-95 General Fund budgetary basis fiscal year end surplus to the Tax Stabilization Reserve Fund during 1995-96.
- Act 1996-35 made numerous revisions to the Public Welfare Code to promote self sufficiency through work. The Act included changes in medical services available to recipients, eligibility criteria for cash and medical assistance including work requirements for able-bodied adults without dependent children, and support services for employed recipients. This Act is expected to result in significant cost savings to the Commonwealth.
- Act 1996-56 provided an expanded educational aid program for members of the Pennsylvania National Guard.
- Act 1996-57 reformed Workers' Compensation laws that will result in savings to both the Commonwealth and other employers.

Also, beginning in January 1996, a Special Session of the Legislature was convened to deal with a blizzard and the resulting flood emergency. Laws enacted by the Special Session which affected the 1995-96 fiscal year include: increasing the amount of unused appropriated funds that may be transferred for disaster relief (Special Session #2, Act 1996-1), conforming State law to Federal law to ensure accessibility to Federal funds (Special Session #2, Act 1996-2), and appropriating a portion of the tax amnesty revenues to establish a supplemental individual assistance for individuals suffering losses during the weather related disasters and to provide the necessary matching funds to participate in the Federal Individual and Family Assistance Program (Special Session #2, Act 1996-3).

The Commonwealth continues to make significant investments in programs to support the economically needy through General Assistance, Aid to Families with Dependent Children, and Medical Assistance. State and Federal expenditures for these programs amounted to \$8.3 billion in the 1995-96 fiscal year. Approximately 43 percent of the total cost of assistance to the economically needy is funded by the General Fund. The balance is provided by the Federal government and through various program collection activities conducted by the Commonwealth. Additional funding is obtained through a Medical Assistance Intergovernmental Transfer which provided contributions in the 1995-96 fiscal year totaling \$339 million. It should be noted, as previously mentioned, that actions by both the Federal government and the Commonwealth including amendments to the state's Public Welfare Code are expected to produce significant cost savings in these programs.

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

Sincerely,



Robert A. Bittenbender  
Secretary  
Office of the Budget

**COMMONWEALTH OF PENNSYLVANIA  
GOVERNOR'S OFFICE  
HARRISBURG**

December 13, 1996

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

Dear Secretary Bittenbender:

It is my privilege to present this Comprehensive Annual Financial Report (CAFR) on the operations of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 1996. 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 this CAFR were prepared in conformity with generally accepted accounting principles (GAAP) as prescribed in pronouncements by the Governmental Accounting Standards Board (GASB). They were jointly audited by the elected Auditor General of the Commonwealth of Pennsylvania and Ernst & Young LLP, a nationally recognized public accounting firm. Their Independent Auditors' Report, expressing an unqualified opinion on the GPFS, is included in this financial report.

I believe the financial statements are fairly stated in all material respects; that they are presented in a manner designed to fairly 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 that all disclosures necessary to enable the Governor, 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 CAFR 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**

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

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



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

## **BUDGETARY CONTROLS AND ACCOUNTING SYSTEMS**

The annual budget of the Commonwealth is comprised of separate appropriations to individual agencies for their specific programs, purposes, special outlays and/or operating expenditures. Budgetary control is exercised at the agency level by appropriation and by allocations to major categories of expenditure within each appropriation. Major expenditure categories include personnel services, operational expenses, fixed assets, subsidies and grants, debt service and fixed charges. An encumbrance system is used to 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 expended do not exceed the total amounts appropriated and/or allocated. Section 621 of the Administrative Code provides that unencumbered appropriated funds shall automatically lapse at fiscal year end and become available for appropriation in the new fiscal year. Encumbered appropriations are carried forward into the new fiscal year. They are reported in the Commonwealth's governmental funds as reservations of fund balance as distinguished from unreserved fund balance. Funds reserved for appropriations carried forward may be expended until October 31 of the new fiscal year at which time any remaining balances must be lapsed, except amounts for encumbered items being litigated or arbitrated or otherwise extended for some other reason with approval of the Secretary of the Budget. In no event, however, can an encumbrance carried forward from one fiscal year be extended beyond the end of the next fiscal year except for a litigated item.

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

The accounts of the Commonwealth's governmental fund types are maintained on a budgetary basis by fund, agency and appropriation. Revenues are recorded at the time cash is received. Expenditures are recorded at the time payment requisitions and invoices are submitted to the Treasury Department for payment. At 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 also prepares GPFS in conformity with GAAP applicable to governments. These financial statements differ from those prepared on a budgetary basis in that generic funds are combined by fund types and the financial information is presented on the basis of accounting principles applicable to each fund type. Accordingly, governmental, expendable trust, and agency funds are reported on

the modified accrual basis of accounting; proprietary and pension trust funds are reported on the accrual basis of accounting. The College and University Funds are reported on the accrual basis of accounting in accordance with the accounting guidance and reporting practices applicable to governmental colleges and universities, as outlined in the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities*, and pronouncements issued by the Governmental Accounting Standards Board.

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 has been incurred as of the fiscal year end.

### ECONOMIC CONDITION AND OUTLOOK

The pace of economic activity in the United States varied over a broad range during the 1995-96 fiscal year. Annualized quarterly growth rates were as low as 0.3 percent to as high as 4.2 percent. The variation in economic growth rates and the divergent signals presented by various releases of economic data has provoked a debate on the need for monetary restraints to be applied by the Federal Reserve Board to moderate growth in the hope of prevention of rising inflation. Since the Federal Reserve Board decided not to change the federal funds rate at its meeting in September 1996, it appears the Board does not believe it is necessary to restrain economic growth to control inflation. Continued moderate economic growth in the national economy will help produce further economic gains in Pennsylvania.

Forecasts of the national economy in the second half of 1996 predict economic growth to slow to a rate of approximately 2 percent (annualized). This lower rate of growth is likely to end the trend of a declining unemployment rate and keep inflation under control. Pennsylvania, along with the other Mideast region states, will likely see less growth in its economy than the national average. This trend of lower than national growth should not, however, prevent continuing employment and income gains from occurring in Pennsylvania.

### THE GENERAL FUND

The General Fund, the Commonwealth's largest fund, is the focal point in any assessment of Pennsylvania's financial position. It accounts for all revenues and receipts which are not required by law to be accounted for or deposited elsewhere and for the major portion of Commonwealth expenditures. Tax receipts, principally personal and corporate income and sales and use taxes, constitute approximately 62 percent of the General Fund budgetary basis revenues. Major fund expenditures are for general government, protection of persons and property, public health and welfare, public education, conservation of natural resources, economic development, transportation and 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.

**Budgetary Basis:** At June 30, 1996 the Commonwealth reported an unreserved/undesignated fund balance (budgetary basis) of \$156.2 million in the General Fund. This compares to a budgetary basis fund balance of \$437.0 million, as restated, at June 30, 1995. The budgetary basis fund balance for the fiscal year ended June 30, 1996 was the result of revenue collections totaling \$24,929.4 million less appropriation authorizations totaling \$25,270.8 million, plus other net financing sources totaling \$60.6 million. Included in the \$25,270.8 million appropriation authorizations are \$113.6 million of state supplemental appropriations and \$92.2 million in federal supplemental appropriations authorized during the fiscal year.

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

<u>At June 30</u>	<u>Unreserved/ Undesignated Fund Balance</u>	<u>Increase (Decrease)</u>
1992	\$ 8.8	\$ 459.7
1993	214.9	206.1
1994	302.2	87.3
1995 (Restated)	437.0	134.8
1996	156.2	(280.8)

**Modified Accrual Basis:** At June 30, 1996 the Commonwealth's General Fund reported a fund balance of \$635.2 million, a decrease of \$53.1 million from the \$688.3 million fund balance at June 30, 1995. Total assets increased by \$519.9 million to \$3,705.1 million. Liabilities increased \$573.0 million to \$3,069.9 million. These changes and others are reflected in the General Fund summary comparative balance sheet that follows.

**General Fund  
Summary Comparative Balance Sheets (GAAP Basis)  
(Expressed in Millions)**

	<u>June 30, 1996</u>	<u>June 30, 1995</u>	<u>Increase (Decrease)</u>
<b>Assets</b>			
Cash and temporary investments .....	\$ 1,155.4	\$ 1,367.5	\$ (212.1)
Receivables, net .....	874.9	846.8	28.1
Due from other funds/component units/governments .....	1,274.9	965.3	309.6
Food stamp coupons .....	391.6	....	391.6
Other assets .....	8.3	5.6	2.7
Total Assets .....	<u>\$ 3,705.1</u>	<u>\$ 3,185.2</u>	<u>\$ 519.9</u>
<b>Liabilities</b>			
Accounts payable and other accrued liabilities .....	\$ 1,924.4	\$ 1,829.6	\$ 94.8
Due to other funds/component units/governments .....	739.1	649.7	89.4
Deferred revenue .....	406.4	17.6	388.8
Total Liabilities .....	<u>3,069.9</u>	<u>2,496.9</u>	<u>573.0</u>
<b>Fund Balance</b>			
Reserved .....	253.4	245.4	8.0
Unreserved:			
Designated .....	381.8	442.9	(61.1)
Total Fund Balance .....	<u>635.2</u>	<u>688.3</u>	<u>(53.1)</u>
Total Liabilities and Fund Balance .....	<u>\$ 3,705.1</u>	<u>\$ 3,185.2</u>	<u>\$ 519.9</u>

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

The Commonwealth's governmental fund types include the General Fund, the Special Revenue Funds, which includes the Motor License Fund, the Debt Service Funds and the Capital Projects Funds. These funds account for most general operating revenues and expenditures. Their combined fund balances at June 30, 1996 increased by \$58.7 million to \$1,986.3 million from a \$1,927.6 million balance at the beginning of the fiscal year. Unreserved/undesignated fund balances at June

30, 1996 amount to \$378.2 million as compared to a \$104.8 million unreserved/undesignated fund balance 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 \$30,926 million. This represents a 8.4 percent increase over the previous year. Taxes constituted 55.7 percent of general governmental revenues; intergovernmental revenues, primarily Federal funds, constituted 30.8 percent.

<u>Revenue Source</u>	<u>Fiscal Years Ended</u>		<u>Increase (Decrease)</u>
	<u>June 30, 1996</u>	<u>June 30, 1995</u>	
Taxes .....	\$ 17,220	\$ 16,990	\$ 230
Licenses and fees .....	796	773	23
Intergovernmental .....	9,517	7,961	1,556
Charges for sales and services .....	1,312	895	417
Investment income .....	153	145	8
Lottery receipts .....	1,699	1,596	103
Lease rental principal and interest .....	2	2	....
Other .....	227	165	62
<b>Total Revenues .....</b>	<b>\$ 30,926</b>	<b>\$ 28,527</b>	<b>\$ 2,399</b>

Intergovernmental revenues increased \$1,556 million due mainly to the newly reporting food stamp coupon revenue as well as increased participation in the Federal Medicare Program.

Charges for sales and services increased \$417 million primarily because of newly reported departmental revenues for highway patrolling.

Tax revenue increased \$230 million due primarily to an increase in employment and an improvement in the economic condition of the Commonwealth.

<u>Taxes by Type</u>	<u>Fiscal Years Ended</u>		<u>Increase (Decrease)</u>
	<u>June 30, 1996</u>	<u>June 30, 1995</u>	
Personal income .....	\$ 5,165	\$ 4,979	\$ 186
Sales and Use .....	5,736	5,613	123
Corporation .....	3,688	3,826	(138)
Liquid Fuels .....	730	730	....
Other .....	1,901	1,842	59
<b>Total Tax Revenue .....</b>	<b>\$ 17,220</b>	<b>\$ 16,990</b>	<b>\$ 230</b>

**General Governmental Expenditures by Function.** Expenditures of the Commonwealth's General, Special Revenue, Debt Service and Capital Projects Funds totalled \$30,567 million, an increase of \$2,304 million over the previous year. Of the total amount expended, public health and welfare accounted for 44.7 percent, public education for 24.3 percent and transportation for 9.3 percent.

<u>Expenditure Function</u>	<u>Fiscal Years Ended</u>		<u>Increase (Decrease)</u>
	<u>June 30, 1996</u>	<u>June 30, 1995</u>	
General government .....	\$ 2,631	\$ 2,313	\$ 318
Protection of persons and property .....	2,345	1,927	418
Public health and welfare .....	13,651	12,250	1,401
Public education .....	7,418	7,007	411
Conservation of natural resources .....	349	572	( 223 )
Economic development and assistance .....	285	338	( 53 )
Transportation .....	2,832	2,773	59
Capital outlay .....	319	265	54
Debt service:			
Principal retirement .....	448	517	( 69 )
Interest and fiscal charges .....	289	301	( 12 )
Total expenditures .....	<u>\$ 30,567</u>	<u>\$ 28,263</u>	<u>\$ 2,304</u>

Expenditures for public health and welfare increased by \$1,401 million or 11.4 percent over the previous fiscal year. Increases in financial support to the economically needy, aid to families with dependent children, and medical assistance comprise a portion of the public health and welfare expenditure increase. Newly reporting food stamp coupon expenditures also caused an increase in public health and welfare expenditures.

Expenditures for protection of persons and property increased by \$418 million or 21.7 percent over the previous fiscal year, due mainly to increased incarceration expenditures and legislative action that abolished the Department of Environmental Resources and created the Department of Environmental Protection and the Department of Conservation and Natural Resources. The classification of certain expenditures was changed from conservation of natural resources to protection of persons and property. This also accounts for the decrease of \$223 million in expenditures for conservation of natural resources.

Expenditures for general government increased by \$318 million or 13.7 percent primarily because of newly reported highway patrol services.

#### **DISCRETELY PRESENTED COMPONENT UNITS— GOVERNMENTAL FUNDS**

The discretely presented component unit governmental fund type includes the Pennsylvania Higher Educational Facilities Authority, the Ben Franklin/IRC Partnership, the Insurance Fraud Prevention Authority and the State Public School Building Authority. Their combined fund balances at June 30, 1996 increased by \$95.1 million to \$373.9 million from a \$278.8 million balance at the beginning of the fiscal year.

Revenues of the component unit governmental funds totaled \$280.8 million at June 30, 1996. Lease rental principal and interest revenue of \$231.5 million represents 82.4 percent of total revenues.

Expenditures of the component unit governmental funds totaled \$795.4 million at June 30, 1996. Of the total amount expended, debt service principal and interest expenditures were \$331.7 million or 41.7 percent of total expenditures and capital outlay was \$422.0 million or 53.1 percent.

#### **DEBT ADMINISTRATION**

The constitution of the Commonwealth of Pennsylvania permits the incurrence of debt, without approval of the electorate, for capital projects specifically authorized in a capital budget. Capital project debt outstanding cannot exceed one and three quarters (1.75) times the average of the annual tax revenues deposited in all funds during the previous five fiscal years. The certified constitutional debt limit at August 31, 1996 was \$33.1 billion. Outstanding capital project debt at August 31, 1996 amounted to \$3.9 billion.

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

The total general obligation bond indebtedness outstanding at June 30, 1996 was \$5,062 million. Total debt service transfers paid from General Fund and Motor License Fund appropriations during the fiscal year ended June 30, 1996 amounted to \$718.4 million.

During the fiscal year ending June 30, 1997 the Office of the Budget projects general obligation bond issuances amounting to \$543 million, a decrease of \$122 million as compared to actual bond issuances of \$665 million during the fiscal year ended June 30, 1996. This forecast reflects the need to make investments in the Commonwealth's capital infrastructure, particularly prisons, highway bridges, mass transportation, water supply systems and parks and recreational facilities. Debt principal retirements of \$438 million are forecast during fiscal 1997. The table that follows shows total outstanding long-term indebtedness for general obligation bonds (expressed in millions) at the end of the seven most recent fiscal years.

<u>At June 30</u>	<u>Outstanding Bond Indebtedness</u>
1990	\$ 4,634
1991	4,788
1992	4,874
1993	5,041
1994	5,100
1995	5,041
1996	5,062

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

During the fiscal year ending June 30, 1997, total General Fund revenues and budgeted expenditures, including Federal funds, are expected to increase by 2.5 percent and .6 percent, respectively. As a result of tax changes and expenditure patterns that are likely to affect the cash receipts flow, the Commonwealth anticipates issuance of \$750 million in General Fund tax anticipation notes during the 1996-97 fiscal year. General Fund tax anticipation notes or commercial paper issuances (expressed in millions) during the five most recent fiscal years are shown below. Motor License Fund tax anticipation notes were not issued for the periods shown and are not expected to be issued in the future.

<u>Fiscal Year Issue Ended June 30</u>	<u>For the Account of the General Fund</u>	<u>Amount Issued as a Percent of General Fund Tax Revenues</u>
1993	\$ 975	7 %
1994	400	3
1995	600	4
1996	500	3
1997 (Estimated)	750	4

#### 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 monies of the Commonwealth that have accumulated beyond the ordinary needs of the various Commonwealth Funds. Investment pools managed by the Treasury Department include the following types of investments, weighted average maturity and allocated percent at June 30, 1996 as depicted below.

<u>Investment Type</u>	<u>Weighted Average Maturity (days)</u>	<u>Percent</u>
Commercial Paper (Moody's Prime One Rating or Equivalent) .....	59	1.3
United States Treasury and Agency Obligations .....	828	12.8
Repurchase Agreements .....	2	76.7
Certificates of Deposit .....	199	1.9
Corporate Bonds and Notes .....	673	0.1
Other .....	237	7.2
		<u>100.0</u>

Temporary investments held by the Treasury Department amounted to \$6.7 billion of the \$8.8 billion reported on the combined balance sheet as of June 30, 1996. Interest on investments controlled by the Treasury Department during the fiscal year amounted to \$375 million at an average yield of 5.8 percent.

### RISK MANAGEMENT

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

### CAPITAL PROJECTS FUNDS

Proceeds of general obligation bonds are generally accounted for in the capital projects funds. Completed projects and construction in progress at the fiscal year end are accounted for as assets and are capitalized in the General Fixed Assets Account Group. Construction in progress at June 30, 1996 amounted to \$363.8 million. Authorized but unissued general obligation bonds at June 30, 1996 totalled \$16.2 billion.

### PROPRIETARY, FIDUCIARY AND COLLEGE AND UNIVERSITY FUNDS

#### Primary Government

The Commonwealth's enterprise funds, Proprietary Fund Types, are used to account for revolving loan programs for economic development, for sales of alcoholic beverages and to provide for workers' compensation. Commonwealth enterprise funds reported total retained earnings at June 30, 1996 of \$152.7 million, which represents a decrease of \$151.8 million from the \$304.5 million retained earnings, reported the previous year.

Fiduciary type funds, including expendable trust funds and a pension trust fund, reported total fund balance of \$19,136 million, compared to \$16,009 million in the previous year. Total fund balances of the expendable trust funds increased \$113 million over the previous fiscal year, for total fund balances of \$2,791 million at June 30, 1996. The State Employees' Retirement System, the pension trust fund, reported a fund balance of \$16,345 million, an increase of \$3,014 million from the previous year. The fund balance is completely reserved for pension benefits.

#### Discretely Presented Component Units

The discretely presented proprietary fund component units account for a turnpike system, loans for improving water and sewer systems, higher education and housing assistance. These discretely presented component units all reported retained earnings at June 30, 1996, totaling \$1,805 million, which represents an increase of \$69 million from the \$1,736 million retained earnings reported the previous year.

The Public School Employees' Retirement System, a fiduciary type fund component unit, pension trust fund, reported a fund balance of \$33,730 million at June 30, 1996, which represents a \$4,929 million increase over the \$28,801 million previous fiscal year fund balance, as restated.

The total fund equity for the College and University funds, used to account for the State System of Higher Education, a discretely presented component unit, at June 30, 1996 was \$296 million, compared to \$247 million at June 30, 1995.

### GENERAL FIXED ASSETS

General fixed assets of the Commonwealth are those used in the performance of general governmental functions. The fixed assets of the proprietary and the fiduciary fund types and the College and University Funds are not included in the General Fixed Assets Account Group, except for certain real property used by the SSHE. General fixed assets as of June 30, 1996 amounted to \$4,323 million at actual or estimated historical cost. Depreciation is not recognized for the Commonwealth's general fixed assets. Infrastructure assets, consisting primarily of highways, roads and bridges, are not reported in the General Fixed Assets Account Group. Both of these practices are in conformity with GAAP.

### INDEPENDENT AUDIT

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

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

### CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth of Pennsylvania for its Comprehensive Annual Financial Report as of and for the fiscal year ended June 30, 1995. This represents the tenth consecutive year the Commonwealth of Pennsylvania has received this award.

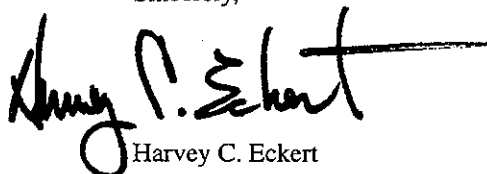
To merit a certificate of achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report which conforms to GFOA standards and satisfies both generally accepted accounting principles and applicable legal requirements. A certificate of achievement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

We believe the Comprehensive Annual Financial Report of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 1996 conforms to the GFOA standards and we are submitting it to the GFOA to determine its eligibility for a Certificate of Achievement for Excellence in Financial Reporting.

### ACKNOWLEDGMENTS

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

Sincerely,



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



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Commonwealth of Pennsylvania

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 1995

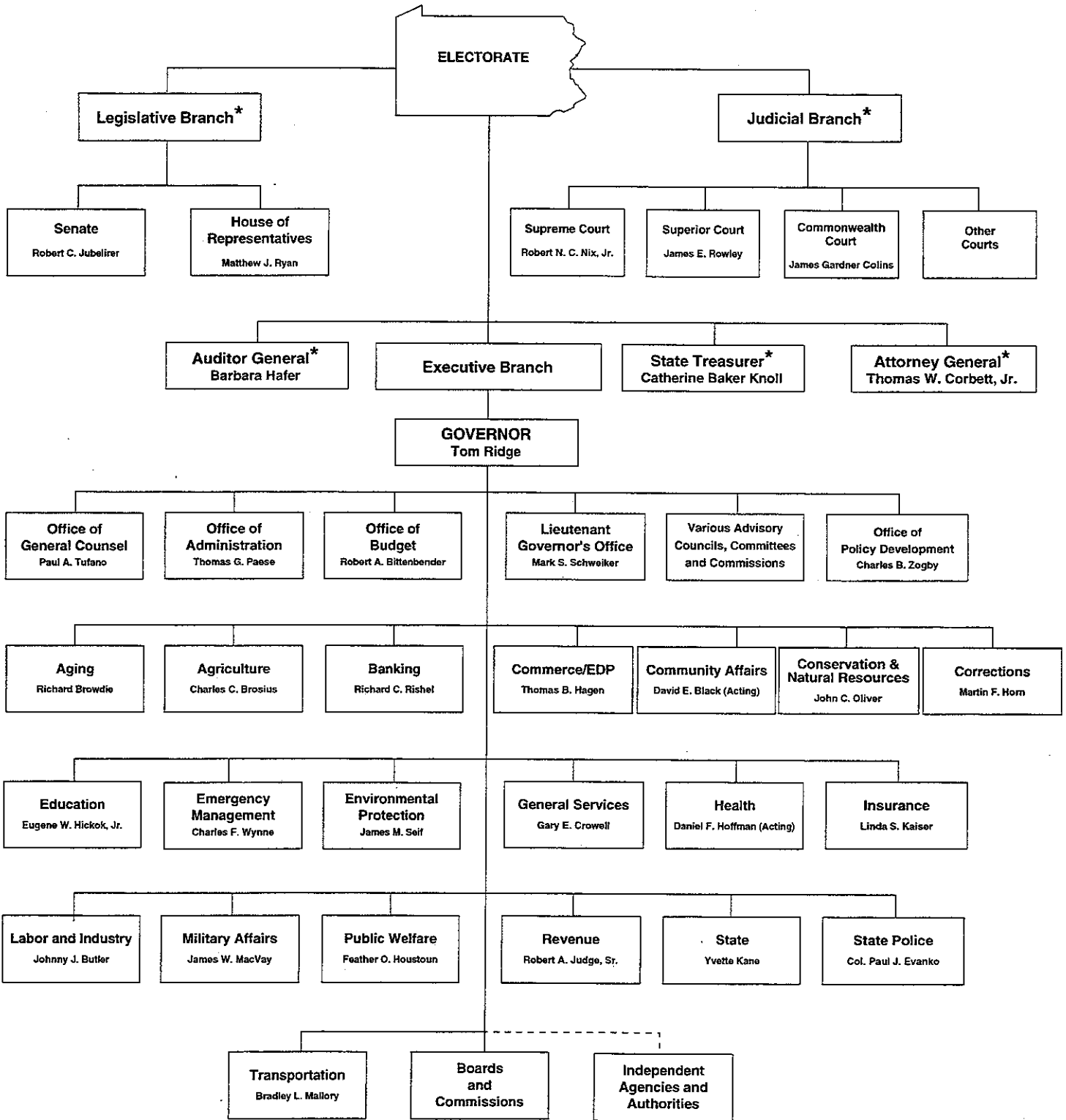
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



*Arthur R. Lynch*  
President

*Jeffrey L. Essler*  
Executive Director

**COMMONWEALTH OF PENNSYLVANIA**  
**ORGANIZATION AND OFFICIALS CHART**  
**JUNE 30, 1996**



\* Independently Elected

# Financial Section



Commonwealth of Pennsylvania



Commonwealth of Pennsylvania  
Office of the Auditor General  
Harrisburg, PA 17120

**ERNST & YOUNG LLP**

■ Central Pennsylvania Practice  
300 Locust Court  
212 Locust Street  
Harrisburg, Pennsylvania 17101

BARBARA HAFER  
AUDITOR GENERAL

### Independent Auditors' Report

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

We have jointly audited the general purpose financial statements of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 1996, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not jointly audit the financial statements of certain component units, which represent 77 percent of total assets of the Trust and Agency Funds, 100 percent of the revenues of the Pension Trust Fund, and 100 percent of the discretely presented component units. The financial statements of these component units were audited by other auditors, including Ernst & Young LLP acting separately, whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for those component units, is based solely on the reports of the other auditors. Ernst & Young LLP has audited separately 4 percent of total assets and 4 percent of total revenues of the discretely presented component units.

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

As discussed in Note B, the insurance loss liability of the State Workmen's Insurance Fund (SWIF), an Enterprise Fund, is based on actuarial analysis of historical experience adjusted to estimate the impact of Act 44 and changes in claims management practices adopted by SWIF management. These factors should be considered when evaluating the reported insurance loss liability.

In our opinion, based on our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth of Pennsylvania at June 30, 1996, and the results of its operations and the cash flows of its Proprietary Funds for the fiscal year then ended, in conformity with generally accepted accounting principles.

As discussed in Note B, the Commonwealth adopted certain new accounting pronouncements related to grants and other financial assistance. The Public School Employees' Retirement System, a discretely presented component unit, adopted new accounting pronouncements related to pensions and securities lending transactions.

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

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

*Barbara Hafer*

*Ernst & Young LLP*

November 15, 1996

**(THIS PAGE INTENTIONALLY LEFT BLANK)**

# General Purpose Financial Statements



Commonwealth of Pennsylvania

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES**  
All Governmental Fund Types, Expendable Trust Funds and  
Discretely Presented Component Units

For the Fiscal Year Ended June 30, 1996

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Governmental Fund Types				Fiduciary	Total		Total
	General	Special Revenue	Debt Service	Capital Projects	Fund Type	(Memorandum Only)	Component Units	(Memorandum Only)
					Expendable Trust	Primary Government		Reporting Entity
<b>REVENUES:</b>								
Taxes .....	\$ 15,635,686	\$ 1,549,870	\$ .....	\$ 34,492	\$ 5,765	\$ 17,225,813	\$ .....	\$ 17,225,813
Unemployment taxes .....	.....	.....	.....	.....	1,661,526	1,661,526	.....	1,661,526
License and fees .....	161,909	634,241	.....	.....	90,147	886,297	.....	886,297
Intergovernmental .....	8,644,622	866,476	.....	6,179	80,860	9,598,137	.....	9,598,137
Charges for sales and services .....	1,031,837	234,197	.....	45,341	.....	1,311,375	8,780	1,320,155
Investment income .....	83,226	61,414	1,346	6,738	166,477	319,201	25,758	344,959
Lottery revenues .....	.....	1,699,277	.....	.....	.....	1,699,277	.....	1,699,277
Lease rental principal and interest .....	.....	.....	2,159	.....	.....	2,159	231,486	233,645
Other .....	156,101	69,729	156	786	460	227,232	14,817	242,049
<b>TOTAL REVENUES</b> .....	<b>25,713,381</b>	<b>5,115,204</b>	<b>3,661</b>	<b>93,536</b>	<b>2,005,235</b>	<b>32,931,017</b>	<b>280,841</b>	<b>33,211,858</b>
<b>EXPENDITURES:</b>								
Current:								
General government .....	1,131,906	1,498,016	.....	595	17,969	2,648,486	.....	2,648,486
Protection of persons and property .....	2,321,790	10,941	.....	12,731	45,072	2,390,534	4,002	2,394,536
Public health and welfare .....	12,981,033	670,284	.....	.....	1,804,647	15,455,964	.....	15,455,964
Public education .....	7,417,355	149	.....	.....	.....	7,417,504	1,604	7,419,108
Conservation of natural resources .....	123,159	196,436	.....	29,044	.....	348,639	.....	348,639
Economic development and assistance .....	228,256	17,596	.....	39,240	.....	285,092	36,066	321,158
Transportation .....	322,318	2,413,589	.....	96,124	.....	2,832,031	.....	2,832,031
Capital outlay .....	46,987	32,808	.....	239,400	.....	319,195	422,017	741,212
Debt Service:								
Principal retirement .....	.....	.....	447,790	.....	.....	447,790	169,525	617,315
Interest and fiscal charges .....	15,184	1	273,935	18	.....	289,138	162,141	451,279
<b>TOTAL EXPENDITURES</b> .....	<b>24,587,988</b>	<b>4,839,820</b>	<b>721,725</b>	<b>417,152</b>	<b>1,867,688</b>	<b>32,434,373</b>	<b>795,355</b>	<b>33,229,728</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b> .....	<b>1,125,393</b>	<b>275,384</b>	<b>( 718,064 )</b>	<b>( 323,616 )</b>	<b>137,547</b>	<b>496,644</b>	<b>( 514,514 )</b>	<b>( 17,870 )</b>
<b>OTHER FINANCING SOURCES (USES):</b>								
Bond proceeds .....	.....	21,772	.....	357,760	.....	379,532	1,241,454	1,620,986
Refunding bond proceeds .....	.....	.....	216,016	.....	.....	216,016	.....	216,016
Operating transfers in—Note H .....	116,468	251,900	719,019	.....	.....	1,087,387	851,896	1,939,283
Operating transfers out—Note H .....	( 565,397 )	( 453,014 )	( 1,231 )	705	( 25,333 )	( 1,044,270 )	( 851,896 )	( 1,896,166 )
Operating transfers from primary government—Note H .....	.....	.....	.....	.....	.....	.....	36,000	36,000
Operating transfers to component units—Note H .....	( 724,893 )	.....	.....	.....	.....	( 724,893 )	.....	( 724,893 )
Payment to refunded bond escrow agent .....	.....	.....	( 213,599 )	.....	.....	( 213,599 )	( 667,879 )	( 881,478 )
Capital lease and installment purchase obligations .....	20,437	.....	.....	.....	.....	20,437	.....	20,437
<b>NET OTHER FINANCING SOURCES (USES)</b> .....	<b>( 1,153,385 )</b>	<b>( 179,342 )</b>	<b>720,205</b>	<b>358,465</b>	<b>( 25,333 )</b>	<b>( 279,390 )</b>	<b>609,575</b>	<b>330,185</b>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b> .....	<b>( 27,992 )</b>	<b>96,042</b>	<b>2,141</b>	<b>34,849</b>	<b>112,214</b>	<b>217,254</b>	<b>95,061</b>	<b>312,315</b>
<b>FUND BALANCES, JULY 1, 1995—</b>								
NOTE C .....	688,304	1,020,772	35,734	182,820	2,678,395	4,606,025	278,789	4,884,814
<b>RESIDUAL EQUITY TRANSFERS—</b>								
NOTE H .....	( 25,130 )	( 21,210 )	.....	.....	.....	( 46,340 )	.....	( 46,340 )
<b>FUND BALANCES JUNE 30, 1996</b> .....	<b>\$ 635,182</b>	<b>\$ 1,095,604</b>	<b>\$ 37,875</b>	<b>\$ 217,669</b>	<b>\$ 2,790,609</b>	<b>\$ 4,776,939</b>	<b>\$ 373,850</b>	<b>\$ 5,150,789</b>

— 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, 1996*

COMMONWEALTH OF PENNSYLVANIA  
(Expressed in Thousands)

	General Fund			Budgeted Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES:</b>						
<b>State Programs:</b>						
Taxes, net of refunds .....	\$ 15,394,900	\$ 15,458,763	\$ 63,863	\$ 1,036,394	\$ 1,029,085	\$ (7,309)
Lottery receipts .....	....	....	....	808,391	856,428	48,037
Liquor store profits transfer .....	42,000	42,000	....	....	....	....
Licenses and fees .....	65,100	68,665	3,565	497,200	506,055	8,855
Fines, penalties and interest .....	23,700	21,059	(2,641)	....	....	....
Departmental services .....	1,053,080	1,053,080	....	45,422	45,422	....
Miscellaneous .....	226,000	231,051	5,051	86,594	86,712	118
<b>TOTAL STATE PROGRAMS .....</b>	<b>16,804,780</b>	<b>16,874,618</b>	<b>69,838</b>	<b>2,474,001</b>	<b>2,523,702</b>	<b>49,701</b>
<b>Federal Programs .....</b>	<b>8,408,952</b>	<b>8,054,824</b>	<b>(354,128)</b>	<b>879,509</b>	<b>605,456</b>	<b>(274,053)</b>
<b>TOTAL REVENUES .....</b>	<b>25,213,732</b>	<b>24,929,442</b>	<b>(284,290)</b>	<b>3,353,510</b>	<b>3,129,158</b>	<b>(224,352)</b>
<b>EXPENDITURES:</b>						
<b>State Programs:</b>						
General government .....	1,424,912	1,404,284	20,628	535,253	531,769	3,484
Protection of persons and property .....	1,997,497	1,973,448	24,049	251,950	247,759	4,191
Public health and welfare .....	5,948,067	5,937,468	10,599	601,928	596,553	5,375
Public education .....	7,330,789	7,288,552	42,237	1,498	1,413	85
Conservation of natural resources .....	106,336	105,967	369	....	....	....
Economic development and assistance .....	226,003	217,234	8,769	....	....	....
Transportation .....	298,560	289,055	9,505	1,175,509	1,170,175	5,334
<b>TOTAL STATE PROGRAMS .....</b>	<b>17,332,164</b>	<b>17,216,008</b>	<b>116,156</b>	<b>2,566,138</b>	<b>2,547,669</b>	<b>18,469</b>
<b>Federal Programs .....</b>	<b>8,408,952</b>	<b>8,054,824</b>	<b>354,128</b>	<b>879,509</b>	<b>605,456</b>	<b>274,053</b>
<b>TOTAL EXPENDITURES .....</b>	<b>25,741,116</b>	<b>25,270,832</b>	<b>470,284</b>	<b>3,445,647</b>	<b>3,153,125</b>	<b>292,522</b>
<b>REVENUES OVER (UNDER) EXPENDITURES .....</b>	<b>(527,384)</b>	<b>(341,390)</b>	<b>185,994</b>	<b>(92,137)</b>	<b>(23,967)</b>	<b>68,170</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Prior year lapses .....	88,211	88,211	....	51,066	51,066	....
Transfer to Tax Stabilization Reserve Fund .....	....	(27,573)	(27,573)	....	....	....
Increase in budgeted revenues .....	69,838	....	(69,838)	....	....	....
<b>NET OTHER FINANCING SOURCES .....</b>	<b>158,049</b>	<b>60,638</b>	<b>(97,411)</b>	<b>51,066</b>	<b>51,066</b>	<b>....</b>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES —NOTE M .....</b>	<b>(369,335)</b>	<b>(280,752)</b>	<b>88,583</b>	<b>(41,071)</b>	<b>27,099</b>	<b>68,170</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), AS RESTATED, JULY 1, 1995 — NOTE M</b>	<b>437,001</b>	<b>437,001</b>	<b>....</b>	<b>258,207</b>	<b>258,207</b>	<b>....</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS) JUNE 30, 1996 .....</b>	<b>\$ 67,666</b>	<b>\$ 156,249</b>	<b>\$ 88,583</b>	<b>\$ 217,136</b>	<b>\$ 285,306</b>	<b>\$ 68,170</b>

— See notes to financial statements. —

**COMBINING BALANCE SHEET**  
**Discretely Presented Component Units**

June 30, 1996

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

	Governmental Funds	Proprietary Funds	Fiduciary Fund— Note I	College and University Funds	Total (Memorandum Only) Component Units
<b>ASSETS AND OTHER DEBITS</b>					
Assets:					
Cash—Note D .....	\$ 89,285	\$ 76,498	\$ 55	\$ 84,796	\$ 250,634
Cash with fiscal agents—Note D .....	659	22,282	.....	.....	22,941
Temporary investments—Note D .....	206,738	2,145,865	1,207,290	88,835	3,648,728
Long-term investments—Note D .....	130,364	185,893	36,850,057	318,941	37,485,255
Receivable, net:					
Accounts .....	42	21,117	.....	29,412	50,571
Accrued interest .....	3,833	69,002	214,467	.....	287,302
Notes and Loans—Note G .....	1,544	5,041,173	.....	28,688	5,071,405
Lease rental—Note G .....	2,895,824	14,197	.....	.....	2,910,021
Pension contributions .....	.....	.....	354,999	.....	354,999
Other .....	.....	.....	5,171	6,568	11,739
Due from other funds—Note H .....	.....	172	.....	140,703	140,875
Due from primary government—Note H .....	.....	4,031	728	.....	4,759
Due from other governments—Note F .....	134	60,855	15	.....	61,004
Inventory .....	.....	6,675	.....	5,117	11,792
Fixed assets—Note E .....	.....	3,281,263	13,776	752,094	4,047,133
Less: accumulated depreciation .....	.....	(1,426,235)	(7,965)	(229,108)	(1,663,308)
Other assets .....	22	70,364	446,500	36,756	553,642
Other Debits:					
Amounts available for retirement of other bonds .....	74,900	.....	.....	.....	74,900
Amounts to be provided for the retirement of:					
Other bonds .....	2,895,824	.....	.....	.....	2,895,824
Other general long-term obligations .....	210	.....	.....	.....	210
<b>TOTAL ASSETS AND OTHER DEBITS</b> .....	<b>\$ 6,299,379</b>	<b>\$ 9,573,152</b>	<b>\$ 39,085,093</b>	<b>\$ 1,262,802</b>	<b>\$ 56,220,426</b>
<b>LIABILITIES, EQUITY AND OTHER CREDITS</b>					
Liabilities:					
Accounts payable and accrued liabilities .....	\$ 11,146	\$ 167,061	\$ 60,443	\$ 112,967	\$ 351,617
Investment purchases payable .....	.....	.....	785,588	.....	785,588
Obligations under securities lending .....	.....	.....	4,502,453	.....	4,502,453
Due to other funds—Note H .....	.....	172	.....	140,703	140,875
Due to primary government—Note H .....	1	38,927	1,730	8,000	48,658
Due to other governments .....	81	16,711	.....	.....	16,792
Deferred revenue .....	2,895,824	51,083	5,198	32,179	2,984,284
Notes payable—Note J .....	47,402	500,710	.....	.....	548,112
Demand revenue bonds payable—Note J .....	.....	571,000	.....	.....	571,000
Other liabilities .....	351	259,762	.....	361,541	621,654
Bonds payable—Note K .....	2,970,724	.....	.....	.....	2,970,724
Revenue bonds payable—Note K .....	.....	4,863,272	.....	.....	4,863,272
Capital lease obligations—Note K .....	.....	.....	.....	311,175	311,175
<b>TOTAL LIABILITIES</b> .....	<b>5,925,529</b>	<b>6,468,698</b>	<b>5,355,412</b>	<b>966,565</b>	<b>18,716,204</b>
Equity and Other Credits:					
Contributed capital—Note H .....	.....	1,299,887	.....	.....	1,299,887
Investment in fixed assets .....	.....	.....	.....	216,456	216,456
Retained earnings:					
Reserved—Note B .....	.....	1,328,775	.....	.....	1,328,775
Unreserved .....	.....	475,792	.....	.....	475,792
Fund balance:					
Reserved for:					
Encumbrances .....	7	.....	.....	34,003	34,010
Pension benefits .....	.....	.....	33,729,681	.....	33,729,681
Loans receivable .....	.....	.....	.....	30,275	30,275
Long-term investments .....	130,364	.....	.....	.....	130,364
Endowment and similar funds .....	.....	.....	.....	8,510	8,510
Restricted fund balance .....	6,860	.....	.....	25,090	31,950
Other—Note B .....	.....	.....	.....	132,752	132,752
Unreserved:					
Designated for:					
Capital projects .....	180,179	.....	.....	.....	180,179
Debt Service:					
Retirement of other bonds .....	50,822	.....	.....	.....	50,822
Other .....	3,263	.....	.....	.....	3,263
Undesignated (deficit)—Note C .....	2,355	.....	.....	(150,849)	(148,494)
<b>TOTAL EQUITY AND OTHER CREDITS</b> .....	<b>373,850</b>	<b>3,104,454</b>	<b>33,729,681</b>	<b>296,237</b>	<b>37,504,222</b>
<b>TOTAL LIABILITIES, EQUITY AND OTHER CREDITS</b> .....	<b>\$ 6,299,379</b>	<b>\$ 9,573,152</b>	<b>\$ 39,085,093</b>	<b>\$ 1,262,802</b>	<b>\$ 56,220,426</b>

— See notes to financial statements. —

**COMBINING BALANCE SHEET**  
**Governmental Funds—Discretely Presented Component Units**

June 30, 1996

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

	State Public School Building Authority	Ben Franklin/ IRC Partnership	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority	Total
<b>ASSETS AND OTHER DEBITS</b>					
Assets:					
Cash—Note D .....	\$ 19	\$ 1	\$ 3,099	\$ 86,166	\$ 89,285
Cash with fiscal agents .....	.....	.....	659	.....	659
Temporary investments—Note D .....	86,251	7,541	.....	112,946	206,738
Long-term investments—Note D .....	25,391	.....	.....	104,973	130,364
Receivables, net:					
Accounts .....	5	.....	37	.....	42
Accrued interest .....	741	39	.....	3,053	3,833
Notes and Loans—Note G .....	1,544	.....	.....	.....	1,544
Lease rental—Note G .....	328,430	.....	.....	2,567,394	2,895,824
Due from other governments .....	.....	.....	134	.....	134
Other assets .....	.....	.....	22	.....	22
Other Debits:					
Amounts available for retirement of other bonds ...	1,535	.....	.....	73,365	74,900
Amounts to be provided for the retirement of:					
Other bonds .....	328,430	.....	.....	2,567,394	2,895,824
Other general long-term obligations .....	210	.....	.....	.....	210
<b>TOTAL ASSETS AND OTHER DEBITS .....</b>	<b>\$ 772,556</b>	<b>\$ 7,581</b>	<b>\$ 3,951</b>	<b>\$ 5,515,291</b>	<b>\$ 6,299,379</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable and accrued liabilities .....	\$ 4,825	\$ 6,250	\$ 15	\$ 56	\$ 11,146
Due to primary government—Note H .....	1	.....	.....	.....	1
Due to other governments .....	.....	81	.....	.....	81
Deferred revenue .....	328,430	.....	.....	2,567,394	2,895,824
Notes payable—Note J .....	47,402	.....	.....	.....	47,402
Other liabilities .....	351	.....	.....	.....	351
Bonds payable—Note K .....	329,965	.....	.....	2,640,759	2,970,724
<b>TOTAL LIABILITIES .....</b>	<b>710,974</b>	<b>6,331</b>	<b>15</b>	<b>5,208,209</b>	<b>5,925,529</b>
Fund Balance:					
Reserved for:					
Encumbrances .....	.....	7	.....	.....	7
Long-term investments .....	25,391	.....	.....	104,973	130,364
Restricted fund balance .....	1,977	.....	.....	4,883	6,860
Unreserved:					
Designated for:					
Capital projects .....	32,240	.....	.....	147,939	180,179
Debt Service:					
Retirement of other bonds .....	1,535	.....	.....	49,287	50,822
Other .....	.....	.....	3,263	.....	3,263
Undesignated .....	439	1,243	673	.....	2,355
<b>TOTAL FUND BALANCES .....</b>	<b>61,582</b>	<b>1,250</b>	<b>3,936</b>	<b>307,082</b>	<b>373,850</b>
<b>TOTAL LIABILITIES AND FUND BALANCES .....</b>	<b>\$ 772,556</b>	<b>\$ 7,581</b>	<b>\$ 3,951</b>	<b>\$ 5,515,291</b>	<b>\$ 6,299,379</b>

— See notes to financial statements. —

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

**Governmental Funds—**

**Discretely Presented Component Units**

*For the Fiscal Year Ended June 30, 1996*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	State Public School Building Authority	Ben Franklin/ IRC Partnership	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority	Total
<b>REVENUES:</b>					
Charges for sales and services .....	\$ 931	\$ 64	\$ 7,785	\$ .....	\$ 8,780
Investment income .....	7,317	359	125	17,957	25,758
Lease rental principal and interest .....	36,021	.....	.....	195,465	231,486
Other .....	735	.....	28	14,054	14,817
<b>TOTAL REVENUES</b> .....	<b>45,004</b>	<b>423</b>	<b>7,938</b>	<b>227,476</b>	<b>280,841</b>
<b>EXPENDITURES:</b>					
Protection of persons and property .....	.....	.....	4,002	.....	4,002
Public education .....	1,439	.....	.....	165	1,604
Economic development and assistance .....	.....	36,066	.....	.....	36,066
Capital outlay .....	57,145	.....	.....	364,872	422,017
Debt Service:					
Principal retirement .....	23,290	.....	.....	146,235	169,525
Interest and fiscal charges .....	23,563	.....	.....	138,578	162,141
<b>TOTAL EXPENDITURES</b> .....	<b>105,437</b>	<b>36,066</b>	<b>4,002</b>	<b>649,850</b>	<b>795,355</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b> .....	<b>( 60,433 )</b>	<b>( 35,643 )</b>	<b>3,936</b>	<b>( 422,374 )</b>	<b>( 514,514 )</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Bond proceeds .....	36,255	.....	.....	1,205,199	1,241,454
Refunding bond proceeds .....	.....	.....	.....	.....	.....
Operating transfers in—Note H .....	72,678	.....	.....	779,218	851,896
Operating transfers out—Note H .....	( 72,678 )	.....	.....	( 779,218 )	( 851,896 )
Operating transfer from primary government— Note H .....	.....	36,000	.....	.....	36,000
Payment to refunded bond escrow agent .....	.....	.....	.....	( 667,879 )	( 667,879 )
<b>NET OTHER FINANCING SOURCES</b> .....	<b>36,255</b>	<b>36,000</b>	<b>.....</b>	<b>537,320</b>	<b>609,575</b>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b> .....	<b>( 24,178 )</b>	<b>357</b>	<b>3,936</b>	<b>114,946</b>	<b>95,061</b>
<b>FUND BALANCES, JULY 1, 1995</b> .....	<b>85,760</b>	<b>893</b>	<b>.....</b>	<b>192,136</b>	<b>278,789</b>
<b>FUND BALANCES, JUNE 30, 1996</b> .....	<b>\$ 61,582</b>	<b>\$ 1,250</b>	<b>\$ 3,936</b>	<b>\$ 307,082</b>	<b>\$ 373,850</b>

— See notes to financial statements. —

**COMBINING BALANCE SHEET**  
**Proprietary Funds — Discretely Presented Component Units**

June 30, 1996

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

	Pennsylvania Turnpike Commission (May 31, 1996)	Pennsylvania Industrial Development Authority	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	Total
<b>ASSETS</b>						
Cash—Note D .....	\$ 71,431	\$ 1	\$ .....	\$ 4,162	\$ 904	\$ 76,498
Cash with fiscal agents—Note D .....	.....	973	.....	21,240	69	22,282
Temporary investments—Note D .....	568,403	71,135	680,160	679,735	146,432	2,145,865
Long-term investments—Note D .....	.....	86,978	80,466	18,449	.....	185,893
Receivables, net:						
Accounts .....	13,008	.....	.....	8,109	.....	21,117
Accrued interest .....	1,281	3,622	.....	61,949	2,150	69,002
Notes and Loans—Note G .....	.....	522,132	2,172,045	1,360,726	986,270	5,041,173
Lease rental—Note G .....	.....	14,197	.....	.....	.....	14,197
Due from other funds .....	.....	.....	98	.....	74	172
Due from primary government—Note H .....	4,031	.....	.....	.....	.....	4,031
Due from other governments—Note F .....	.....	.....	.....	38,078	22,777	60,855
Inventory .....	6,675	.....	.....	.....	.....	6,675
Fixed assets—Note E .....	3,130,211	.....	6,914	143,934	204	3,281,263
Less: accumulated depreciation .....	(1,380,954)	.....	(3,309)	(41,815)	(157)	(1,426,235)
Other assets .....	17,641	11,238	11,704	18,978	10,803	70,364
<b>TOTAL ASSETS</b> .....	<b>\$ 2,431,727</b>	<b>\$ 710,276</b>	<b>\$ 2,948,078</b>	<b>\$ 2,313,545</b>	<b>\$ 1,169,526</b>	<b>\$ 9,573,152</b>
<b>LIABILITIES AND EQUITY</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities .....	\$ 72,280	\$ 326	\$ 47,447	\$ 43,860	\$ 3,148	\$ 167,061
Due to other funds .....	.....	.....	74	.....	98	172
Due to primary government—Note H .....	4,076	.....	37	979	33,835	38,927
Due to other governments .....	.....	.....	.....	16,709	2	16,711
Deferred revenue .....	.....	.....	.....	51,083	.....	51,083
Notes payable—Note J .....	.....	.....	40,210	460,500	.....	500,710
Demand revenue bonds payable—Note J .....	.....	.....	.....	571,000	.....	571,000
Other liabilities .....	17,101	9,728	177,396	55,537	.....	259,762
Revenue bonds payable—Note K .....	1,184,774	342,214	2,284,901	837,785	213,598	4,863,272
<b>TOTAL LIABILITIES</b> .....	<b>1,278,231</b>	<b>352,268</b>	<b>2,550,065</b>	<b>2,037,453</b>	<b>250,681</b>	<b>6,468,698</b>
<b>Equity:</b>						
Contributed capital—Note H .....	180,067	226,350	1,960	.....	891,510	1,299,887
Retained earnings:						
Reserved—Note B .....	973,429	.....	122,460	232,886	.....	1,328,775
Unreserved .....	.....	131,658	273,593	43,206	27,335	475,792
<b>TOTAL EQUITY</b> .....	<b>1,153,496</b>	<b>358,008</b>	<b>398,013</b>	<b>276,092</b>	<b>918,845</b>	<b>3,104,454</b>
<b>TOTAL LIABILITIES AND EQUITY</b> .....	<b>\$ 2,431,727</b>	<b>\$ 710,276</b>	<b>\$ 2,948,078</b>	<b>\$ 2,313,545</b>	<b>\$ 1,169,526</b>	<b>\$ 9,573,152</b>

— See notes to financial statements. —

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

**Proprietary Funds — Discretely Presented Component Units** *For the Fiscal Year Ended June 30, 1996*

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

	Proprietary Fund Type					Total
	Pennsylvania Turnpike Commission (May 31, 1996)	Pennsylvania Industrial Development Authority	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	
<b>OPERATING REVENUES:</b>						
Sales and services .....	\$ 308,608	\$ .....	\$ 124,990	\$ 315,105	\$ 1,081	\$ 749,784
Investment income .....	.....	11,349	31,047	165,741	5,600	213,737
Interest on notes and loans .....	.....	17,753	158,358	.....	17,167	193,278
Other .....	14,078	1,385	6,186	612	25	22,286
<b>TOTAL OPERATING REVENUES</b> .....	<b>322,686</b>	<b>30,487</b>	<b>320,581</b>	<b>481,458</b>	<b>23,873</b>	<b>1,179,085</b>
<b>OPERATING EXPENSES:</b>						
Cost of sales and services .....	162,150	2,898	129,512	628,039	2,591	925,190
Interest expense .....	.....	19,747	148,072	122,468	11,321	301,608
Depreciation .....	157,983	.....	387	14,740	14	173,124
Provision for uncollectible accounts .....	.....	2,255	21,708	.....	(707)	23,256
Other .....	.....	.....	550	.....	.....	550
<b>TOTAL OPERATING EXPENSES</b> .....	<b>320,133</b>	<b>24,900</b>	<b>300,229</b>	<b>765,247</b>	<b>13,219</b>	<b>1,423,728</b>
<b>OPERATING INCOME (LOSS)</b> .....	<b>2,553</b>	<b>5,587</b>	<b>20,352</b>	<b>(283,789)</b>	<b>10,654</b>	<b>(244,643)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>						
Investment income .....	26,380	.....	.....	.....	.....	26,380
Interest expense .....	(58,324)	.....	.....	.....	.....	(58,324)
Oil company franchise tax .....	40,708	.....	.....	.....	.....	40,708
Other .....	.....	.....	.....	3,913	.....	3,913
<b>NONOPERATING REVENUES, NET</b> .....	<b>8,764</b>	<b>.....</b>	<b>.....</b>	<b>3,913</b>	<b>.....</b>	<b>12,677</b>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS AND EXTRAORDINARY ITEMS</b> .....	<b>11,317</b>	<b>5,587</b>	<b>20,352</b>	<b>(279,876)</b>	<b>10,654</b>	<b>(231,966)</b>
<b>OPERATING TRANSFERS:</b>						
Operating transfers from primary government—Note H .....	.....	.....	18,000	282,877	.....	300,877
<b>INCOME BEFORE EXTRAORDINARY ITEMS</b> .....	<b>11,317</b>	<b>5,587</b>	<b>38,352</b>	<b>3,001</b>	<b>10,654</b>	<b>68,911</b>
Extraordinary loss on early extinguishment of debt .....	.....	.....	(151)	.....	.....	(151)
<b>NET INCOME</b> .....	<b>11,317</b>	<b>5,587</b>	<b>38,201</b>	<b>3,001</b>	<b>10,654</b>	<b>68,760</b>
<b>RETAINED EARNINGS, JULY 1, 1995</b> .....	<b>962,112</b>	<b>126,071</b>	<b>357,852</b>	<b>273,091</b>	<b>16,681</b>	<b>1,735,807</b>
<b>RETAINED EARNINGS, JUNE 30, 1996</b> .....	<b>\$ 973,429</b>	<b>\$ 131,658</b>	<b>\$ 396,053</b>	<b>\$ 276,092</b>	<b>\$ 27,335</b>	<b>\$ 1,804,567</b>

— See notes to financial statements. —

# COMBINING STATEMENT OF CASH FLOWS

## Proprietary Funds — Discretely Presented Component Units

For the Fiscal Year Ended June 30, 1996

### COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Pennsylvania Turnpike Commission (May 31, 1996)	Pennsylvania Industrial Development Authority	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	Total
<b>CASH USED FOR OPERATIONS:</b>						
Operating income (loss) .....	\$ 2,553	\$ 5,587	\$ 20,352	\$ (283,789)	\$ 10,654	\$ (244,643)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Depreciation .....	157,983	....	387	14,740	14	173,124
Provision for uncollectible accounts .....	....	2,255	21,708	....	(707)	23,256
Nonoperating revenues .....	....	....	....	3,913	....	3,913
Reclassification of investment income .....	....	(11,349)	(31,047)	(165,741)	(5,600)	(213,737)
Changes in assets and liabilities:						
Decrease (increase) in receivables .....	3,037	(49,292)	(126,132)	223,330	(99,839)	(48,896)
Increase in due from other funds .....	....	....	(98)	....	(74)	(172)
Increase in due from primary government .....	(734)	....	....	....	....	(734)
Decrease (increase) in due from other governments .....	....	....	....	352	(22,777)	(22,425)
Decrease in inventory .....	759	....	....	....	....	759
Decrease (increase) in other current assets .....	1,232	(868)	815	(591)	(43)	545
Increase (decrease) in accounts payable and accrued liabilities .....	(3,001)	(8)	484	4,166	(39)	1,602
Increase in due to other funds .....	....	....	74	....	98	172
Increase (decrease) in due to primary government .....	77	....	(6)	115	(1,978)	(1,792)
Increase in due to other governments .....	....	....	....	6,205	....	6,205
Increase in deferred revenue .....	....	....	....	3,127	....	3,127
Increase (decrease) in other current liabilities .....	2,592	(255)	6,860	(700)	....	8,497
<b>TOTAL ADJUSTMENTS .....</b>	<b>161,945</b>	<b>(59,517)</b>	<b>(126,955)</b>	<b>88,916</b>	<b>(130,945)</b>	<b>(66,556)</b>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES .....</b>	<b>164,498</b>	<b>(53,930)</b>	<b>(106,603)</b>	<b>(194,873)</b>	<b>(120,291)</b>	<b>(311,199)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
Proceeds from issuance of debt obligations .....	....	....	343,028	215,932	....	558,960
Principal paid on debt obligations .....	....	(10,738)	(150,637)	(235,429)	....	(396,804)
Operating transfers from primary government .....	....	....	18,000	282,877	....	300,877
Decrease in contributed capital .....	....	....	(1,503)	....	....	(1,503)
<b>NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES .....</b>	<b>....</b>	<b>(10,738)</b>	<b>208,888</b>	<b>263,380</b>	<b>....</b>	<b>461,530</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Proceeds from issuance of debt obligations .....	....	....	....	....	500	500
Principal paid on debt obligations .....	(21,112)	....	....	....	(6,912)	(28,024)
Interest paid on debt obligations .....	(58,324)	....	....	....	....	(58,324)
Increases in contributed capital .....	9,001	....	....	....	148,632	157,633
Decrease in contributed capital .....	....	....	....	....	(2,895)	(2,895)
Acquisition and construction of capital assets .....	(183,077)	....	(894)	(6,733)	(36)	(190,740)
Oil company franchise tax .....	40,708	....	....	....	....	40,708
<b>NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES .....</b>	<b>(212,804)</b>	<b>....</b>	<b>(894)</b>	<b>(6,733)</b>	<b>139,289</b>	<b>(81,142)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Purchase of investments .....	(588,537)	(12,717,197)	(584,014)	(2,391,353)	(639,387)	(16,920,488)
Proceeds for sale and maturities of investments .....	678,038	12,770,894	448,583	2,165,687	615,324	16,678,526
Investment income .....	26,380	11,349	31,047	165,741	5,600	240,117
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES .....</b>	<b>115,881</b>	<b>65,046</b>	<b>(104,384)</b>	<b>(59,925)</b>	<b>(18,463)</b>	<b>(1,845)</b>
<b>NET INCREASE (DECREASE) IN CASH .....</b>	<b>67,575</b>	<b>378</b>	<b>(2,993)</b>	<b>1,849</b>	<b>535</b>	<b>67,344</b>
<b>CASH, JULY 1, 1995 .....</b>	<b>3,856</b>	<b>596</b>	<b>2,993</b>	<b>23,553</b>	<b>438</b>	<b>31,436</b>
<b>CASH, JUNE 30, 1996 .....</b>	<b>\$ 71,431</b>	<b>\$ 974</b>	<b>\$ ....</b>	<b>\$ 25,402</b>	<b>\$ 973</b>	<b>\$ 98,780</b>

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

— See notes to financial statements. —

**COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS**

**Pension Trust Fund — Discretely Presented Component Unit**      *For the Fiscal Year Ended June 30, 1996*

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

	Public School Employees' Retirement System		
	Pension	Postemployment Healthcare	Total
<b>ADDITIONS:</b>			
Net appreciation (depreciation) in fair value of investments .....	\$ 3,817,082	\$ (492)	\$ 3,816,590
Pension contributions .....	1,308,753	48,133	1,356,886
Investment income .....	1,324,220	2,482	1,326,702
Transfer from primary government — Note H .....	2,491	....	2,491
<b>TOTAL ADDITIONS</b> .....	<u>6,452,546</u>	<u>50,123</u>	<u>6,502,669</u>
<b>DEDUCTIONS:</b>			
Benefit payments .....	1,504,120	28,413	1,532,533
Refunds of contributions .....	14,124	....	14,124
Administrative expenses .....	22,111	601	22,712
Transfer to primary government — Note H .....	4,121	....	4,121
<b>TOTAL DEDUCTIONS</b> .....	<u>1,544,476</u>	<u>29,014</u>	<u>1,573,490</u>
Net increase .....	4,908,070	21,109	4,929,179
Fund balance reserved for pension and postemployment healthcare benefits:			
JULY 1, 1995, AS RESTATED — NOTE C .....	<u>28,754,390</u>	<u>46,112</u>	<u>28,800,502</u>
<b>JUNE 30, 1996</b> .....	<u>\$ 33,662,460</u>	<u>\$ 67,221</u>	<u>\$ 33,729,681</u>

— See notes to financial statements. —



**COMBINING BALANCE SHEET**  
**College and University Funds—Discretely Presented Component Unit**  
**June 30, 1996**

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds			Agency	Component Units	Total	
	Unrestricted	Restricted			Unexpended	Renewal and Replacement	Retirement of Indebtedness				Investment in Plant
<b>ASSETS:</b>											
Cash—Note D	\$ 72,436	\$	\$	\$	\$	\$	\$	\$	\$	\$ 84,796	
Temporary investments—Note D	67,552				21,283					88,835	
Long-term investments—Note D	182,271	141		5,471	1,500	125,593		3,965		318,941	
Receivables, net:											
Accounts	18,280	7,808				37	389	2,338		29,412	
Notes and Loans—Note G			28,688							28,688	
Other					6,568					6,568	
Due from other funds—Note H		4,242	1,920	3,039	45,117	6,819	11,297	6,370		140,703	
Inventory	5,117									5,117	
Fixed assets—Note E										739,813	
Less: accumulated depreciation										(229,108)	
Other assets	20,169	48			149	7,109		9,172		36,756	
<b>TOTAL ASSETS</b>	<b>\$ 365,825</b>	<b>\$ 12,239</b>	<b>\$ 30,608</b>	<b>\$ 8,510</b>	<b>\$ 77,038</b>	<b>\$ 140,871</b>	<b>\$ 11,686</b>	<b>\$ 42,752</b>	<b>\$ 1,262,802</b>		
<b>LIABILITIES AND FUND EQUITY</b>											
<b>Liabilities:</b>											
Accounts payable and accrued liabilities	\$ 84,174	\$ 2,147	\$	\$	\$ 6,684	\$ 4,836	\$ 221	\$ 14,905	\$	\$ 112,967	
Due to other funds—Note H	137,795								2,908	140,703	
Due to primary government—Note H	8,000								8,000	32,179	
Deferred revenue	32,179									361,541	
Other liabilities	344,732		333							311,175	
Capital lease obligations—Note K					14,588			11,465		966,565	
<b>TOTAL LIABILITIES</b>	<b>606,880</b>	<b>2,147</b>	<b>333</b>		<b>21,272</b>	<b>4,836</b>	<b>11,686</b>	<b>14,905</b>	<b>14,905</b>		
<b>Fund Equity:</b>											
Investment in fixed assets										216,456	
Fund Balance:											
Reserved for:											
Encumbrances	9,934	1,264			12,354	10,437			14	34,003	
Loans receivable			30,275							30,275	
Endowment and similar funds				8,510						8,510	
Restricted fund balance		8,828			3,316	11,420				25,090	
Other—Note B	93,743				9,128	18,129			10,106	132,752	
Unreserved:											
Undesignated (deficit)—Note C	(344,732)				30,968	17,746			17,727	(150,849)	
<b>TOTAL FUND EQUITY (DEFICIT)</b>	<b>(241,055)</b>	<b>10,092</b>	<b>30,275</b>	<b>8,510</b>	<b>55,766</b>	<b>57,732</b>		<b>27,847</b>	<b>27,847</b>	<b>296,237</b>	
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 365,825</b>	<b>\$ 12,239</b>	<b>\$ 30,608</b>	<b>\$ 8,510</b>	<b>\$ 77,038</b>	<b>\$ 62,568</b>	<b>\$ 11,686</b>	<b>\$ 42,752</b>	<b>\$ 1,262,802</b>		

— See notes to financial statements. —

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

*For the Fiscal Year Ended June 30, 1996*

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

**REVENUES AND OTHER ADDITIONS:**

	Current Funds		Endowment and Similar Funds	Plant Funds			Component Units	Totals
	Unrestricted	Restricted		Unexpended	Renewal and Replacement	Retirement of Indebtedness		
Unrestricted current funds	\$ 569,505	\$	\$	\$	\$	\$	\$	\$ 569,505
Gifts and bequests	2,758		536	886		1,194		7,839
Grants and contracts	118,245		251	149	762			121,836
Federal advances			1,565					1,565
Endowment income	533							533
Investment income	257		135	296	4,245			5,989
Interest on loans receivable			676					676
Expended for plant facilities—Net of disposals (including \$1,990 charged to current funds expenditures)						72,688		72,688
Retirement of indebtedness					256	12,404		12,893
Other			43	6,560	4,469		47,485	59,834
<b>TOTAL REVENUES AND OTHER ADDITIONS</b>	<b>569,505</b>	<b>121,793</b>	<b>579</b>	<b>7,891</b>	<b>9,732</b>	<b>86,286</b>	<b>47,485</b>	<b>853,358</b>

**EXPENDITURES AND OTHER DEDUCTIONS:**

Educational and general	786,517	120,292						906,809
Auxiliary enterprises	116,313	246						116,559
Loan cancellations			597					597
Administrative and collection costs			340					340
Expended for plant facilities				9,331	1,293	46,462		79,313
Depreciation on plant facilities						36,343		36,343
Retirement of indebtedness					12,893			12,893
Interest on indebtedness					14,748			14,748
Other		2,409	99	161		3,572		52,786
<b>TOTAL EXPENDITURES AND OTHER DEDUCTIONS</b>	<b>902,830</b>	<b>122,947</b>	<b>1,036</b>	<b>9,492</b>	<b>28,934</b>	<b>86,377</b>	<b>46,545</b>	<b>1,220,388</b>

**TRANSFER AND ALLOCATION AMONG FUNDS—ADDITIONS (DEDUCTIONS):**

Mandatory:								
Principal and interest	(12,566)			209				
Other	(323)	37	284					
Nonmandatory:								
Operating transfers from Primary Government—Note H	381,600	1,705		153		196		388,016
Other	(48,168)	(218)	201	9,559	27,757		(928)	
<b>TRANSFERS AND ALLOCATIONS, NET</b>	<b>320,543</b>	<b>1,524</b>	<b>284</b>	<b>9,921</b>	<b>40,592</b>	<b>196</b>	<b>(928)</b>	<b>388,016</b>
<b>NET INCREASE (DECREASE) FOR THE YEAR</b>	<b>(12,782)</b>	<b>370</b>	<b>1,875</b>	<b>7,889</b>	<b>21,390</b>	<b>105</b>	<b>12</b>	<b>20,986</b>
<b>FUND BALANCES (DEFICITS), JULY 1, 1995</b>	<b>(228,273)</b>	<b>9,722</b>	<b>28,400</b>	<b>47,877</b>	<b>109,224</b>	<b>216,351</b>	<b>27,835</b>	<b>275,251</b>
<b>FUND BALANCES (DEFICITS), JUNE 30, 1996—Note C</b>	<b>(241,055)</b>	<b>10,092</b>	<b>30,275</b>	<b>55,766</b>	<b>130,614</b>	<b>216,456</b>	<b>27,847</b>	<b>296,237</b>

— See notes to financial statements. —

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

*For the Fiscal Year Ended June 30, 1996*

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

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<b>REVENUES:</b>			
Tuition and fees .....	\$ 386,272	\$ ....	\$ 386,272
Government grants and contracts:			
State and local .....	4,150	55,366	59,516
Federal .....	1,988	58,972	60,960
Private gifts, grants and contracts .....	3,929	6,559	10,488
Investment income .....	17,864	223	18,087
Endowment income .....	107	456	563
Activities of educational departments .....	7,633	....	7,633
Other sources .....	17,443	217	17,660
Auxiliary enterprises .....	130,119	....	130,119
<b>TOTAL REVENUES</b> .....	<u>569,505</u>	<u>121,793</u>	<u>691,298</u>
<b>EXPENDITURES AND MANDATORY TRANSFERS:</b>			
<b>EXPENDITURES:</b>			
Educational and general:			
Instruction .....	417,088	6,098	423,186
Research .....	1,115	2,517	3,632
Public service .....	8,976	16,362	25,338
Academic support .....	84,710	2,618	87,328
Student services .....	69,239	4,300	73,539
Operations and maintenance of plant .....	84,405	277	84,682
General institutional support .....	112,781	2,727	115,508
Student aid .....	8,203	85,393	93,596
<b>TOTAL EDUCATIONAL AND GENERAL</b> .....	<u>786,517</u>	<u>120,292</u>	<u>906,809</u>
Auxiliary enterprises .....	116,313	246	116,559
<b>TOTAL MANDATORY TRANSFERS</b> .....	<u>902,830</u>	<u>120,538</u>	<u>1,023,368</u>
<b>MANDATORY TRANSFERS:</b>			
Principal and interest .....	12,566	....	12,566
Other .....	323	( 37 )	286
<b>TOTAL MANDATORY TRANSFERS</b> .....	<u>12,889</u>	<u>( 37 )</u>	<u>12,852</u>
<b>TOTAL EXPENDITURES AND MANDATORY TRANSFERS</b> .....	<u>915,719</u>	<u>120,501</u>	<u>1,036,220</u>
<b>OPERATING TRANSFERS, OTHER TRANSFERS AND DEDUCTIONS:</b>			
Operating transfers from Primary Government—			
Note H .....	381,600	1,705	383,305
Other transfers .....	( 48,168 )	218	( 47,950 )
Deductions .....	....	( 2,845 )	( 2,845 )
<b>OPERATING TRANSFERS, OTHER TRANSFERS AND DEDUCTIONS, NET</b> .....	<u>333,432</u>	<u>( 922 )</u>	<u>332,510</u>
<b>NET INCREASE (DECREASE) IN FUND BALANCES</b>	<u>\$ ( 12,782 )</u>	<u>\$ 370</u>	<u>\$ ( 12,412 )</u>

— See notes to financial statements. —

**TABLE OF CONTENTS**

	<u>Page</u>
<b>Note A</b> Financial Reporting Entity .....	23
<b>Note B</b> Summary of Significant Accounting Policies .....	28
<b>Note C</b> Fund Balance / Retained Earnings Deficits / Restatements .....	36
<b>Note D</b> Deposits and Investments .....	37
<b>Note E</b> Fixed Assets .....	43
<b>Note F</b> Due From Other Governments .....	43
<b>Note G</b> Taxes, Loans and Lease Rental Receivables .....	44
<b>Note H</b> Interfund Accounts / Operating Transfers / Residual Equity Transfers .....	45
<b>Note I</b> Retirement and Other Postemployment Benefits .....	50
<b>Note J</b> Notes and Demand Revenue Bonds Payable .....	57
<b>Note K</b> Long-Term Obligations .....	60
<b>Note L</b> Refunded Debt .....	64
<b>Note M</b> Reconciliation of Budgetary and GAAP Basis Amounts .....	67
<b>Note N</b> Segment Information .....	68
<b>Note O</b> Self-Insurance .....	69
<b>Note P</b> Commitments and Contingencies .....	70
<b>Note Q</b> Certain Agency Fund Claims Liabilities .....	72
<b>Note R</b> Deferred Compensation .....	72
<b>Note S</b> Joint Venture .....	73
<b>Note T</b> Subsequent Events .....	74

## COMMONWEALTH OF PENNSYLVANIA

## NOTE A—FINANCIAL REPORTING ENTITY

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

**Blended Component Unit**

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

**Discretely Presented Component Units**

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

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

**Ben Franklin/IRC Partnership (Partnership) (Governmental Fund Type)** — The Partnership assists business through interaction of technology development, modernization and training programs. Industrial resource centers and technology centers, established through the Partnership, also increase the competitiveness of businesses. Operations of the Partnership are funded by state appropriations and private contributions; the Partnership may not issue debt. The Partnership works closely with the Department of Commerce.

## **NOTES TO FINANCIAL STATEMENTS**

---

### **NOTE A—Financial Reporting Entity (continued)**

---

The PG appoints all fifteen voting members of the governing board. All Partnership expenditures must be appropriated annually by the General Assembly.

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

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

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

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

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

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

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

The PG appoints all voting board members and is able to impose its will on the PIDA. The PG has provided contributed capital; "excess" PIDA funds are transferred to the General Fund. The PG is

## NOTES TO FINANCIAL STATEMENTS

---

### NOTE A—Financial Reporting Entity (continued)

---

not obligated for the PIDA debt, but the PG could take certain actions to satisfy bondholders.

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

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

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

---

### NOTE A—Financial Reporting Entity (continued)

---

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

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

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

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

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

### Financial Reports

Audited financial statements for component units are available from the individual organizations. Interested parties should write to the Deputy Secretary for Comptroller Operations, Room 207 Finance Building, Harrisburg, PA 17120, to learn how to obtain these reports.

### Related Organizations

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



## **NOTES TO FINANCIAL STATEMENTS**

---

### **NOTE A—Financial Reporting Entity (continued)**

---

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

#### **Joint Venture**

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

#### **Excluded Organizations**

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

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

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

# **NOTES TO FINANCIAL STATEMENTS**

---

## **NOTE B— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

---

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

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

### **Governmental Funds**

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

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

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

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

### **Proprietary Funds**

*Enterprise Funds*—Account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges. The State Workmen's Insurance Fund is included for its fiscal year ended December 31, 1995 and the State Stores Fund for its fiscal year ended June 25, 1996.

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

### **Fiduciary Funds**

*Trust and Agency Funds*—Account for assets held by the Commonwealth in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include Expendable Trust Funds, a Pension Trust Fund and Agency Funds. The State Employees' Retirement System, a Pension Trust Fund and the Deferred Compensation Fund and the INVEST Program for Local Governments, Agency Funds, are included for their fiscal years ended December 31, 1995.

### **Account Groups**

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

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

## NOTES TO FINANCIAL STATEMENTS

---

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

---

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

#### College and University Funds

Account for the operations of the Office of the Chancellor and the 14 state-owned universities, which comprise the State System of Higher Education, in accordance with the accounting guidance and reporting practices applicable to governmental colleges and universities, as outlined in the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities*, and pronouncements issued by the Governmental Accounting Standards Board. Accordingly, the College and University Funds are an aggregation of the following funds:

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

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

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

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

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

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

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

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

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

*Component Units*—Account for certain affiliated organizations for which the Board has oversight responsibility.

**Measurement Focus and Basis of Accounting (GAAP):** The general, special revenue, debt service, capital projects funds (Governmental Fund Types) and expendable trust funds are reported using the current financial resources measurement focus and modified accrual basis of accounting. Assets and liabilities of agency funds are reported using the modified accrual basis of accounting. Under this measurement focus only current assets and current liabilities are normally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Unreserved fund balance represents a measure of available spendable resources. Under the modified accrual basis of accounting, revenues of governmental and expendable trust funds are recognized in the year that they become both measurable and available (within 60 days of fiscal year-end) to pay current fiscal year liabilities. The Commonwealth accrues the following major revenue sources that are both measurable and available:

## NOTES TO FINANCIAL STATEMENTS

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

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

Revenues from other sources are recognized when received. Expenditures are generally recognized in the fiscal year the goods or services are received and the related fund liability is incurred. Debt service expenditures for principal and interest on general long-term obligations are recognized when due unless resources have been provided for payment early in the subsequent fiscal year. Prepaid items and inventory purchases are reported as current fiscal year expenditures, rather than allocating cost to the fiscal year when the items are used. Expenditures for claims, judgments, compensated absences and employer pension contributions are reported as the amount accrued during the fiscal year that normally would be liquidated with expendable available financial resources. Budgetary encumbrances are not reported as expenditures.

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

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

The preparation of financial statements in accordance with GAAP requires the use of estimates and judgments by management.

**Basis of Accounting (Budgetary):** The Commonwealth's Constitution requires that the Governor submit a budget annually to be adopted by the General Assembly for the ensuing fiscal year. The General Assembly may add, change or delete any items in the budget proposed by the Governor, but the Governor retains veto power over the individual appropriations passed by the legislature. The Governor may also reduce individual appropriations, but may not increase them. A gubernatorial veto can be overridden only by a two-thirds majority of each House of the General Assembly.

The Commonwealth's budgets are prepared essentially on a cash basis. Total appropriations enacted by the General Assembly may not exceed the ensuing fiscal year's estimated revenues, as developed by the Governor, plus (less) the unappropriated fund balance (deficit) of the preceding fiscal year, except for constitutionally authorized debt service payments.

Budgetary control is exercised at the appropriation level (legislative spending authority level). Encumbrances and expenditures cannot exceed appropriated amounts. Appropriation transfers between departments and any supplemental appropriations require both executive and legislative branch approval. Unencumbered and unexpended appropriations lapse at fiscal year end and become available for appropriation in the subsequent year. On the budgetary basis of accounting, certain estimated tax revenue accruals are recorded at fiscal year end for the General Fund and the Motor License Fund, a Special Revenue Fund. Accruals include sales and use taxes and personal income taxes, both applicable to the General Fund, and liquid fuels taxes applicable to the Motor License Fund, which are estimated to be owed to the Commonwealth but not collected at fiscal year end. Also, estimated encumbrances are established for all funds at fiscal year end to pay certain direct expenditures for salaries, wages, travel, and utility costs payable against current year appropriation authority but expended in the subsequent year. Over-estimates of prior year encumbrances are lapsed in the subsequent year and under-estimates are charged to subsequent year appropriation authority. A separate document, "Status of Appropriations" for the fiscal year ended June 30, 1996 reports the level of legal control at the appropriation level for specific departmental programs and functions, and is available from the Commonwealth's Office of the Budget.

# NOTES TO FINANCIAL STATEMENTS

---

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

---

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

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

The legally adopted budget for the General Fund includes \$113.6 million in supplemental appropriations approved during the fiscal year ended June 30, 1996.

Not all Special Revenue Funds are controlled by legally adopted budgets. Controls over spending in such Special Revenue Funds are maintained by use of spending limits (executive authorizations) established by the Governor.

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

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

**Pooled Cash:** In accordance with the 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.

**Temporary Investments:** Investments expected to be realized in cash within twelve months or less are reported as temporary investments. These investments include cash equivalents, which have original maturity dates of three months or less, are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value which would result from changes in interest rates. No investments which could be defined as cash equivalents have been treated as such on the Statement of Cash Flows; therefore, net changes in cash only are displayed. Temporary investments are stated at cost except for investments of the State Employees' Retirement System, the Public School Employees' Retirement System, the Deferred Compensation Fund and the Insurance Liquidation Fund, which are stated at fair value typically determined using quoted market prices.

Practically all primary government funds and certain component unit funds participate in Treasury short-term investment pools. Each participating fund earns investment income based on its prorata share of invested amounts, calculated on a daily basis, and paid on a monthly basis. In addition, some funds report their own separate investment portfolio purchased through the Treasury Department and therefore receive all income earned on these investments.

**Long-Term Investments:** Investments expected to be realized in cash after twelve months are reported as long-term investments. Long-term investments are stated at cost for equity securities and at amortized cost for debt securities, except for investments of the State Employees' Retirement System, the Deferred Compensation Fund and the Insurance Liquidation Fund, which are stated at fair value. Fair value is based on published market prices, quotations from national securities exchanges and securities pricing services, or by the respective fund managers for securities which are not actively traded. Other investments are valued based on appraisals or the present value of projected future income.

**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.

# NOTES TO FINANCIAL STATEMENTS

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

**Inventories:** Inventories of goods, materials and supplies are maintained by the Proprietary and College and University Funds. These inventories are valued at the lower of cost or market (first-in, first-out) for Proprietary and weighted average for College and University Funds. In the governmental fund types, inventories are accounted for on the purchases method.

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

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

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

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

**Insurance Loss Liability:** The reported insurance loss liability of the State Workmen's Insurance Fund (SWIF), an Enterprise Fund, is based on historical claims experience. Several assumptions were used to determine the liability amount, including the use of a 5.5 percent discount rate. The 5.5 percent rate represents a change from prior years, during which the discount rate was 4 percent. As a result of this change in assumption, the reported insurance loss liability has decreased \$130 million at December 31, 1995. Further, in determining the liability amount, extensive changes in statutory benefits due to the passage of Act 44 in 1993 and changes in claims management practices adopted by SWIF were considered. SWIF management expects these legislative and operational changes to substantially reduce claim duration, the utilization of medical services, and inflation of medical costs. At present, SWIF does not have a significant amount of empirical data to measure the expected cost reduction for these changes. However, the estimated effect was incorporated in the actuarial reserve analysis through adjustments to the historical data. These adjustments were based on limited actual information. The length of time required for the actual insurance loss liability to be determined and the uncertainty regarding whether the adjusted data will be supported by future claim experience, including payments, must be considered when evaluating the reported insurance loss liability.

**Self-Insurance:** The Commonwealth is uninsured for property losses and self-insured for annuitant medical/hospital benefits, employe disability and tort claims. Reporting of self-insurance liabilities is described in Note O.

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

## NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

**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, \$72.5 million, is applicable to a demand loan to the State Stores Fund for \$66 million, an advance to the State Workmen's Insurance Fund for \$2.3 million, both Enterprise Funds, and an advance to the Motor License Fund for \$2.2 million and the Pharmaceutical Assistance Fund for \$2.0 million, both, Special Revenue Funds. For its fiscal year ended December 31, 1995 the State Workmen's Insurance Fund has reported an advance from the General Fund in the amount of \$2 million.

The amount reserved for advances in the Hazardous Sites Cleanup Fund, a Special Revenue Fund, is applicable to a \$3 million advance to the Air Quality Improvement Fund, a Special Revenue Fund.

The \$29.8 million reported as "Reserved for other" in the General Fund at June 30, 1996 includes \$3.1 million for advances to organizations outside the financial reporting entity and \$26.7 million for other receivables.

The \$111 thousand reported as "Reserved for other" in the Special Revenue Funds at June 30, 1996 pertains to reserves for other receivables in the State Lottery Fund and the Nursing Home Loan Development Fund in the amount of \$8 thousand and \$103 thousand, respectively.

The \$132.8 million reported as "Reserved for other" in the College and University Funds, a discretely presented component unit, at June 30, 1996 pertains to approved academic projects that will begin in subsequent fiscal periods.

Reserved retained earnings reported for Enterprise Funds are provided principally for insurance claims relating to the State Workmen's Insurance Fund, reserves for contingencies for the Rehabilitation Center Fund, and equipment replacement reserves for other enterprise funds. Reserved retained earnings reported for Discretely Presented Component Unit Proprietary Funds are provided principally for the retirement of revenue bonds relating to the Pennsylvania Turnpike Commission, student loans relating to the Pennsylvania Higher Education Assistance Agency, and housing loans relating to the Pennsylvania Housing Finance Agency. At June 30,

## NOTES TO FINANCIAL STATEMENTS

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

1996 the Commonwealth has included the following reservations of retained earnings for the Enterprise Funds and the Discretely Presented Component Unit Proprietary Funds (expressed in thousands):

	Primary Government	Discretely Presented Component Unit
State Workmen's Insurance Fund .....	\$ 65,620	\$ .....
Pennsylvania Turnpike Commission .....	.....	973,429
Pennsylvania Higher Education Assistance Agency .....	.....	232,886
Pennsylvania Housing Finance Agency .....	.....	122,460
Other Enterprise Funds .....	6,919	.....
Total .....	\$ 72,539	\$ 1,328,775

Designations of unreserved fund balances reflect managerial plans for the future use of financial resources. At June 30, 1996 the Commonwealth has included the following amounts as "Designated—Other" for the General Fund and Special Revenue Funds (expressed in thousands):

General Fund:	
Tax stabilization .....	\$ 184,413
Restricted revenue .....	170,831
Continuing programs .....	26,539
Total General Fund .....	\$ 381,783
Special Revenue Funds:	
Land reclamation .....	\$ 24,749
Recycling programs .....	2,928
Solid waste grants .....	879
Other .....	2,416
Total Special Revenue Funds .....	\$ 30,972

In addition, the Self-Insurance Guaranty Fund, an Expendable Trust Fund, reported \$3,353 thousand as "Designated—Other" for future worker's compensation self-insurance claims.

The Insurance Fraud Prevention Authority, a discretely presented governmental fund component unit, reported \$3,263 thousand as "Designated—Other" for future program grants.

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

**Tax Stabilization Reserve Fund:** This fund, commonly referred to as the "Rainy Day Fund," was created in July of 1985 by Act 32 to provide financial assistance to minimize future revenue shortfalls and deficits, and promote greater continuity and predictability in the funding of vital government services. The tax stabilization reserve is not to exceed 3 percent of the estimated revenues of the General Fund. Revenue is provided through an appropriation by the General Assembly for transfer to this fund. Whenever the Governor determines a need to transfer moneys from this fund, a request for an appropriation is made to the General Assembly. An appropriation from the fund requires approval by two-thirds of the members of the General Assembly. Also, Act 35 of 1991 provides that in any fiscal year in which there is a surplus of operating funds in the General Fund, as certified by the Budget Secretary, fifteen percent of such surplus shall be deposited into this fund. In addition, the proceeds received from the disposition of certain assets of the Commonwealth are also to be deposited into this fund. For GAAP reporting purposes, this fund is reported as a designation in the General Fund.

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

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



## NOTES TO FINANCIAL STATEMENTS

---

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

---

fund. Legally required transfers between primary government and component unit organizations are reported when incurred as "Operating transfers from component unit" by the recipient organization and "Operating transfers to primary government" or "Operating transfers to component unit" by the disbursing fund.

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

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

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

The composition of the Commonwealth's interfund receivables and payables at June 30, 1996 is presented in Note H.

**New Accounting Pronouncements:** Effective July 1, 1995, the Commonwealth has adopted GASB Statement 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance." Equal amounts of revenues and expenditures are being reported in the General Fund and the Motor License Fund, a Special Revenue Fund, for pass-through grants. Equal amounts of revenues and expenditures are being reported in the General Fund for food stamp coupons issued during the fiscal year. Food stamp coupon balances held at fiscal year end are reported as an asset and offsetting deferred revenue. The Commonwealth is not the beneficiary of any on-behalf payments and has not changed its accounting based on its role as a paying government.

The Public School Employees Retirement System, a discretely presented pension trust component unit, has early adopted GASB Statement 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans," Statement 26, "Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans," and Statement 28, "Accounting and Financial Reporting for Securities Lending Transactions (see Note C)."

GASB Statement No. 25 required a change in the PSERS' financial statement format. GASB Statement No. 25 also requires plan investments to be recorded at their fair value. GASB Statement No. 26 has requirements similar to GASB Statement 25 and requires defined benefit pension plans that administer postemployment healthcare plans to separately present postemployment healthcare plan net assets and changes in postemployment healthcare plan net assets. GASB Statement No. 28 establishes accounting and financial reporting standards for securities lending transactions. GASB Statement No. 28 requires that securities lent and collateral received on securities lent be recorded as assets on the statement of plan assets with a corresponding liability being recorded equal to the amount of collateral received.

**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. Interfund eliminations have not been made in the aggregation of the totals.

## **NOTES TO FINANCIAL STATEMENTS**

---

### **NOTE C—FUND BALANCE/RETAINED EARNINGS DEFICITS/RESTATEMENTS**

---

The Capital Facilities Fund, a Capital Projects Fund, reported a deficit unreserved/undesignated fund balance of \$286,026 at June 30, 1996. In total, the Capital Facilities Fund reported a fund balance of \$138,000 at June 30, 1996. Total Capital Projects Funds reported reservations for encumbrances of \$433,215, designations for Capital Projects of \$70,480 and a deficit unreserved/undesignated fund balance of \$286,026, for a total combined fund balance of \$217,669 at June 30, 1996 (amounts in thousands).

The Minority Business Development Fund, an Enterprise Fund, reported deficit retained earnings of \$30,776 thousand at June 30, 1996.

The State System of Higher Education, College and University Funds, reported a current funds unrestricted fund balance deficit of \$241,055 (in thousands) at June 30, 1996.

The reported net assets of the Public School Employes' Retirement System, a discretely presented pension trust fund component unit, have increased by \$3,778,693 and are being restated from \$25,021,809 to \$28,800,502 (amounts in thousands) as of June 30, 1995 due to adoption of GASB Statements 25 and 26, which required a change in reporting investments from cost to fair value.

## NOTES TO FINANCIAL STATEMENTS

### NOTE D — DEPOSITS AND INVESTMENTS

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

The Treasury Department uses a variety of sophisticated short and long term investment pools to maximize efficiency, liquidity and yield for Commonwealth funds. All participating funds report amounts invested in such pools as temporary and/or long term investments; the pools themselves are not financially reported. The Treasury Department has also established an investment pool for local governments. Although local governments are not included in the Commonwealth's financial reporting entity, this particular pool, the INVEST Program for Local Governments, is reported as an agency fund.

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

**Deposits:** The Treasury Department controls the receipt and disbursement of amounts owned by agencies included in the primary government. Certain discretely presented component units, meanwhile, control receipt and disbursement of their own funds, typically through a trustee. The following summaries present the amount of primary government and discretely presented component units (Commonwealth) deposits which are fully insured or collateralized with securities held by the Commonwealth or its agent in the Commonwealth's name (Category 1), those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Commonwealth's name (Category 2) and those deposits which are not collateralized or are collateralized by the pledging financial institution or the pledging institution's trust department or agent, but not in the Commonwealth's name (Category 3) at June 30, 1996 (expressed in thousands).

#### Primary Government

	Category 1	Category 2	Category 3	Total Bank Balance	Carrying Amount
Cash .....	\$ 29,753	\$ 46,597	\$ 9,077	\$ 85,427	\$ 124,918
Cash with fiscal agents .....	2,094,084	....	18,705	2,112,789	2,086,891
Certificates of deposit and related items .....	134,118	5,693	14,665	154,476	154,476

The above-listed \$154,476 in certificates of deposit and related items is reported as part of primary government temporary investments at June 30, 1996.

#### Discretely Presented Component Units

	Category 1	Category 2	Category 3	Total Bank Balance	Carrying Amount
Cash .....	\$ 71,955	\$ 68,224	\$ 115,290	\$ 255,469	\$ 250,634
Cash with fiscal agents .....	1,108	....	21,414	22,522	22,941

**Investments:** The Treasury Department, other agencies in the primary government and discretely presented component units (Commonwealth) categorize investments according to the level of credit risk assumed by the Commonwealth. Category 1 includes investments that are insured, registered or held by the Commonwealth or the Commonwealth's agent in the Commonwealth's name. Category 2 includes uninsured and unregistered investments held by the Counterparty's trust department or agent in the Commonwealth's name. Category 3 includes uninsured and unregistered investments held by the counterparty, or by its trust department or its agent, but not in the Commonwealth's name. Certain investments

## NOTES TO FINANCIAL STATEMENTS

### NOTE D — Deposits and Investments (continued)

have not been categorized because securities are not used as evidence of the investment. These uncategorized investments include ownership interests in mutual funds and in mortgage, real estate and venture capital pools. The following summaries identify the level of credit risk assumed by the Commonwealth and the total carrying amount and market value of Commonwealth investments at June 30, 1996 (expressed in thousands).

#### Primary Government

All primary government investments susceptible to credit risk are in category one.

	Carrying Amount	Market Value
Commercial paper .....	\$ 77,346	\$ 77,697
Common and preferred stock .....	2,083,139	2,087,474
Corporate bonds and notes .....	2,170,374	2,177,965
International equities .....	1,415,076	1,415,076
International fixed income .....	462,418	462,418
Repurchase agreements .....	4,081,648	4,081,647
State and municipal obligations .....	439,840	439,991
U.S. Government obligations .....	1,900,263	1,937,429
U.S. Government agency obligations .....	621,934	627,322
Totals .....	13,252,038	13,307,019

Add investments not susceptible to credit risk categorization:

Investments owned by the Deferred Compensation Fund at December 31, 1995:		
Mutual funds .....	294,802	294,802
Investments owned by the State Employees' Retirement System (SERS) at December 31, 1995:		
Mortgage loans .....	448,233	448,233
Mutual funds .....	5,884,775	5,884,775
Real estate .....	1,191,322	1,191,322
Venture capital .....	337,121	337,121
Securities lent by SERS at December 31, 1995:		
U.S. Government securities .....	575,893	575,893
Corporate bonds and notes .....	38,748	38,748
Common and preferred stocks .....	191,413	191,413
International equities .....	195,804	195,804
International fixed income .....	60,179	60,179
Investments owned by the Statutory Liquidator Fund at June 30, 1996:		
Annuities .....	715	715
Loans .....	10,571	10,571
Mortgage loans .....	13,202	13,202
Partnership interests .....	508	508
Subsidiaries .....	5,038	5,038
	22,500,362	22,555,343
Certificates of deposit and related items .....	154,476	154,476
Total temporary and long-term investments .....	\$ 22,654,838	\$ 22,709,819

The above-listed \$154,476 in certificates of deposit are reported as investments at June 30, 1996 but are treated as deposits for a determination of the level of credit risk associated with them.

The State Employees' Retirement System, a Pension Trust Fund, owns approximately 98 percent of the common and preferred stock, 85 percent of the corporate bonds and notes, 99 percent of international fixed income, 97 percent of mortgage loans and 100 percent of the real estate reported in the above summary. There were no violations of statutory authority or contractual provisions for investments during the year ended June 30, 1996.

## NOTES TO FINANCIAL STATEMENTS

### NOTE D — Deposits and Investments (continued)

#### Securities Lending:

The State Employees' Retirement System (SERS) participates in a securities lending program, whereby certain securities are transferred to an independent broker/dealer in exchange for collateral equal to at least 102 percent of the market value of securities on loan (reverse repurchase agreements). As the SERS represents only one of several Commonwealth agencies participating in the securities lending program and, as collateral received by the custodial agent in exchange for SERS securities is not specifically identifiable by agency, the SERS does not record the receipt of such collateral or the corresponding liability to return collateral via repurchase of securities under loan. Securities under loan, however, are maintained on the SERS's financial records and have been classified accordingly in the summary of investment risk. The SERS has minimized its exposure to credit risk due to broker/dealer default by having the custodial agent determine daily that required collateral meets 102 percent of the market value of securities on loan. The SERS has not experienced any losses due to credit risk on securities lending activity since implementation of the program.

These financial instruments necessarily involve counterparty credit exposure. The policy of the SERS is to require collateral to the maximum extent possible under normal trading practices. In the event of counterparty default, the SERS has the right to use the collateral to offset the loss associated with the replacement of the exchange agreements. Specific credit limits have been established for each counterparty and are monitored and adjusted daily. The limits are developed based on the counterparty's creditworthiness, overall industry and other considerations, such as the length and legal structure of the contract, type of collateral advanced, and historical volatility indicators.

#### Financial Instruments With Off-Balance Sheet Risk:

The SERS uses financial instruments including forward exchange contracts to manage market exposure. These instruments are integral to the asset allocation, risk management and control systems of the SERS's investment management strategies and practices. These strategies include holdings of certain foreign debt and equity securities which amounted to approximately \$2.2 billion at December 31, 1995. As a result of these strategies, the SERS enters into forward contracts as hedges relating to identifiable currency positions. Those instruments are designed to minimize exposure and reduce risk from foreign exchange rate fluctuations. Gains and losses on forward exchange contracts which hedge foreign currency assets are recognized as incurred. Such amounts effectively offset gains and losses on the foreign currency assets which are hedged. The SERS does not enter into forward contracts on a speculative basis.

At December 31, 1995, the SERS had contracts maturing through March 27, 1996 to purchase or sell foreign currency as follows (expressed in thousands):

	Buy at Spot Rate	Sell at Spot Rate	Net (Payable) Receivable
Deutschemark .....	\$ . . . .	\$ 113,461	\$ ( 113,461 )
French Franc .....	23,661	52,256	( 28,595 )
Swedish Kroner .....	147	5,704	( 5,557 )
Japanese Yen .....	4,438	171,545	( 167,107 )
Other .....	13,382	115,707	( 102,325 )
	<u>\$ 41,628</u>	<u>\$ 458,673</u>	<u>\$ ( 417,045 )</u>

There were aggregate unrealized gains of approximately \$3.9 million and aggregate unrealized losses of approximately \$.6 million for these forward contracts at December 31, 1995.

## NOTES TO FINANCIAL STATEMENTS

### NOTE D — Deposits and Investments (continued)

#### Discretely Presented Component Units

	Carrying Amount				Market Value
	Category 1	Category 2	Category 3	Total	
Commercial paper .....	\$ ....	\$ 62,231	\$ ....	\$ 62,231	\$ 62,231
Common and preferred stock .....	14,945,790	1,345	9	14,947,144	14,947,954
Corporate bonds and notes .....	1,553,857	36,814	....	1,590,671	1,590,615
International equities .....	4,523,177	....	....	4,523,177	4,523,177
International fixed income .....	2,018,851	....	....	2,018,851	2,018,851
Mortgage backed securities .....	2,406,256	133,096	....	2,539,352	2,538,455
Repurchase agreements .....	162,704	542,925	235,662	941,291	941,250
State and municipal obligations .....	151,928	40,254	....	192,182	192,551
U.S. Government obligations .....	781,941	266,719	10,000	1,058,660	1,075,971
U.S. Government agency obligations .....	344,399	171,613	431	516,443	534,710
Various short-term investments .....	629,686	....	....	629,686	629,686
Totals .....	<u>\$ 27,518,589</u>	<u>\$ 1,254,997</u>	<u>\$ 246,102</u>	<u>29,019,688</u>	<u>29,055,451</u>

#### Investments not susceptible to credit risk categorization:

Investments owned by the Ben Franklin/IRC Partnership in Pennsylvania Treasury investment pool at June 30, 1996 .....	7,541	7,541
Investments owned by the State Public School Building Authority at June 30, 1996:		
Pennsylvania Treasury investment pool .....	38,089	38,089
Money market .....	10,171	10,171
Investments owned by the Pennsylvania Higher Education Assistance Agency at June 30, 1996:		
Money market .....	212,862	212,862
Investment agreements .....	102,245	102,245
Pennsylvania Treasury investment pool .....	163,125	163,125
Investments owned by the Pennsylvania Housing Finance Agency at June 30, 1996:		
Investment agreements .....	172,581	172,581
Mutual funds .....	72,971	72,971
Pennsylvania Treasury investment pool .....	3,347	3,347
Investments owned by the Pennsylvania Industrial Development Authority in Pennsylvania Treasury investment pool at June 30, 1996 .....	81	81
Investments owned by the Pennsylvania Infrastructure Investment Authority at June 30, 1996:		
Pennsylvania Treasury investment pool .....	66,907	66,907
Mutual funds .....	41,890	41,890
Investments owned by the Public School Employees' Retirement System at June 30, 1996:		
Common and preferred stock .....	903,121	903,121
Corporate bonds and notes .....	265,595	265,595
Farmland investments .....	76,876	76,876
Government agency .....	1,437,431	1,437,431
International equities .....	677,491	677,491
International fixed income .....	1,109,091	1,109,091
Limited partnerships .....	38,778	38,778
Pennsylvania Treasury investment pool .....	218,254	218,254
Private placements, fixed income and equity .....	214,479	214,479
Real estate .....	1,424,249	1,424,249
Securities lending .....	4,502,453	4,502,453
Venture capital .....	347,090	347,090
Investments owned by the State System of Higher Education at June 30, 1996:		
Mutual funds .....	1,822	1,822
Pooled common funds .....	4,225	4,225
Other short-term investments .....	1,530	1,530
Totals .....	<u>\$ 41,133,983</u>	<u>\$ 41,169,746</u>

## NOTES TO FINANCIAL STATEMENTS

---

### NOTE D — Deposits and Investments (continued)

---

The Public School Employees' Retirement System (PSERS), a Pension Trust Fund, owns approximately 100 percent of the common and preferred stock, 98 percent of the corporate bonds and notes, 100 percent of international equities, 100 percent of international fixed income, 95 percent of mortgage backed securities and 100 percent of the real estate reported in the above summary. There were no violations of statutory authority or contractual provisions for investments during the year ended June 30, 1996.

#### Securities Lending:

In accordance with a contract between the Commonwealth and the custodial agent, the PSERS participates in a security lending program. Under this program, the custodian, acting as the lending agent, lends securities (equities, fixed income issues and money market instruments) to independent brokers and dealers in exchange for collateral in an amount not less than 102 percent of the fair value of any securities lent except for non-U.S. corporations for which 105 percent of the fair value is required. Collateral is marked-to-market daily. If the fair value of the collateral held falls below the minimum guidelines for securities lent, additional collateral is obtained. In lieu of securities or cash, the borrower may deliver to the lending agent irrevocable bank letters of credit as collateral. If the collateral obtained consists in whole or in part of cash, the lending agent may use or invest the cash in accordance with reinvestment guidelines approved by the Commonwealth.

As of June 30, 1996, the PSERS had no credit risk exposure to borrowers because the amounts the PSERS owes the borrowers exceed the amounts the borrowers owe the PSERS. Under the securities lending program, the lending agent provides indemnification to the Commonwealth if the borrowers fail to return the underlying securities (and the collateral is inadequate to replace the lent securities) or fail to pay income distribution on them.

All securities loans can be terminated on demand by either the PSERS or the borrower, and the average term of the loans is one day. The lending agent may enter into term loans that may last up to 10 days. There were no term loans as of June 30, 1996.

Cash collateral is invested in the lending agent's short-term investment pool. The relationship between the maturities of the investment pool and the PSERS's loans is affected by the maturities of the securities loans made by other entities that use the lending agent's pool, which the PSERS cannot determine. The PSERS cannot pledge or sell collateral securities received unless the borrower defaults, however the PSERS may seize the assets of borrowers.

The Commonwealth will earn the greater of 85 percent of income realized from security lending by the lending agent or \$1 million per month. The PSERS's income from securities lending represents its pro-rata share from participating in the program.

As of June 30, 1996, the fair value of lent securities was \$4,392.7 million. The fair value of the associated collateral was \$4,502.5 million. The PSERS's income, net of expenses, from securities lending was \$14.2 million for the year ended June 30, 1996.

#### Financial Instruments with Off-Balance Sheet Risk:

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

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

## NOTES TO FINANCIAL STATEMENTS

### NOTE D — Deposits and Investments (continued)

The following table summarizes the number of open contracts, and aggregate notional or contractual amounts for the PSERS' derivative financial instruments at June 30, 1996 (dollar amounts in thousands):

	Number of contracts	Notional or contractual amount
Futures contracts long and short .....	25,340	\$ 3,437,854
Foreign exchange forward and spot contracts .....	641	7,326,308
Options—calls purchased .....	323,735	469,095
Options—puts purchased .....	2,473,327	414,936
Options—calls sold .....	172,767	430,694
Options—puts sold .....	166,650	406,695

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

Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or at a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise. The PSERS only utilizes exchange listed index and equity options and primarily call options which settle in cash. The PSERS has authorized investment managers to write covered call stock index options up to an amount of \$3.6 million.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. These contracts primarily consist of forward contracts. The \$7,326 million of foreign currency contracts outstanding at June 30, 1996 consists of "buy" contracts of \$3,613.1 million, which represent the U.S. dollar equivalent of commitments to purchase foreign currency commitments, and "sell" contracts of \$3,713.2 million, which represent U.S. dollar equivalents of commitments to sell foreign currencies.

The PSERS also invests in mortgage-backed securities such as collateralized mortgage obligations (CMOs) and interest-only strips in part to maximize yields and in part to hedge against a rise in interest rates. These securities are sensitive to prepayments by mortgagees, which may result from a drop in interest rates. The fair market value of CMOs at June 30, 1996 is \$1,257.5 million.

The PSERS also is involved at June 30, 1996 in two interest rate swap agreements with an estimated fair value of \$892 thousand and a notional amount of \$89.1 million. The PSERS enters these swap agreements to modify interest rates on investments owned. Swap transactions involve the exchange of interest rate payments without the exchange of the underlying principal amounts. Other than net interest income or expense resulting from these agreements, no amounts are recorded in the financial statements.



## NOTES TO FINANCIAL STATEMENTS

### NOTE E— FIXED ASSETS

A summary of fixed assets by category at June 30, 1996 is as follows (expressed in thousands):

	Primary Government				Discretely Presented Component Units		
	Enterprise Funds	Internal Service Funds	Pension Trust Fund	General Fixed Assets Account Group	Proprietary Funds	Fiduciary Fund	College and University Funds
Land .....	\$ 323	\$ 6	\$ ....	\$ 244,738	\$ 78,602	\$ ....	\$ 8,096
Buildings .....	3,352	4,111	....	2,907,733	419,097	....	332,414
Improvements other than buildings .....	18,389	1,170	....	229,565	23,422	....	45,838
Furniture, machinery and equipment .....	66,889	62,386	759	576,901	184,799	13,776	334,186
Turnpike infrastructure .....	....	....	....	....	2,371,436	....	....
Construction in progress .....	....	166	....	363,809	203,907	....	31,560
Total .....	<u>\$ 88,953</u>	<u>\$ 67,839</u>	<u>\$ 759</u>	<u>\$ 4,322,746</u>	<u>\$ 3,281,263</u>	<u>\$ 13,776</u>	<u>\$ 752,094</u>

Changes in general fixed assets for the fiscal year ended June 30, 1996 are as follows (expressed in thousands):

	Balance June 30, 1995	Additions	Retirements	Balance June 30, 1996
Land .....	\$ 241,269	\$ 3,469	\$ ....	\$ 244,738
Buildings .....	2,693,616	215,337	1,220	2,907,733
Improvements other than buildings .....	196,895	32,670	....	229,565
Furniture, machinery and equipment .....	552,997	78,217	54,313	576,901
	<u>3,684,777</u>	<u>329,693</u>	<u>55,533</u>	<u>3,958,937</u>
Construction in progress .....	231,257	132,552	....	363,809
Totals .....	<u>\$ 3,916,034</u>	<u>\$ 462,245</u>	<u>\$ 55,533</u>	<u>\$ 4,322,746</u>

Interest costs of \$8.1 million were capitalized for the Pennsylvania Turnpike Commission, a discretely presented component unit Proprietary Fund, for the fiscal year ended June 30, 1996.

The Commonwealth's initial valuation of general fixed assets was made as of June 30, 1986 including appraisal and historical cost reconstruction techniques. Subsequent to June 30, 1986 general fixed asset acquisitions are valued at cost. At June 30, 1996 the amount of general fixed assets related to the initial valuation amounts to \$1,983 million.

Construction in progress included in the General Fixed Assets Account Group at June 30, 1996 is composed of the following (expressed in thousands):

Project	Project Authorization	Expended Through June 30, 1996	Authorization Available
Department of Corrections Institutions .....	\$ 322,259	\$ 190,491	\$ 131,768
Colleges and Universities .....	255,892	72,616	183,276
Capitol Complex Buildings .....	123,422	16,553	106,869
Department of Public Welfare Institutions .....	53,355	16,844	36,511
Veteran Homes and Military Armories .....	53,835	22,702	31,133
Department of Conservation and Natural Resources .....	29,493	8,804	20,689
Historical Sites .....	27,991	6,330	21,661
Department of Transportation .....	26,783	11,860	14,923
Other .....	39,298	17,609	21,689
Total .....	<u>\$ 932,328</u>	<u>\$ 363,809</u>	<u>\$ 568,519</u>

### NOTE F— DUE FROM OTHER GOVERNMENTS

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

# NOTES TO FINANCIAL STATEMENTS

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

**Taxes Receivable:** Taxes receivable at June 30, 1996 consisted of the following (expressed in thousands):

	General Fund	Special Revenue Funds	Trust and Agency Funds	Total
Sales and use .....	\$ 482,967	\$ 20,638	\$ 1,350	\$ 504,955
Unemployment compensation .....	....	....	327,106	327,106
Personal income .....	184,756	....	....	184,756
Corporation .....	115,549	....	....	115,549
Liquid fuels .....	....	64,020	2,813	66,833
Other .....	16,772	55,320	....	72,092
	<u>\$ 800,044</u>	<u>\$ 139,978</u>	<u>\$ 331,269</u>	<u>\$ 1,271,291</u>

**Notes and Loans Receivable:** Loans receivable at June 30, 1996 consisted of the following (expressed in thousands):

	Primary Government		Discretely Presented Component Units	
	Special Revenue Funds	Enterprise Funds	Proprietary Funds	College and University Funds
Mortgage loans .....	\$ ....	\$ ....	\$ 2,296,858	\$ ....
Student loans .....	....	....	1,383,875	37,254
Business development loans .....	66,093	231,390	541,027	....
Water and sewer system loans .....	24,786	....	1,003,052	....
Volunteer fire company loans .....	....	68,135	....	....
Other notes and loans .....	8,738	11,489	....	....
	<u>99,617</u>	<u>311,014</u>	<u>5,224,812</u>	<u>37,254</u>
Less: Allowance for uncollectible accounts .....	7,545	43,228	183,639	8,566
Notes and loans receivable, net .....	<u>\$ 92,072</u>	<u>\$ 267,786</u>	<u>\$ 5,041,173</u>	<u>\$ 28,688</u>

Discretely presented component unit governmental funds reported \$1,544 thousand of loans to school districts at June 30, 1996.

**Lease Rentals Receivable:** The Capital Facilities Fund, a Capital Projects Fund, finances 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 deposits in the related Capital Debt Fund, a Debt Service Fund. At the conclusion of the lease terms, the project facilities are conveyed to the educational institutions. Accordingly, these lease arrangements are classified as direct financing leases. Lease rental receivables and associated deferred revenue equal to the principal lease payments to be received are recorded in the Capital Debt Fund. For the Capital Debt Fund, the total minimum lease payments to be received were \$3 million and the present value of the lease payments was \$2 million at June 30, 1996, the difference representing interest of \$1 million. The Pennsylvania Higher Educational Facilities Authority and the State Public School Building Authority, discretely presented governmental fund component units, finance construction projects for educational institutions through the issuance of bonds and other obligations, the principal and interest of which are paid through the collection of lease rental payments related to the project. At the conclusion of the lease terms, the project facilities are conveyed to the educational institutions. Accordingly, these lease arrangements are classified as direct financing leases. For discretely presented governmental fund component units, total minimum lease payments were \$4,814 million, the present value was \$2,896 million and interest was \$1,918 million. The Pennsylvania Industrial Development Authority, a discretely presented proprietary fund component unit, reported a lease rental receivable with total minimum payments of \$32 million, present value of \$14 million and interest of \$18 million at June 30, 1996. Minimum lease payments for the five fiscal years succeeding June 30, 1996 are as follows (expressed in thousands):

## NOTES TO FINANCIAL STATEMENTS

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

Fiscal Year Ending June 30	Primary Government	Discretely Presented Governmental Fund Component Units	Discretely Presented Proprietary Fund Component Units
1997 .....	\$ 635	\$ 194,536	\$ 634
1998 .....	269	224,457	634
1999 .....	269	223,407	634
2000 .....	269	225,064	634
2001 .....	243	223,996	634

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

A summary of interfund receivables and payables reported on the combined balance sheet at June 30, 1996 is as follows (expressed in thousands):

FUND TYPE/FUND	DUE FROM		DUE TO	
	OTHER FUNDS	COMPONENT UNITS	OTHER FUNDS	COMPONENT UNITS
<b>PRIMARY GOVERNMENT</b>				
General .....	\$ 43,283	\$ 1,959	\$ 167,842	\$ 137
Special Revenue:				
State Lottery Fund .....	1,367	....	7,280	....
State Racing Fund .....	....	....	10,203	....
Hazardous Sites Clean-up Fund .....	21,603	....	275	....
Motor License Fund .....	20,089	898	25,071	3,370
Fish and Game Fund .....	3,358	....	1,490	....
Vocational Rehabilitation Fund .....	13	....	4,591	....
Agricultural Conservation Easement Fund .....	10,777	....	....	....
Other Funds .....	5,214	6	3,654	....
	<u>62,421</u>	<u>904</u>	<u>52,564</u>	<u>3,370</u>
Debt Service:				
Pennsylvania Infrastructure Investment Authority				
Redemption Fund .....	....	33,766	....	....
Tax Note Sinking Fund .....	....	....	3,105	....
Other Funds .....	127	....	....	....
	<u>127</u>	<u>33,766</u>	<u>3,105</u>	<u>....</u>
Capital Projects:				
Keystone Recreation, Park and Conservation Fund .....	2,871	....	....	....
Other Funds .....	952	....	14	....
	<u>3,823</u>	<u>....</u>	<u>14</u>	<u>....</u>
Enterprise:				
State Stores Fund .....	439	....	18,080	....
State Workmen's Insurance Fund .....	503	....	6,676	....
Rehabilitation Center Fund .....	3,863	....	169	....
Other Funds .....	....	....	85	....
	<u>4,805</u>	<u>....</u>	<u>25,010</u>	<u>....</u>
Internal Service:				
Purchasing Fund .....	7,015	812	670	....
Manufacturing Fund .....	2,866	8	355	....
	<u>9,881</u>	<u>820</u>	<u>1,025</u>	<u>....</u>
Expendable Trust:				
Unemployment Compensation Fund .....	2,540	108	2	....
Other Funds .....	2	....	19	....
	<u>2,542</u>	<u>108</u>	<u>21</u>	<u>....</u>
Pension Trust:				
State Employees' Retirement System .....	88,285	2,770	2	....

## NOTES TO FINANCIAL STATEMENTS

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

<b>PRIMARY GOVERNMENT</b> (CONTINUED)	<b>DUE FROM</b>		<b>DUE TO</b>	
	<b>OTHER FUNDS</b>	<b>PRIMARY GOVERNMENT</b>	<b>OTHER FUNDS</b>	<b>PRIMARY GOVERNMENT</b>
Agency:				
Liquid Fuels Tax Fund .....	.....	.....	1,628	.....
Local Sales and Use Tax Fund .....	10,016	.....	12	.....
Allegheny Regional Asset District Sales and Use Tax .....	13,753	.....	15	.....
Other Funds .....	751	.....	744	.....
	24,520	.....	2,399	.....
<b>TOTAL PRIMARY GOVERNMENT .....</b>	<b>\$ 239,687</b>	<b>\$ 40,327</b>	<b>\$ 251,982</b>	<b>\$ 3,507</b>
<b>DISCRETELY PRESENTED COMPONENT UNITS</b>				
Governmental .....	\$ .....	\$ .....	\$ .....	\$ 1
Proprietary:				
Pennsylvania Infrastructure Investment Authority .....	74	.....	98	33,835
Pennsylvania Turnpike Commission .....	.....	4,031	.....	4,076
Other Funds .....	98	.....	74	1,016
	172	4,031	172	38,927
Fiduciary:				
Public School Employees' Retirement System .....	.....	728	.....	1,730
College and University .....	140,703	.....	140,703	8,000
<b>TOTAL DISCRETELY PRESENTED COMPONENT UNITS .....</b>	<b>\$ 140,875</b>	<b>\$ 4,759</b>	<b>\$ 140,875</b>	<b>\$ 48,658</b>

## NOTES TO FINANCIAL STATEMENTS

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

The amount of total interfund receivables of \$425,648 thousand does not agree with total interfund payables of \$445,022 thousand at June 30, 1996 due to different fiscal year ends for certain funds included in the combined balance sheet at June 30, 1996. The amounts shown as interfund accounts for the State Employees' Retirement System, a Pension Trust Fund, and the Deferred Compensation Fund, an Agency Fund, are as of their fiscal year end of December 31, 1995. The amount shown for the State Workmen's Insurance Fund, an Enterprise Fund are as of its fiscal year end of December 31, 1995. The following presents a reconciliation of interfund accounts reported at June 30, 1996 and those amounts which would have been reported if all funds used the same fiscal year end (expressed in thousands):

<b>Due from other funds - Combined Balance Sheet at June 30, 1996</b> .....	\$ 380,562
<b>Due from primary government - Combined Balance Sheet at June 30, 1996</b> .....	4,759
<b>Due from component units - Combined Balance Sheet at June 30, 1996</b> ...	40,327
<b>Interfund receivables — Combined Balance Sheet</b> .....	<u>425,648</u>
 State Workmen's Insurance Fund increase in receivables from January 1, 1996 through June 30, 1996 .....	  240
 State Employees' Retirement System increase in receivables from January 1, 1996 through June 30, 1996 .....	  13,797
<b>TOTAL INTERFUND RECEIVABLES</b> .....	<u><u>\$ 439,685</u></u>
 <b>Due to other funds - Combined Balance Sheet at June 30, 1996</b> .....	 \$ 392,857
<b>Due to primary government - Combined Balance Sheet at June 30, 1996</b> .....	48,658
<b>Due to component units - Combined Balance Sheet at June 30, 1996</b> .....	3,507
<b>Interfund payables — Combined Balance Sheet</b> .....	<u>445,022</u>
 Deferred Compensation Fund decrease in payables from January 1, 1996 through June 30, 1996 .....	  ( 16 )
 State Employees' Retirement System increase in payables from January 1, 1996 through June 30, 1996 .....	  918
 State Workmen's Insurance Fund decrease in payables from January 1, 1996 through June 30, 1996 .....	  ( 6,239 )
<b>TOTAL INTERFUND PAYABLES</b> .....	<u><u>\$ 439,685</u></u>

At June 30, 1996 the General Fund has reported Advances to Other Funds of \$72,475. Specifically, this amount has been advanced as follows: \$66,000 to the State Stores Fund, \$2,300 to the State Workmen's Insurance Fund, both Enterprise Funds, \$2,175 to the Motor License Fund, and \$2,000 to the Pharmaceutical Assistance Fund, both Special Revenue Funds. These amounts have been reported by the respective owing Funds as Advances from Other Funds, except for the State Workmen's Insurance Fund, which has reported an advance of \$2,000 for its fiscal year ended December 31, 1995 (amounts in thousands).

At June 30, 1996 the Hazardous Sites Cleanup Fund, a Special Revenue Fund, has reported an advance to other funds of \$3,000 (in thousands). This amount was advanced to the Air Quality Improvement Fund, a Special Revenue Fund, which has reported an advance from other funds of \$3,000 (in thousands).

## NOTES TO FINANCIAL STATEMENTS

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

A summary of operating transfers reported for the fiscal year ended June 30, 1996 is as follows (expressed in thousands):

<u>FUND TYPE/FUND</u> <u>PRIMARY GOVERNMENT</u>	OPERATING TRANSFERS			
	IN	FROM COMPONENT UNITS	OUT	TO COMPONENT UNITS
General .....	\$ 116,468	\$ ....	\$ 565,397	\$ 724,893
Special Revenue:				
State Lottery Fund .....	91	....	241,387	....
State Racing Fund .....	....	....	10,989	....
Hazardous Sites Clean-up Fund .....	....	....	7,000	....
Motor License Fund .....	47	....	184,733	....
Vocational Rehabilitation Fund .....	24,105	....	....	....
Pharmaceutical Assistance Fund .....	216,000	....	....	....
Industrial Sites Clean-up Fund .....	5,000	....	....	....
Other Funds .....	6,657	....	9,805	....
	251,900	....	453,014	....
Debt Service:				
Land and Water Development Sinking Fund .....	25,016	....	....	....
Water Facilities Loan Redemption Fund .....	16,506	....	....	....
Capital Debt Fund .....	605,226	....	....	....
Pennsylvania Infrastructure Investment Authority Redemption Fund .....	21,867	....	....	....
Local Criminal Justice Sinking Fund .....	14,658	....	....	....
Pennsylvania Economic Revitalization Sinking Fund .....	10,326	....	....	....
Other Funds .....	25,420	....	1,231	....
	719,019	....	1,231	....
Capital Projects:				
Capital Facilities Fund .....	....	....	( 878 )	....
Land and Water Development Fund .....	....	....	173	....
	....	....	( 705 )	....
Enterprise:				
State Stores Fund .....	....	....	43,117	....
Expendable Trust:				
Catastrophic Loss Benefits Fund .....	....	....	25,333	....
Pension Trust:				
State Employees' Retirement System .....	....	8,534	....	6,495
<b>TOTAL PRIMARY GOVERNMENT .....</b>	<b>\$ 1,087,387</b>	<b>\$ 8,534</b>	<b>\$ 1,087,387</b>	<b>\$ 731,388</b>

<u>DISCRETELY PRESENTED COMPONENT UNITS</u>	OPERATING TRANSFERS			
	IN	FROM PRIMARY GOVERNMENT	OUT	TO PRIMARY GOVERNMENT
Governmental Funds .....	\$ 851,896	\$ 36,000	\$ 851,896	\$ ....
Proprietary:				
Pennsylvania Higher Education Assistance Agency .....	....	282,877	....	....
Pennsylvania Housing Finance Agency .....	....	18,000	....	....
	....	300,877	....	....
Fiduciary:				
Public School Employees' Retirement System .....	....	2,491	....	4,121
College and University Funds .....	....	388,016	....	....
<b>TOTAL DISCRETELY PRESENTED COMPONENT UNITS .....</b>	<b>\$ 851,896</b>	<b>\$ 727,384</b>	<b>\$ 851,896</b>	<b>\$ 4,121</b>

## NOTES TO FINANCIAL STATEMENTS

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

The amount of total operating transfers in of \$2,675,201 does not agree with total operating transfers out of \$2,674,792 for the fiscal year ended June 30, 1996 due to different fiscal year ends for certain funds included in the financial reporting entity. The amounts shown as operating transfers for the State Employees' Retirement System, a Pension Trust Fund, are for the fiscal year ended December 31, 1995. The following presents a reconciliation of operating transfers reported in the financial statements to those transfer amounts which would have been reported if all funds used the same fiscal year end (expressed in thousands):

Operating transfers in - all funds .....	\$ 1,939,283
Operating transfers from primary government .....	727,384
Operating transfers from component units .....	8,534
Sub-total interfund operating transfers in .....	2,675,201
State Employees' Retirement System decrease in operating transfers in for the period January 1, 1996 to June 30, 1996 .....	( 4,413 )
TOTAL OPERATING TRANSFERS IN .....	\$ 2,670,788
Operating transfers out - all funds .....	\$ 1,939,283
Operating transfers to primary government .....	4,121
Operating transfers to component units .....	731,388
Sub-total interfund operating transfers out .....	2,674,792
State Employees' Retirement System decrease in operating transfers out for the period January 1, 1996 to June 30, 1996 .....	( 4,004 )
TOTAL OPERATING TRANSFERS OUT .....	\$ 2,670,788

Increases and decreases in contributed capital for proprietary fund types—primary government and discretely presented component units—during the fiscal year ended June 30, 1996 are summarized as follows (amounts in thousands):

<b>Cash flows from noncapital financing activities:</b>	
Increases in contributed capital—primary government .....	\$ 3,516
Decreases in contributed capital—discretely presented component unit .....	( 1,503 )
<b>Cash flows from capital and related financing activities:</b>	
Increases in contributed capital—primary government .....	23,425
Increases in contributed capital—discretely presented component units .....	157,633
Decreases in contributed capital—discretely presented component units .....	( 2,895 )
Net increase in contributed capital for proprietary fund types—primary government and discretely presented component units .....	\$ 180,176

The following summary reconciles the above-listed net change in contributed capital to net governmental residual equity transfers (amounts in thousands):

Total governmental residual equity transfers out .....	\$ 46,340
add: general obligation bond proceeds and federal funds received by the Pennsylvania Infrastructure Investment Authority .....	128,847
less: program grants disbursed by the Pennsylvania Infrastructure Investment Authority .....	( 2,895 )
add: federal funds received by the Turnpike Commission .....	9,001
add: federal funds received by the Capital Loan Fund .....	366
less: other decrease to Pennsylvania Housing Finance Agency .....	( 1,503 )
add: other increase to the Rehabilitation Center Fund .....	20
Net increase in contributed capital for proprietary fund types—primary government and discretely presented component units .....	\$ 180,176

# NOTES TO FINANCIAL STATEMENTS

## NOTE I—Retirement and Other Postemployment Benefits (continued)

Employer contribution rates are determined using the entry age normal actuarial cost method, with amortization of the unfunded actuarial asset of \$443 million and of the supplemental annuities arising from cost of living and other adjustments over 20 year periods. These rates are computed on a Commonwealth fiscal year basis such that employer contribution rates in effect for the SERS for 1995 reflect a blended average of those in effect through June 30, 1995 and subsequent to that date, as calculated based upon actuarial valuations prepared as of December 31, 1993 and December 31, 1994, respectively. The actuarially determined contribution requirement for the year ended December 31, 1995 consisted of (amounts in thousands):

	<u>% of Current Covered Payroll</u>	<u>Amount</u>
Employer normal cost .....	10.48	\$ 404,512
Amortization of unfunded actuarial liability (asset) .....	( 2.30 )	( 88,770 )
Amortization of supplemental annuities .....	1.22	47,090
Total contribution requirement .....	<u>9.40</u>	<u>\$ 362,826</u>

Member contributions amounted to \$202 million, or 5.24 percent and employer contributions amounted to \$385 million, or 9.98 percent, of total actual covered payroll of \$3,858 million, for the year ended December 31, 1995. Total employer contributions of \$385 million are more than the above actuarially determined contribution requirement of \$363 million due to employer contributions related to employee purchases of prior service cost and employer contributions related to the transfer of prior employee service from the Public School Employees' Retirement System to the SERS. Total employer contributions amounted to \$409 million for the fiscal year ended June 30, 1996, of which \$375 million relates to agencies included in the Commonwealth's financial reporting entity. The Commonwealth employer contributions of \$375 million approximate 92 percent of total employer contributions of \$409 million.

The significant actuarial assumptions used to determine the employer contribution requirement, determined as part of the December 31, 1993 and 1994 valuations, are as follows: rate of return on investments, 9.9 percent in 1994 and 1995, graded down to 6 percent after 2015; projected salary increases of 4 percent per year compounded annually, attributable to inflation; additional salary increases of 2.5 and 2.7 percent per year in 1993 and 1994, attributable to merit/promotion; and no benefit increases. The merit/promotion salary increases changed from 1993 to 1994 because the Commonwealth adopted a new pay plan January 1, 1994 which replaced 35 pay steps with 20 pay steps.

### THREE-YEAR HISTORICAL TREND INFORMATION

	<u>Year Ended December 31</u>		
	<u>1995</u>	<u>1994</u>	<u>1993</u>
Net assets available for benefits as a percentage of the pension benefit obligation applicable to covered employees .....	110.8 %	101.2 %	115.6 %
Assets in excess of pension benefit obligation as a percentage of the SERS's annual covered payroll .....	41.9	4.3	52.1
Employer contributions to the pension plan as a percentage of annual covered payroll .....	10.1	9.2	8.6

All required contributions were made in accordance with actuarially determined requirements for each of the three years ended December 31, 1995, 1994 and 1993.

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



## NOTES TO FINANCIAL STATEMENTS

### NOTE I—Retirement and Other Postemployment Benefits (continued)

The following information is presented in accordance with the reporting requirements of FASB Statement 35.

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

The accumulated plan benefit information as of December 31, 1995 is as follows (expressed in thousands):

Actuarial present value of accumulated plan benefits:	
Vested benefits:	
Participants currently receiving payments .....	\$ 6,109,425
Other participants .....	6,222,296
	12,331,721
Nonvested benefits .....	254,196
Total .....	\$ 12,585,917

Changes in accumulated plan benefits as of December 31, 1995 are as follows (expressed in thousands):

Actuarial present value of accumulated plan benefits at December 31, 1994 .....	\$ 11,405,985
Increases during the year attributable to:	
Passage of time .....	522,143
Change in actuarial assumptions:	
Interest rates .....	300,740
Mortality tables .....	357,049
Net increase .....	1,179,932
Actuarial present value of accumulated plan benefits at December 31, 1995 .....	\$ 12,585,917

The actuarial assumption change causing the largest increase in cost in 1995 was the change in the demographic assumption from the 1971 Group Annuity Mortality Table (GAM - 71) to the 1983 Group Annuity Mortality Table (GAM - 83) for current and future employees to reflect continuing mortality improvement. The GAM - 71 table continues to apply for current retirees.

The significant actuarial assumptions used in the valuation of the actuarial present value of accumulated plan benefits as of December 31, 1995 are as follows:

#### Mortality

Superannuation (normal retirement) and early retirement

Current Retirees, Beneficiaries and Survivors:  
The 1971 Group Annuity Mortality Table,  
set back 6 years for females

Current and Future Employees:  
The 1983 Group Annuity Mortality Table

#### Disability

Modifications of the Federal Civil Service  
Disability Mortality Table

Assumed rate of return on investments

7.25%

### PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

**Plan Description:** The Commonwealth of Pennsylvania Public School Employees' Retirement System (System) was established July 18, 1917 under the provisions of P.L. 1043, No. 343. The System is a cost-sharing multiple-employer plan that provides retirement allowances and other benefits, including death, disability, and health care benefits, to members. According to GASB Statement 5, the Commonwealth is a non-employer contributor to the System. The financial statements of the System are prepared on the accrual basis.

## NOTES TO FINANCIAL STATEMENTS

### NOTE I—Retirement and Other Postemployment Benefits (continued)

Membership in the System is mandatory for substantially all full-time public school employees in the Commonwealth. Certain part-time employees are eligible for membership in the System. At June 30, 1996 there were 636 participating employers, generally school districts. Membership as of June 30, 1995, the most recent year for which actual amounts are available, consisted of:

Retirees and beneficiaries currently receiving benefits .....	116,000
Inactive members and vestees entitled to, but not yet receiving benefits .....	38,000
	<u>154,000</u>
Current employees:	
Vested .....	122,000
Nonvested .....	89,000
	<u>211,000</u>
Total members .....	<u>365,000</u>

During the fiscal year ended June 30, 1996 the estimated current covered payroll for public school employees was \$7.6 million. Total payroll for public school employees was substantially the same. The annualized covered payroll at June 30, 1995, the date of the most recent actuarial valuation, was \$7,378 million.

**Pension Benefits:** Significant amendments to the System were made in the 1975 revision of the Pennsylvania Public School Employees' Retirement Code ("the Code") by the Pennsylvania General Assembly. Under the provisions of the Code, members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one full year of service, (b) age 60 with 30 or more years of service, or (c) 35 or more years of service regardless of age. On April 29, 1994 Act 29 was signed into law which, among other items, permitted school employees with at least 30 years of credited service to retire without a reduction in benefits until June 30, 1997. This so-called "early retirement window" does not require a minimum age in conjunction with length of service for a member to be eligible for full benefits. In addition to the early retirement window, Act 29 provided for the following benefit changes:

- Granted a cost-of-living adjustment beginning July 1, 1994, for those who retired on or before June 30, 1992 (excluding those members who retired under the "Mellow Bill," Act 186 of 1992).
- Allowed members who terminated service between May 15, 1992, and July 1, 1992, to become eligible for an additional 10 percent service credit.

Act 29 also made effective the option for any member who was a previous annuitant of the System to eliminate the effect of the frozen present value in his subsequent retirement benefit calculation. To qualify for the election the member must 1) after July 1, 1994 be an active member, inactive member on leave, or vested member not having retired again, 2) earn at least three years of credited service since returning to school employment, 3) not be a multiple service member (have accumulated service credit with Commonwealth of Pennsylvania State Employees' Retirement System) and 4) agree to a debt against his account for purposes of eliminating the effect of the frozen present value.

Benefits are generally equal to 2 percent of the member's final average salary (as defined) multiplied by the number of years of credited service. After completion of 10 years of service, a member's right to the defined benefit is vested and early retirement benefits may be elected. Under certain features of the System, active members may purchase credit for types of prior educational or military service on a lump-sum or installment purchase basis.

In addition to regular retirement benefits, the System also provides for disability retirement benefits and death benefits. Participants are eligible for disability retirement benefits after completion of 5 years of eligible service. Such benefits are equal to 2 percent of the member's final average salary (as defined) multiplied by the number of years of credited service, but not less than one-third of such salary (unless the participant would have less than 16.667 years of credited service had the participant worked until superannuation age, in which case the participant receives two percent of final average salary times the number of years service that would have been credited had the participant worked until superannuation age), nor greater than the benefit the

## NOTES TO FINANCIAL STATEMENTS

### NOTE I—Retirement and Other Postemployment Benefits (continued)

member would have had at superannuation retirement age. In addition, under Act 29, members older than normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 or who has at least 10 years of eligible service. Such benefits are actuarially equivalent to the benefit which would have been effective if the member had retired on the day before death.

Members with credited service in the State Employees' Retirement System may elect to transfer such service to the Public School Employees' Retirement System upon commencement of employment in the public school system. Similarly, a member with credited service in the System may transfer such service to the State Employees' Retirement System upon becoming a member of that system.

Upon termination of a member's employment in the public school sector, the member's accumulated contributions plus interest are refundable from the Members' Savings Account

**Postemployment Healthcare Benefits:** The System provides a health insurance premium assistance program (premium assistance), a postemployment healthcare plan, for all eligible annuitants, as defined in the Code and amended by Act 29, who elect to participate. Under this program, an employer contribution rate for premium assistance was established to provide reserves in the Health Insurance Account that are sufficient for the payment of premium assistance benefits. Participating eligible annuitants are entitled to receive premium assistance payments equal to the lesser of \$55 per month or their monthly health insurance premium. In order to receive premium assistance, eligible annuitants must obtain their health insurance through either their employer or the System's Health Options Program (HOP), in which the System acts as a conduit between the insurance companies and the eligible annuitant.

Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

**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 employee 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, 1995, the date of the most recent actuarial report. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8.50 percent per year compounded annually, (b) projected salary increases of 6.75 percent, including an allowance for inflation of 4 percent, national productivity of 1 percent and merit or seniority increases averaging 1.75 percent, and (c) no postretirement benefit increases.

At June 30, 1995 net assets in excess of pension benefit obligation were \$585 million as follows (expressed in thousands):

Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated members entitled to benefits but not yet receiving benefits .....	\$ 9,884,919
Healthcare payments .....	46,459
Inactive members and vestees .....	316,016
Current members:	
Accumulated member contributions with interest .....	5,089,724
System-financed vested .....	4,816,002
System-financed nonvested .....	8,062,023
Total pension benefit obligation .....	28,215,143
Net assets available for benefits, at fair value .....	28,800,502
Net assets in excess of pension benefit obligation .....	\$ 585,359

## NOTES TO FINANCIAL STATEMENTS

### NOTE I—Retirement and Other Postemployment Benefits (continued)

**Contributions:** The contribution policy is set by the Code and requires contributions by active members, employers, and the Commonwealth. The System's funding policy provides for periodic employer and Commonwealth contributions as actuarially determined rates, expressed as a percentage of annual covered payroll, such that they, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate adequate assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial funding method. This formula determines the amount of contributions necessary to (1) fully fund all current costs, which represents the estimated amount necessary to pay for the benefits earned by the employees during the current service year; and (2) liquidate the prior service cost for service earned prior to plan inception and subsequent benefit increases, which represents the amount necessary to fund accrued liabilities over a period of 20 years as required by the Code. The total contribution rate for the employers and the Commonwealth for fiscal year ended June 30, 1996 was 11.72 percent of qualified compensation. Member and employer contributions are recognized in the period in which employees salaries are reported.

Contribution rates for active members are set by law. As of June 30, 1996, the contribution rates based on qualified member compensation are as follows:

Active members hired before July 22, 1983	5.25%
Active members hired on or after July 22, 1983	6.25%

A portion of each employer and Commonwealth contribution to the System is set aside for the funding of premium assistance. The premium assistance contribution rate is set at a level necessary to accumulate assets sufficient to provide premium assistance payments for all participating eligible members for the subsequent fiscal year. Of the 11.72 percent total contribution rate for employers and the Commonwealth for fiscal year ended June 30, 1996, 0.62 percent was the portion used to fund premium assistance. The remaining components of the contribution rate are comprised of employer normal cost of 6.43 percent and amortization of unfunded actuarial accrued liability and supplemental annuities of 4.67 percent.

Prior to July 1, 1995 employers and the Commonwealth shared equally the contribution rate. Effective July 1, 1995, employers defined as school entities (school districts, area vocational-technical schools, and intermediate units) are required to pay the entire employer contribution rate. These school entities are reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income aid ratio (as defined in Act 29 of 1994), which is at least one half of the total employer rate. For other employers which are not school entities, the employer contribution rate continues to be shared equally. Employer contribution payments relating to non-school entities are made directly to the System from the non-school entity and the Commonwealth.

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.

Based on the June 30, 1994 valuation, the unfunded actuarial liability is \$3,102 million and the average funding period to amortize this liability is 20 years at July 1, 1991, with payments increasing 5 percent annually. Changes in the unfunded liability subsequent to July 1, 1991 are amortized over a period of 20 years from July 1 of the fiscal year following the change, with payments increasing 5 percent annually.

During the fiscal year ended June 30, 1996 the System 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.

### OTHER POSTEMPLOYMENT BENEFITS

The Commonwealth funds certain health care benefits for retired employees (that meet specified length-of-service and age requirements) and their eligible dependents. These benefits are provided as a result of negotiated union contracts and through administrative policy. The Commonwealth recognizes the cost of providing these benefits as paid, which totalled \$160 million for the fiscal year ended June 30, 1996. Approximately 79,000 individuals qualified for these benefits during the fiscal year.

The Commonwealth provides several other postemployment benefits, including disability life insurance and certain benefits to beneficiaries of state police officers killed in the line of duty. The amount expended for these benefits was not material during the fiscal year ended June 30, 1996.

# NOTES TO FINANCIAL STATEMENTS

## NOTE J—NOTES AND DEMAND REVENUE BONDS PAYABLE

### Primary Government

During the fiscal year ended June 30, 1996 the Commonwealth issued \$500 million of tax anticipation notes which matured on June 30, 1996. The \$15.2 million of interest related to the notes is shown as a debt service expenditure in the General Fund.

The State Stores Fund, an Enterprise Fund, has reported \$356 thousand of notes payable as of June 30, 1996 collateralized by investments held with the Treasury. The notes bear interest rates of 5.38 to 6.66 percent. The Purchasing Fund, an Internal Service Fund, has reported \$1.4 million of notes payable at June 30, 1996, bearing interest at 6.6 percent.

### Discretely Presented Component Units

The State Public School Building Authority (SPSBA), a governmental fund component unit, entered into the Treasury Initiative for Education (TIE) Program with the Pennsylvania Treasury Department (Treasury). The SPSBA issued a \$75 million note which was purchased by the Treasury. The proceeds of this note were deposited by the SPSBA with the Treasury, which invested the proceeds in a manner acceptable to both parties. The note is due April 28, 1997. It is renewable on an annual basis for a term not to exceed two years. Interest is payable at a percentage rate which will be the lesser of the rate of interest payable from 90 day Treasury Bills plus 20 basis points or the rate earned by the Treasury Short Term Investment Pool. The interest rate at June 30, 1996 was 5.42 percent. The note is collateralized by investments the SPSBA has made with the Treasury. The SPSBA has agreed to make \$25 million available for loans to school districts and \$50 million available for reinvestment by the Treasury at the time loans are made to the school districts. The outstanding balance of the note payable at June 30, 1996 was \$47.4 million.

The Pennsylvania Higher Education Assistance Agency (PHEAA), a proprietary fund component unit, has reported \$571.0 million of demand revenue bonds outstanding and \$460.5 million of notes payable consisting of student loan financing of \$437.3 million and capital financing arrangements of \$23.2 million at June 30, 1996. Demand revenue bonds at June 30, 1996 consist of the following (expressed in thousands):

	Student Loan Revenue Bonds 1994 Series A	Student Loan Adjustable Rate Tender Revenue Bonds 1988 Series E	Student Loan Adjustable Rate Tender Revenue Bonds 1988 Series C	Student Loan Adjustable Rate Tender Revenue Bonds 1988 Series B	Student Loan Adjustable Rate Tender Revenue Bonds 1988 Series A	Student Loan Revenue Bonds 1995 Series A
Amount issued .....	\$125,000	\$ 36,000	\$ 75,000	\$110,000	\$100,000	\$125,000
Date of issue .....	12/15/94	8/94	8/94	7/29/88	1/28/88	12/7/95
Interest rate .....	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%
Due date .....	12/1/24	1/1/19	1/1/19	7/1/18	1/1/18	12/1/25
Letter of credit:						
Principal amount .	\$133,425	\$ 36,592	\$ 76,233	\$119,625	\$101,643	\$133,425
Expiration date ....	12/14/99	7/31/99	7/31/99	7/3/98	12/7/99	12/6/98

The bonds bear interest at an adjustable rate determined by PHEAA's remarketing agent based upon prevailing market conditions and is reset weekly. All 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. None of the letters of credit pertaining to PHEAA's demand revenue bonds have been used as of June 30, 1996.

## NOTES TO FINANCIAL STATEMENTS

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

Student loan financing notes payable for PHEAA at June 30, 1996 consist of the following (expressed in thousands):

Line of credit agreement dated November 5, 1992 with interest at prime, 8.25 percent, at June 30, 1996, (paid quarterly) and annual principal payments. Principal not to exceed \$16 million .....	\$ 9,500
Amount due under revolving credit agreement dated September 23, 1994, through June 15, 1997. Interest rate at June 30, 1996 was 6.194 percent. Principal not to exceed \$60 million .....	52,775
Note payable, interest at 91 day U.S. Treasury Bill rate plus .9 percent (6.138 percent at June 30, 1996), due February 28, 1997 .....	70,000
Note purchase agreement dated May 1, 1990, amended subsequent to May 1, 1992, and extended through October 31, 1996. It provides for three separate notes known as the 1991 F, G, and H Series. Principal not to exceed \$300 million in the aggregate. Interest is the 91 day Treasury Bill rate plus .5 percent (5.585 percent at June 30, 1996) .....	286,960
Note purchase agreement dated September 21, 1994, with monthly extensions granted since the original due date of April 1, 1996. Principal not to exceed \$200 million. Interest is the 91 day Treasury Bill rate plus .65 percent (5.735 percent at June 30, 1996) .....	18,100
Total .....	<u>\$ 437,335</u>

Capital financing arrangements for PHEAA at June 30, 1996 consist of the following (expressed in thousands):

Dauphin County General Authority Revenue Bonds. Interest is a weighted average rate of 6.1 percent and is paid semiannually on March 1 and September 1. Principal is due through 2009 .....	\$ 3,275
Note payable refinanced in October 1992 with interest at 5.68 percent and monthly payments of principal and interest through November 1, 1997 .....	4,605
Note payable dated December 31, 1992 with interest at 6.7 percent and semiannual payments of principal and interest through December 31, 2002 .....	2,488
Loan security agreement dated April 12, 1994 with interest at prime, 8.25 percent, at June 30, 1996, (paid quarterly) and annual principal payments .....	767
Amounts due under various installment purchase agreements bearing interest at various rates that average approximately 6.1 percent .....	12,030
Total .....	<u>\$ 23,165</u>

All of PHEAA's capital financing arrangements are collateralized with property, plant and equipment. The aggregate maturities due for each of the five years subsequent to June 30, 1996 and through maturity are as follows (expressed in thousands):

1997 .....	\$ 10,307
1998 .....	5,498
1999 .....	3,650
2000 .....	762
2001 .....	806
Thereafter .....	2,142
Total .....	<u>\$ 23,165</u>

## **NOTES TO FINANCIAL STATEMENTS**

---

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

The Pennsylvania Housing Finance Agency (PHFA), a proprietary fund component unit, maintains two lines of credit with the Pennsylvania Treasury Department under which it may borrow up to \$15 million and \$50 million to fund its multi-family housing program. The \$15 million line of credit bears interest from the date of issuance at a rate equal to the current yield on two year Treasury Notes plus 20 basis points. The \$50 million line of credit bears interest at a fixed rate on the date of a draw equal to the current yield on two year Treasury Notes plus 15 basis points. At June 30, 1996 \$4 million and \$30 million were owed at a range of 4.47 to 6.98 percent and 4.24 to 6.13 percent, respectively, against the \$15 million and \$50 million lines of credit. Total reported notes payable at June 30, 1996 for the PHFA is \$40.2 million.

# NOTES TO FINANCIAL STATEMENTS

## NOTE K—LONG-TERM OBLIGATIONS

Long-term obligations of the Commonwealth's primary government at June 30, 1996 and changes for the fiscal year then ended are as follows (expressed in thousands):

GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP	Issue Dates	Interest Rates	Maturity Dates Through	Bonds Authorized But Unissued	Balance July 1, 1995	Additions	Reductions	Balance June 30, 1996
<b>General Obligation Bonds Payable From Tax Revenues:</b>								
Capital Facilities .....	1968-96	4.00-10.16%	2016	\$ 16,323,022	\$ 2,880,845	\$ 332,000	\$ 494,075	\$ 2,718,770
Disaster Relief .....	1973-89	4.91- 6.60%	2003	21,908	45,135	....	4,895	40,240
Land and Water Development .....	1969-94	4.00- 7.30%	2014	300	105,740	....	20,100	85,640
Nursing Home Loan Development .....	1977-86	5.32- 8.26%	2002	31,000	12,720	....	4,400	8,320
Project 70 Land Acquisition .....	1970	6.26%	2000	....	3,380	....	590	2,790
Volunteer Companies Loan .....	1977-94	4.00-10.75%	2014	10,000	21,900	....	2,110	19,790
Vietnam Conflict Veterans Compensation .....	1970-74	5.36- 6.11%	2003	3,000	12,610	....	1,895	10,715
Water Facilities Loan .....	1983-96	4.00- 8.26%	2016	15,500	132,930	20,000	14,520	138,410
Pennsylvania Economic Revitalization..	1991-95	4.40- 6.70%	2015	14,000	86,740	2,000	9,430	79,310
<b>Pennsylvania Infrastructure</b>								
Investment Authority .....	1988-96	4.00- 6.90%	2016	297,000	230,720	67,500	13,105	285,115
<b>Agricultural Conservation Easement</b>								
Purchase .....	1991-94	4.30- 6.75%	2014	19,000	74,700	....	4,465	70,235
Local Criminal Justice .....	1992-96	4.10- 6.75%	2016	19,000	169,275	6,000	5,360	169,915
<b>Keystone Recreation, Park and Conservation</b>								
Conservation .....	1994-96	5.00- 6.75%	2016	14,000	12,000	24,000	330	35,670
Refunding Bonds .....	1986-96	4.00- 7.00%	2010	....	1,251,967	221,333	76,690	1,396,610
				<u>16,767,730</u>	<u>5,040,662</u>	<u>672,833</u>	<u>651,965</u>	<u>5,061,530</u>
<b>Other General Long-Term Obligations</b>								
<b>Payable From Tax Revenues:</b>								
Installment Purchase Obligations .....	....	....	....	....	13,165	20,115	6,110	27,170
Capital Lease Obligations .....	....	....	....	....	60,624	352	2,547	58,429
<b>Obligations Under Master Lease Agreement—Equipment</b>								
Obligations Under Master Lease—Prison Facilities .....	....	....	....	....	105,605	....	35,090	70,515
Self-Insurance—Note O .....	....	....	....	....	757,720	....	24,205	733,515
Compensated Absences .....	....	....	....	....	978,468	234,364	94,928	1,117,904
Catastrophic Motor Vehicle Losses .....	....	....	....	....	506,397	271,145	236,975	540,567
Other .....	....	....	....	....	181,344	21,693	31,598	171,439
				....	1,038,623	291,821	420,749	909,695
				....	<u>3,641,946</u>	<u>839,490</u>	<u>852,202</u>	<u>3,629,234</u>
<b>TOTAL GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP</b>	....	....	....	<u>\$ 16,767,730</u>	<u>\$ 8,682,608</u>	<u>\$ 1,512,323</u>	<u>\$ 1,504,167</u>	<u>\$ 8,690,764</u>

Long-term obligations of the discretely presented component unit organizations at June 30, 1996 (May 31, 1996 for the Pennsylvania Turnpike Commission) and changes for the fiscal year then ended are as follows (expressed in thousands):

<b>GOVERNMENTAL FUNDS</b>								
<b>Bonds Payable From Lease Rentals:</b>								
<b>Pennsylvania Higher Educational Facilities Authority</b>								
State Public School Building Authority ..	1986-96	2.75- 7.90%	2017	....	\$ 2,102,946	\$ 1,205,128	\$ 667,315	\$ 2,640,759
				....	316,205	39,620	25,860	329,965
<b>TOTAL GOVERNMENTAL FUNDS</b>	....	....	....	....	<u>2,419,151</u>	<u>1,244,748</u>	<u>693,175</u>	<u>2,970,724</u>
<b>PROPRIETARY FUNDS</b>								
<b>Revenue Bonds Payable From User Charges:</b>								
<b>Pennsylvania Higher Education Assistance Agency</b>								
Pennsylvania Housing Finance Agency ..	1984-92	3.51-11.033%	2026	....	737,785	100,000	....	837,785
Pennsylvania Industrial Development Authority .....	1982-96	2.88-10.875%	2028	....	2,130,278	329,647	150,820	2,309,105
Pennsylvania Turnpike Commission .....	1994	4.50- 7.00%	2014	....	349,995	....	10,695	339,300
Pennsylvania Infrastructure Investment Authority .....	1986-94	2.50-7.875%	2019	....	1,252,560	....	23,900	1,228,660
				....	220,010	....	6,910	213,100
				....	<u>4,690,628</u>	<u>429,647</u>	<u>192,325</u>	<u>4,927,950</u>
Less: Bond discounts .....	....	....	....	....	64,542	2,908	6,232	61,218
Deferred costs of refunding .....	....	....	....	....	884	2,628	52	3,460
<b>TOTAL PROPRIETARY FUNDS</b>	....	....	....	....	<u>4,625,202</u>	<u>424,111</u>	<u>186,041</u>	<u>4,863,272</u>
<b>TOTAL COMPONENT UNIT LONG-TERM OBLIGATIONS</b>	....	....	....	....	<u>\$ 7,044,353</u>	<u>\$ 1,668,859</u>	<u>\$ 879,216</u>	<u>\$ 7,833,996</u>



# NOTES TO FINANCIAL STATEMENTS

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

### Primary Government

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

The 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.

The balance outstanding at June 30, 1996 in the General Long-Term Obligations Account Group for Refunding Bonds includes \$7.7 million of accreted value for capital appreciation bonds. No principal or interest is payable on the capital appreciation bonds until maturity.

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

Workmen's Compensation Security Trust Claims .....	\$ 582,024
Public Utility Realty Tax Act (PURTA) .....	156,463
Litigation—Note P .....	132,761
Medical Assistance Cost Settlements .....	37,713
Arbitrage Rebate Tax .....	734
	<u>\$ 909,695</u>

The Workmen's Compensation Security Trust Fund provides for payment of valid claims under the Workmen's Compensation Law to individuals whose employers are insured by insolvent insurance carriers. The PURTA provides for a tax on utility realty property 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 Commonwealth is liable for underpayments of medical assistance to nursing homes and inpatient hospitals based upon audits performed on the medical assistance program. Amounts included in the General Long-Term Obligations Account Group at June 30, 1996 relating to Workmen's Compensation Claims, PURTA, Litigation, Medical Assistance, and Arbitrage Rebate Tax are not payable with currently expendable available financial resources.

In 1991, the Commonwealth entered into lease arrangements with five local government authorities for the rental of five new prisons. Each authority issued bonds to finance the construction of the prisons. Each lease provided for the Commonwealth to pay periodic rentals equal to debt service payments on each authority's debt obligation. On July 1, 1993 a finance corporation issued certificates of participation to refund the authority debt obligations, to consolidate the financing of the prisons and to provide additional construction funding. As a result of the consolidated financing, the Commonwealth makes lease payments equal to the finance corporation's debt service payments. Both the original and the new leases provide that the Commonwealth's obligation to make lease payments is subject to Commonwealth appropriations made to provide for these obligations. In the fiscal year ended June 30, 1994 the Commonwealth began using the new prison facilities. The finance corporation holds nominal title to the facilities as security for the Commonwealth lease payments. When the certificates are fully redeemed, at which time the lease agreement expires, legal title vests with the Commonwealth. At June 30, 1996 the Commonwealth has reported \$733.5 million as a liability under prison master lease arrangements and has reported general fixed assets for the new prison facilities.

The Commonwealth's constitutional debt limit, which allows for the incurrence of debt to be used for capital projects without electorate approval as specifically itemized in a capital budget, was \$33.1 billion as of August 31, 1996, with net debt outstanding of \$3.9 billion.

### Discretely Presented Component Units

The Pennsylvania Housing Finance Agency (PHFA), the Pennsylvania Higher Education Assistance Agency (PHEAA), the Pennsylvania Industrial Development Authority, and the Pennsylvania Turnpike Commission (PTC), discretely presented proprietary fund component units, have pledged substantially all of their revenues for the redemption of revenue bonds outstanding. Revenue bonds outstanding as reported in this note disclosure for the fiscal year ended June 30, 1996 (May 31, 1996 for the PTC) include bond discounts of \$61.2 million.

The Pennsylvania Higher Educational Facilities Authority and the State Public School Building Authority (SPSBA), discretely presented governmental fund component units, have bonds outstanding as of June 30, 1996 which are payable from the lease rentals of the projects financed. The lease rentals are pledged as collateral for the bonds outstanding.

# NOTES TO FINANCIAL STATEMENTS

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

At June 30, 1996 the SPSBA reported \$210 thousand in other general long-term obligations which represents a liability for compensated absences.

The following table presents annual principal and interest payments for long-term debt outstanding for the primary government and discretely presented component units at June 30, 1996 (May 31, 1996 for the Pennsylvania Turnpike Commission) (expressed in thousands):

	1997	1998	1999	2000	2001	2002 Through Maturity	Total
<b>PRIMARY GOVERNMENT</b>							
<b>GENERAL OBLIGATION BONDS:</b>							
Capital Facilities .....	\$ 420,013	\$ 387,045	\$ 352,739	\$ 320,489	\$ 278,958	\$ 2,170,407	\$ 3,929,651
Disaster Relief .....	7,001	6,980	6,961	6,820	6,833	13,773	48,368
Land and Water Development .....	19,142	16,521	14,770	14,580	13,639	25,695	104,347
Nursing Home Loan Development .....	3,414	1,920	1,868	643	596	1,099	9,540
Project 70 Land Acquisition .....	780	778	783	785	.....	.....	3,126
Volunteer Companies Loan .....	3,329	2,355	2,267	2,188	2,098	16,416	28,653
Vietnam Conflict Veterans Compensation .....	2,578	2,581	2,592	2,601	478	1,459	12,289
Water Facilities Loan .....	14,605	14,017	13,232	13,106	12,883	144,976	212,819
Pennsylvania Economic Revitalization .. Pennsylvania Infrastructure Investment Authority .....	9,116	8,950	8,782	8,622	8,452	78,220	122,142
Agricultural Conservation Easement Purchase .....	29,370	28,812	28,394	26,794	25,270	300,954	439,594
Local Criminal Justice .....	6,906	6,842	6,785	6,724	6,669	75,171	109,097
Keystone Recreation, Park and Conservation .....	15,172	15,172	15,182	15,187	15,193	197,468	273,374
Refunding Bonds .....	3,068	3,061	3,050	3,047	3,041	44,403	59,670
Total Principal and Interest .....	172,503	179,047	178,903	185,843	181,582	984,859	1,882,737
Less: Interest Payments .....	706,997	674,081	636,308	607,429	555,692	4,054,900	7,235,407
Other General Long-Term Obligations ..	269,117	245,366	221,178	200,015	180,567	1,057,634	2,173,877
	437,880	428,715	415,130	407,414	375,125	2,997,266	5,061,530
	338,011	219,658	201,273	148,250	141,543	2,580,499	3,629,234
<b>TOTAL GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP</b>	<u>\$ 775,891</u>	<u>\$ 648,373</u>	<u>\$ 616,403</u>	<u>\$ 555,664</u>	<u>\$ 516,668</u>	<u>\$ 5,577,765</u>	<u>\$ 8,690,764</u>
<b>DISCRETELY PRESENTED COMPONENT UNITS</b>							
<b>GOVERNMENTAL FUNDS:</b>							
Other Bonds:							
Pennsylvania Higher Educational Facilities Authority .....	\$ 163,394	\$ 193,113	\$ 192,197	\$ 193,701	\$ 192,606	\$ 3,453,347	\$ 4,388,358
State Public School Building Authority ..	33,978	34,679	34,529	34,708	34,717	327,687	500,298
Total Principal and Interest .....	197,372	227,792	226,726	228,409	227,323	3,781,034	4,888,656
Less: Interest Payments .....	136,289	137,148	132,543	127,769	124,628	1,259,555	1,917,932
<b>TOTAL GOVERNMENTAL FUNDS ....</b>	<u>\$ 61,083</u>	<u>\$ 90,644</u>	<u>\$ 94,183</u>	<u>\$ 100,640</u>	<u>\$ 102,695</u>	<u>\$ 2,521,479</u>	<u>\$ 2,970,724</u>
<b>PROPRIETARY FUNDS:</b>							
Revenue Bonds:							
Pennsylvania Higher Education Assistance Agency .....	\$ 54,347	\$ 54,348	\$ 54,347	\$ 54,348	\$ 44,002	\$ 1,461,913	\$ 1,723,305
Pennsylvania Housing Finance Agency ..	252,662	188,190	189,774	188,743	190,213	3,755,202	4,764,784
Pennsylvania Industrial Development Authority .....	32,257	33,722	34,276	33,679	32,773	371,437	538,144
Pennsylvania Turnpike Commission .....	93,551	97,503	96,895	96,965	97,371	1,745,857	2,228,142
Pennsylvania Infrastructure Investment Authority .....	19,062	20,993	21,739	22,418	22,796	213,417	320,425
Total Principal and Interest .....	451,879	394,756	397,031	396,153	387,155	7,547,826	9,574,800
Less: Interest Payments .....	305,271	298,378	293,368	287,077	271,146	3,191,610	4,646,850
<b>TOTAL PROPRIETARY FUNDS .....</b>	<u>146,608</u>	<u>96,378</u>	<u>103,663</u>	<u>109,076</u>	<u>116,009</u>	<u>4,356,216</u>	<u>4,927,950</u>
<b>TOTAL COMPONENT UNITS .....</b>	<u>\$ 207,691</u>	<u>\$ 187,022</u>	<u>\$ 197,846</u>	<u>\$ 209,716</u>	<u>\$ 218,704</u>	<u>\$ 6,877,695</u>	<u>\$ 7,898,674</u>

# NOTES TO FINANCIAL STATEMENTS

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

The Commonwealth has entered into certain agreements to lease various facilities and equipment. Such agreements are in substance purchases (capital leases) and are reported as Capital Lease Obligations. The following is a schedule by fiscal year of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 1996 (expressed in thousands):

	Primary Government	Discretely Presented Component Units	
	General Long-Term Obligations	Pennsylvania Higher Education Assistance Agency	College and University Funds
Fiscal year ending June 30			
1997 .....	\$ 7,196	\$ 5,369	\$ 28,971
1998 .....	6,911	5,583	27,568
1999 .....	6,821	5,415	26,545
2000 .....	6,742	5,107	25,376
2001 .....	6,702	4,999	24,783
Later years .....	93,836	63,238	444,528
Total minimum lease payments .....	128,208	89,711	577,771
Less: amount representing estimated executory costs included in total minimum lease payments .....	16,203	....	....
Net minimum lease payments .....	112,005	89,711	577,771
Less: amount representing interest .....	53,576	34,174	266,596
TOTAL CAPITAL LEASE OBLIGATIONS .....	\$ 58,429	\$ 55,537	\$ 311,175
INSTALLMENT PURCHASE OBLIGATIONS .....	\$ 27,170		

At June 30, 1996 general fixed assets included \$95.8 million of buildings and \$2.2 million of equipment being procured by capital leases. A total of \$43.4 million in general fixed assets is being procured by vendor-financed installment purchase arrangements.

Capital lease obligations outstanding as of June 30, 1996 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 \$31.5 million of construction in progress related to capital leases at June 30, 1996.

The Commonwealth has entered into three lease arrangements with a trustee for the refinancing of previously existing leases and installment purchase arrangements and for the leasing of new equipment. These arrangements provide that the trustee issue certificates of participation, the proceeds of which allow for immediate payment to Commonwealth equipment vendors. This is not a general or moral obligation of the Commonwealth; under the arrangement, Commonwealth agencies are responsible for securing appropriations to make lease payments to the trustee, over a specified term, sufficient to fund periodic principal and interest payments to the certificate holders. While Commonwealth agencies maintain custody and use of the leased equipment, the trustee holds legal title to the equipment as security for the agency payments. When the certificates are fully funded, legal title vests with the Commonwealth agency. At June 30, 1996, \$84.4 million in general fixed assets is being procured under these master lease arrangements.

### Nonrecourse Debt

The Pennsylvania Energy Development Authority (PEDA) finances projects related to energy conservation and research. Fees are assessed to recover related processing and application costs incurred. The bonds issued by the Authority represent limited obligations payable solely from payments made by the borrowing entities. The majority of the bonds are secured by the property financed. Upon repayment of a bond, ownership of acquired property transfers from the trustees to the entity served by the bond issuance. The PEDA has \$121 million in revenue bonds outstanding at June 30, 1996. The Commonwealth has no obligation for this debt. Accordingly, neither the financed assets nor the bonds are included in the accompanying financial statements.

The Pennsylvania Economic Development Financing Authority (PEDFA) finances projects on behalf of local industrial and commercial development authorities to promote economic growth within the Commonwealth. Revenue bonds issued by the PEDFA represent limited obligations payable solely from Authority financed project revenues. At June 30, 1996 the PEDFA has \$1,061.8 million of debt outstanding. Neither PEDFA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are included in the accompanying financial statements.

# NOTES TO FINANCIAL STATEMENTS

## NOTE L—REFUNDED DEBT

### Primary Government

During the fiscal year ended June 30, 1996 the Commonwealth issued \$213.7 million in general obligation bonds, Refunding Series of 1996, with an average interest rate of 5.3 percent to advance refund \$204.2 million of previously issued general obligation bonds with an average interest rate of 6.56 percent. The net refunding bond proceeds of \$216.0 million, after payment of underwriting fees, insurance, and other issuance costs, were deposited in irrevocable trusts to provide for all future debt service payments on the refunded bonds. As a result, the bonds refunded are considered to be defeased and have been removed from the General Long-Term Obligations Account Group. The Commonwealth advance refunded its previously issued bonds to reduce debt service payable on its general obligation bonds by \$9.3 million and to obtain an economic gain of \$9.5 million.

At June 30, 1996 \$789 million of general obligation bonds outstanding, that were previously accounted for in the General Long-Term Obligations Account Group, have been defeased through advance refundings.

### Discretely Presented Component Units

During the fiscal year ended June 30, 1996 the State Public School Building Authority (SPSBA) and the Pennsylvania Higher Educational Facilities Authority (PHEFA), discretely presented governmental fund component units, issued revenue bonds to advance refund \$680.1 million of previously issued revenue bonds as follows (expressed in thousands):

Category	School Revenue Refunding Bonds Series B of 1996	Variable Rate Revenue Refunding Bonds	RIDC Regional Growth Fund Revenue Refunding Bonds Series 1995	Phila College of Pharmacy & Science Revenue Bonds Series of 1995	University of the Arts Revenue Bonds Series of 1995
Issuing Authority .....	SPSBA	PHEFA	PHEFA	PHEFA	PHEFA
Bond Type .....	Revenue	Revenue	Revenue	Revenue	Revenue
Date Issued .....	5-29-96	10-26-95	10-26-95	11-30-95	12-21-95
Refunding Bonds Principal ...	\$6,880	\$176,800	\$19,375	\$26,000	\$8,700
Interest Rate (Refunding) .....	5.42%	5.76%	4.91%	5.22%	5.49%
Refunded Series .....	School Revenue Bonds Series A 1992	Carnegie Mellon U. Var. Rate Option Revenue Bonds First Series 1985*	RIDC Regional Growth Fund Revenue Bonds Series of 1985*	PCPS Revenue Bonds Series N PCPS Revenue Bonds Series Q College Revenue Bonds Series A 1989 PCPS Insured Dormitory Revenue Bonds Series of 1985*	College Revenue Bonds Series of 1987 Revenue Bonds Series of 1989
Refunded Bonds Principal .....	\$6,120	\$109,890* / \$67,000*	\$21,385*	\$2,765 / \$2,775 / \$8,920 / \$5,655*	\$2,650 / \$4,590
Interest Rate (Refunded) .....	5.76%	8.82% / Variable	8.94%*	5.75% / 6.78% / 6.99% / 9.25%*	9.58% / 8.11%
Payment to Escrow Agent .....	\$6,295	\$177,684	\$22,745	\$21,158	\$8,033
Debt Service Savings (Loss) .	\$( 414 )	....	\$12,869	\$2,245	\$914
Economic Gain (Loss) .....	\$( 126 )	....	\$2,922	\$1,399	\$641

\* Current refunding.

# NOTES TO FINANCIAL STATEMENTS

## NOTE L—Refunded Debt (continued)

Category	U. of Pennsylvania Health Services Revenue Bonds Series B of 1996	U. of Pennsylvania Health Services Revenue Bonds Series A of 1996	LaSalle University Revenue Bonds Series of 1996	Health Services Revenue Bonds Series A/B/C 1996	Phila College of Textiles & Science College Revenue Bonds Series of 1996
Issuing Authority .....	PHEFA	PHEFA	PHEFA	PHEFA	PHEFA
Bond Type .....	Revenue	Revenue	Revenue	Revenue	Revenue
Date Issued .....	4-30-96	4-30-96	5-28-96	6-19-96	6-28-96
Refunding Bonds Principal ...	\$114,990	\$333,445	\$17,045	\$306,150	\$8,500
Interest Rate (Refunding) .....	5.79%	5.79%	5.72%	5.85%	6.76%
Refunded Series .....	Trustees of the U. of Pennsylvania Revenue Bonds Series A of 1987	U. of Pennsylvania Revenue Bonds Series B of 1987*	LaSalle University Revenue Bonds Series of 1988	Revenue Bonds Series A 1989  Univ. Revenue Bonds Series of 1989  Univ. Revenue Bonds Series of 1991  Revenue Bonds 1991 Series B  Hosp. Revenue Bonds Series 1989B  Hosp. Revenue Bonds Series of 1987  Hosp. Variable Rate Demand Revenue Bonds Series 1988	Phila. College of Textiles & Science College Revenue Bonds Series of 1991
Refunded Bonds Principal .....	\$109,975	\$16,700* / \$15,000*	\$11,385 / \$1,320	\$33,650 / \$108,380 \$33,255 / \$38,910 \$38,630 / \$26,755 / \$8,100	\$6,295
Interest Rate (Refunded) .....	6.52%	Variable	7.4% / Variable	6.60% / 7.26% / 6.88% 7.37% / 7.06% / 6.73% 6.82%	6.59%
Payment to Escrow Agent .....	\$113,224	\$31,791	\$12,394	\$301,769	\$6,417
Debt Service Savings (Loss) ..	\$7,519	....	....	\$32,964	\$(246)
Economic Gain .....	\$7,336	....	....	\$14,929	\$7

\* Current refunding.

The net refunding bond proceeds, after payment of underwriting fees, insurance, and other issuance costs, were used to purchase U.S. Government securities which were deposited in irrevocable trusts to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the General Long-Term Debt Account Group.

The SPSBA and the PHEFA reported advance and current refundings in its component unit financial statements for the Danville Area School District, the Susquenita School District, the Cumberland County Municipal Authority, the Montgomery County Higher Education and Health Authority and the Allegheny University Hospital, which are not reported in the preceding table. The liability for the refunded debt was removed from their General Long-Term Obligations Account Group; however, since the SPSBA and PHEFA did not issue any new debt, this was not an advance or current refunding transaction of the SPSBA or the PHEFA. Furthermore, there were no debt service savings nor any economic gain or loss to the SPSBA or the PHEFA.

The PHEFA also reported advance and current refundings in the preceding table for which neither debt service savings or loss, nor economic gain or loss were reported. Although the PHEFA may have benefited or suffered financially as a result of the refundings, no amounts were calculated by the PHEFA because of the variable rate nature of the bonds.

## **NOTES TO FINANCIAL STATEMENTS**

---

### **NOTE L—Refunded Debt (continued)**

---

At June 30, 1996 \$848.5 million of bonds outstanding, that were previously accounted for in their General Long-Term Obligations Account Group, have been defeased through advance refundings, for the PHEFA and the SPSBA. Included are \$750.7 million for the PHEFA and \$97.8 million for the SPSBA.

During the fiscal year ended June 30, 1996 the Pennsylvania Housing Finance Agency (PHFA), a discretely presented proprietary fund component unit, redeemed prior to maturity \$107.8 million of Single Family Mortgage Revenue Bonds, Series K, R, X and 1990-27 using undisbursed bond proceeds. The PHFA did not issue new debt. The PHFA completed the refunding to reduce its total debt service payments over the next 25 years by \$68.9 million and to obtain an economic gain of \$19.9 million.

At June 30, 1996 \$7.1 million of bonds outstanding, that were previously accounted for in the financial statements of the PHFA, have been defeased through refundings.

At May 31, 1996 \$656 million of bonds outstanding, that were previously accounted for in the financial statements of the Pennsylvania Turnpike Commission, a discretely presented proprietary fund component unit, have been defeased through refundings.

At June 30, 1996 \$197.8 million of bonds outstanding, that were previously accounted for in the financial statements of the Pennsylvania Industrial Development Authority, a discretely presented proprietary fund component unit, have been defeased through refundings.

At June 30, 1996 \$90.7 million of bonds outstanding, that were previously accounted for in the financial statements of the State System of Higher Education, a discretely presented college and university fund component unit, have been defeased through refundings.

## NOTES TO FINANCIAL STATEMENTS

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

The Commonwealth adopts formal annual budgets for the General and three Special Revenue Funds (Motor License, State Lottery and Workmen's Compensation Administration). 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 balance for the General Fund has been restated to account for an amendment made to the annual budget subsequent to the fiscal year ended June 30, 1995. The restatement is summarized as follows (expressed in thousands):

	<u>General Fund</u>
Unreserved/undesignated fund balance, budgetary basis, June 30, 1995, as previously stated .....	\$ 428,997
Adjusted for canceled spending authorization .....	<u>8,004</u>
Unreserved/undesignated fund balance, budgetary basis, July 1, 1995, as restated .....	<u>\$ 437,001</u>

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

	<u>General Fund</u>	<u>Special Revenue Funds</u>
<b>BUDGETARY BASIS:</b>		
Budgetary basis — revenues and other sources over (under) expenditures and other uses .....	\$ ( 280,752 )	\$ 27,099
Adjustments:		
To adjust revenues, other financing sources and related receivables and deferred revenue .....	832,633	1,296,373
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities .....	( 2,369,744 )	( 1,553,644 )
To adjust encumbrances .....	<u>1,789,871</u>	<u>247,584</u>
Net adjustments .....	<u>252,760</u>	<u>( 9,687 )</u>
<b>NONBUDGETED FUNDS:</b>		
GAAP basis — revenues and other sources under expenditures and other uses .....	.....	<u>78,630</u>
<b>TOTAL ALL FUNDS:</b>		
GAAP basis — revenues and other sources over (under) expenditures and other uses .....	<u>\$ ( 27,992 )</u>	<u>\$ 96,042</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE N — SEGMENT INFORMATION

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

	Sunny Day	Capital Loan	State Workmen's Insurance (Dec. 31, 1995)	State Stores (June 25, 1996)	Volunteer Company Loan	Minority Business Development	Machinery and Equipment Loan	Other Enterprise Funds	Total Enterprise Funds
Operating revenues .....	\$ 5,200	\$ 2,726	\$ 434,302	\$ 704,798	\$ 1,623	\$ 817	\$ 1,562	\$ 16,407	\$ 1,167,435
Depreciation .....	....	....	862	5,095	....	....	....	635	6,592
Operating income (loss) .....	(386)	4,085	(165,367)	50,231	1,768	(2,882)	(189)	(976)	(113,716)
Operating transfers out .....	....	....	....	43,117	....	....	....	....	43,117
Net income (loss) .....	(386)	4,085	(165,367)	10,263	1,768	(2,882)	(189)	854	(151,854)
Increases in contributed capital .....	15,000	1,366	....	....	....	2,130	7,300	1,145	26,941
Acquisition and construction of capital assets .....	....	....	251	3,282	....	....	....	1,439	4,972
Net increase (decrease) in cash .....	753	103	(2,964)	50	....	18	75	(52)	(2,017)
Total assets .....	163,194	53,727	1,656,161	192,238	71,675	10,072	45,947	40,257	2,233,271
Bonds and other long-term liabilities payable from operating revenues .....	....	....	1,463,301	356	....	....	....	....	1,463,657
Total fund equity .....	163,173	53,687	65,620	27,680	71,647	9,884	45,936	34,258	471,885



## NOTES TO FINANCIAL STATEMENTS

### NOTE O—SELF-INSURANCE

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

There were no reductions in commercial insurance coverage during the fiscal year ended June 30, 1996. No settlements exceeded commercial insurance coverage during each of the past three fiscal years.

The accrued liability for annuitant medical/hospital claims is determined by an actuary in accordance with accepted actuarial principles. Accrued liabilities for employe disability, tort and transportation claims are established based on reserves computed from the Commonwealth's claim experience; such claims are not discounted. No accrued liability has been reported for property losses.

At June 30, 1996 the accrued liabilities which will be paid with current expendable available financial resources are reported in the General Fund. Those liabilities which will not be paid with current expendable available financial resources at June 30, 1996 are reported in the General Long-Term Obligations Account Group (GLTOAG). All accrued self-insurance liabilities at June 30, 1996 are summarized as follows (expressed in thousands):

	General Fund	Motor License Fund	GLTOAG	Total
Employe disability .....	\$ 133,747	\$ . . . .	\$ 838,804	\$ 972,551
Annuitant medical/hospital .....	32,865	. . . .	. . . .	32,865
Automobile tort .....	2,872	. . . .	11,603	14,475
Employe tort .....	1,797	. . . .	16,638	18,435
General tort .....	1,156	. . . .	34,441	35,597
Transportation .....	. . . .	18,805	216,418	235,223
Totals .....	<u>\$ 172,437</u>	<u>\$ 18,805</u>	<u>\$ 1,117,904</u>	<u>\$ 1,309,146</u>

The following summary provides aggregated information on prior year self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 1996 and reported self-insurance liabilities at June 30, 1996 (expressed in thousands):

	June 30, 1995 Liability	Incurred Claims		Payments		June 30, 1996 Liability
		Current	Prior	Current	Prior	
Employe disability .....	\$ 788,745	\$ 251,321	\$ ( 141 )	\$ 12,278	\$ 55,096	\$ 972,551
Annuitant medical/hospital ..	31,700	161,061	. . . .	128,196	31,700	32,865
Automobile tort .....	13,542	2,332	976	767	1,608	14,475
Employe tort .....	20,236	881	( 150 )	. . . .	2,532	18,435
General tort .....	37,222	422	( 321 )	21	1,705	35,597
Transportation .....	236,973	9,270	2,872	1,481	12,411	235,223
Totals .....	<u>\$ 1,128,418</u>	<u>\$ 425,287</u>	<u>\$ 3,236</u>	<u>\$ 142,743</u>	<u>\$ 105,052</u>	<u>\$ 1,309,146</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE O—Self-Insurance (continued)

The following summary provides aggregated information on June 30, 1994 self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 1995 and reported self-insurance liabilities at June 30, 1995 (expressed in thousands):

	June 30, 1994 Liability	Incurred Claims		Payments		June 30, 1995 Liability
		Current	Prior	Current	Prior	
Employee disability .....	\$ 651,278	\$ 206,762	\$ 2,672	\$ 10,374	\$ 61,593	\$ 788,745
Annuitant medical/hospital ..	....	177,840	....	146,140	....	31,700
Automobile tort .....	11,845	1,273	3,393	501	2,468	13,542
Employee tort .....	17,810	769	9,699	5	8,037	20,236
General tort .....	33,209	465	4,541	15	978	37,222
Transportation .....	218,000	....	18,973	....	....	236,973
Totals .....	<u>\$ 932,142</u>	<u>\$ 387,109</u>	<u>\$ 39,278</u>	<u>\$ 157,035</u>	<u>\$ 73,076</u>	<u>\$ 1,128,418</u>

### NOTE P—COMMITMENTS AND CONTINGENCIES

**Construction and Other Commitments:** At June 30, 1996 the Department of Transportation and the Pennsylvania Turnpike Commission, a discretely presented component unit, have contractual commitments of approximately \$1,106 million and \$167 million, respectively, for various highway construction and mass transit projects. Financing for these future expenditures will be primarily from approved federal grants and general obligation bond sales. In addition, the Commonwealth has certain contractual commitments for future purchases of various goods and services approximating \$2.8 billion at June 30, 1996. These commitments are contingent upon the availability of financial resources.

At June 30, 1996 the following discretely presented component units had approved loans that had not been disbursed (amounts in millions):

Pennsylvania Infrastructure Investment Authority .....	\$ 257
Pennsylvania Industrial Development Authority .....	232
Pennsylvania Housing Finance Agency .....	241

**Operating Lease Commitments:** The Commonwealth and its discretely presented component units have commitments to lease certain buildings and equipment. Future minimum rental commitments for noncancelable operating leases as of June 30, 1996 were as follows (expressed in thousands):

Fiscal year ending June 30:

	Primary Government	Discretely Presented Component Units
1997 .....	\$ 201,381	\$ 666
1998 .....	104,931	648
1999 .....	103,063	670
2000 .....	73,615	678
2001 .....	44,806	685
Later years .....	232,049	2,742
Total Minimum Lease Payments .....	<u>\$ 759,845</u>	<u>\$ 6,089</u>

Rental expenditures/expenses for all operating leases for the fiscal year ended June 30, 1996 amounted to \$255.7 million (\$255 million for primary government, \$742 thousand for discretely presented component units).

## NOTES TO FINANCIAL STATEMENTS

---

### NOTE P—Commitments and Contingencies (continued)

---

**Litigation:** The Commonwealth is a defendant in numerous legal proceedings pertaining to matters normally incidental to routine operations. Such litigation includes, but is not limited to, claims asserted against the Commonwealth arising from alleged torts, alleged breaches of contracts, condemnation proceedings and other alleged violations of Commonwealth and Federal laws. The Commonwealth has recorded accrued liabilities at June 30, 1996 with respect to torts as described in Note O and as other General Long-Term Obligations with respect to other matters of litigation in the amount of \$132,761 thousand for which the likelihood of an unfavorable outcome is probable.

Additionally, the Commonwealth has been involved over the past several years in certain legal proceedings relative to bank taxes which continues into the present year. Other cases that the Commonwealth is currently vigorously contesting could range from approximately \$78 to \$961 million, \$1 to \$318 million, and \$2 to \$24 million of additional liabilities for the General Fund, Special Revenue Funds and Capital Projects Funds, respectively.

Discretely presented component units of the Commonwealth are vigorously contesting cases which could range from \$300 thousand to approximately \$6 million, \$2 to \$5 million and zero to \$3 million of additional liabilities for the College and University Funds, Proprietary Funds and a Fiduciary Fund, respectively, and could result in approximately \$3 million of additional liabilities for Governmental Funds.

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

**Federal Grants:** The Commonwealth receives significant financial assistance from the Federal government in the form of grants and entitlements, including several non-cash programs (which are not included in the general purpose financial statements). Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit Act or to financial and compliance audits by the grantor agencies of the Federal government or their designees. Disallowances and sanctions as a result of these audits may become liabilities of the Commonwealth. The Commonwealth is currently involved in administrative and legal proceedings, with certain Federal agencies, contesting various disallowances and sanctions related to Federal Assistance Programs ranging from \$16 to \$77 million. The Commonwealth's management believes ultimate disallowances and sanctions, if any, will not have a material effect on the general purpose financial statements.

**Student Loan Guarantees:** The Pennsylvania Higher Education Assistance Agency (PHEAA), a Discretely Presented Proprietary Fund Component Unit, guarantees loans made by private lenders to certain resident students. Total outstanding guarantees issued by PHEAA approximated \$11.7 billion at June 30, 1996. Under the Higher Education Act of 1965, as amended, the PHEAA has entered into an agreement with the U.S. Department of Education for reinsurance of death, disability, bankruptcy, and default claims paid to lenders. Pursuant to this agreement, PHEAA receives reimbursement of claims paid to lenders, provided that there is compliance with various federal requirements. Reinsurance rates vary from 78 percent to 100 percent depending upon default rates in the portfolio guaranteed by PHEAA. During the year ended June 30, 1996, PHEAA's default rate was in a range that permitted the maximum reinsurance reimbursement from the Department.

**Lottery Prizes:** The State Lottery Fund, a Special Revenue Fund, awards a variety of prizes, including certain large prizes which require periodic payments to winners for a certain period of time (in some cases throughout the winners lifetimes, and to designated beneficiaries). To satisfy its obligation to these prize winners, the Fund purchases annuity contracts from insurance companies whereby the insurance companies make periodic payments to prize winners. In the event of insurance company default, the Fund is liable for these payments. At June 30, 1996 the amount of future prize payments amounts to \$2.3 billion.

## **NOTES TO FINANCIAL STATEMENTS**

---

### **NOTE Q—CERTAIN AGENCY FUND CLAIMS LIABILITIES**

---

The Medical Professional Liability Catastrophe Loss Fund, an Agency Fund, acts as a service agent to facilitate the payment of medical malpractice claims exceeding basic liability coverage carried by health care providers practicing in the Commonwealth. The Fund levies health care provider surcharges, as a percentage of insurance premiums for basic coverage, to pay 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, 1996 totals \$1,954.8 million (\$1,462.0 million at present value based on the expected payment pattern and an assumed long-term interest rate of 6 percent). The amount of expendable financial resources available to pay claims at June 30, 1996 is \$135.7 million. This is reported as a fund liability. The remaining claims will be funded exclusively through surcharge assessments in future years as claims are settled and paid; as a result, a financial liability for remaining claims is not reported.

The Underground Storage Tank Indemnification Fund (the Fund), an Agency Fund, is used to collect fees from underground storage tank owners and operators sufficient to pay owners and operators for costs associated with corrective actions or for bodily injury or property damage caused by tank leaks and other releases. Owners and operators are assessed actuarially determined amounts to accumulate sufficient assets to pay claims. The Fund actuary has estimated potential claims of \$755 million at June 30, 1996. There are statutory limits on the extent of the Fund's liability to participating owners and operators. The Fund has reported assets and liabilities amounting to \$245 million at June 30, 1996; the Fund is not obligated beyond that amount. Owners and operators will be assessed for any claims exceeding \$245 million and no financial liability is reported for those claims.

### **NOTE R—DEFERRED COMPENSATION**

---

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

All amounts of compensation deferred under the plan, all property and rights purchased with the amounts, and all income attributable to these amounts are solely the property and rights of the Commonwealth, subject only to the claims of the Commonwealth's general creditors. Participants' rights under the plan are equal to those of general creditors of the Commonwealth in an amount equal to the fair market value of the deferred account of each participant. The Commonwealth has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The Commonwealth believes it is unlikely that plan assets will be used to satisfy future claims of general creditors.

Of the \$306 million in assets (at market value) reported in the Deferred Compensation Fund, an Agency Fund, at December 31, 1995, \$301 million relates to primary government employees and \$4 million relates to employees of discretely presented component units. The remaining balance of \$1 million relates to organizations not included in the Commonwealth's financial reporting entity.

## NOTES TO FINANCIAL STATEMENTS

### NOTE S—JOINT VENTURE

The Commonwealth, through its Office of Administration, and various labor unions representing Commonwealth employees participate in a joint venture, the Pennsylvania Employees Benefit Trust Fund (PEBTF). The PEBTF establishes and provides health and welfare benefits for active employees; the PEBTF is a third party administrator for annuitant medical/hospital benefits. The Commonwealth is required to fund all necessary contributions to pay for the cost of providing benefits; the unions are not required to make contributions. Contribution rates and/or amounts are established by collective bargaining agreements and administrative policies. During the fiscal year ended June 30, 1996, the Commonwealth paid PEBTF over \$608 million in contributions to fund benefits. Neither the Commonwealth nor the unions have an equity interest in the PEBTF. At June 30, 1996, the PEBTF reported total assets of \$372 million, total liabilities and benefit obligations of \$97 million, and net assets available for benefits of \$274 million. During the fiscal year, net assets available for benefits increased by \$105 million. The financial status of the PEBTF is monitored on an ongoing basis; financial stress is not evident.

Effective July 1, 1996 the Commonwealth entered into a new agreement with AFSCME in which the Commonwealth will not be required to make contributions to the PEBTF for the months of July through October 1996. This reduction in contributions is for the Active Plan and is estimated at \$140 million which would reduce the Fund's net assets available for benefits by a similar amount. Effective November 1, 1996, the Commonwealth will resume its normal contributions.

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

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

# **NOTES TO FINANCIAL STATEMENTS**

---

## **NOTE T—SUBSEQUENT EVENTS**

---

### **Primary Government**

Effective July 1, 1996, the Sunny Day Fund, an Enterprise Fund, has been eliminated through legislation that transferred the fund assets to the Pennsylvania Industrial Development Authority (PIDA), a discretely presented proprietary component unit.

Effective July 1, 1996, the Air Quality Improvement Fund, the Recycling Fund, the Storage Tank Loan Fund, all Special Revenue Funds, and the Capital Loan Fund, an Enterprise Fund, were consolidated into a new fund, the Small Business First Fund.

On July 11, 1996, the Commonwealth passed legislation authorizing the issuance of up to \$110 million in general obligation bonds to pay the Commonwealth's share of all public assistance costs including highways and bridges, and disaster mitigation costs provided by the Federal government under the Robert T. Stafford Disaster Relief and Emergency Assistance Act for the blizzard of January 1996 or the resulting flood emergency.

On October 10, 1996, the Commonwealth issued \$550 million in Tax Anticipation Notes, First Series of 1996-1997. The notes are payable from and secured by the pledges of revenues to be received in the General Fund during the fiscal year ending June 30, 1997. These obligations are due and payable no later than June 30, 1997.

### **Discretely Presented Component Units**

Effective July 1, 1996, by authority of the Pennsylvania State Legislature, the Pennsylvania Industrial Development Authority (PIDA), a proprietary fund component unit, received transfer of all outstanding loans of the Sunny Day Fund. As a result, the PIDA assumed 39 loans with an aggregate principal balance of approximately \$134 million. In addition to the loans, the PIDA received approximately \$19.5 million from the Sunny Day Fund to be used to satisfy three loans which had been approved but not disbursed by June 30, 1996.

During July 1996, the PIDA authorized issuance of \$83.3 million in Pennsylvania Industrial Development Revenue Bonds, Series 1996 (1996 Bonds). The proceeds of the 1996 Bonds will be used to repay the Commonwealth for the Sunny Day Fund assets acquired on July 1, 1996, with the remaining funds used to satisfy bond covenant requirements.

On September 12, 1996 the Board of Directors of the Pennsylvania Housing Finance Agency (PHFA), a proprietary fund component unit, approved the issuance of Single Family Mortgage Revenue Bonds, Series 1996-53, in an amount not to exceed \$75 million. The proceeds of the bonds, anticipated to be issued in November 1996, will be used to fund the purchase of new Single Family Mortgage Loans.

On September 24, 1996, the PHFA issued \$75 million of Single Family Mortgage Revenue Bonds, Series 1996-52. The proceeds of the bonds will be used to partially redeem the PHFA's Single Family Mortgage Revenue Bonds, Series R, and to fund the purchase of new Single Family Mortgage Loans.

On September 25, 1996, the PHFA redeemed prior to maturity \$25.2 million of Single Family Mortgage Revenue Bonds, Series R, using bond proceeds from Single Family Mortgage Revenue Bonds, Series 1996-52. A deferred loss of \$503 thousand resulted from the redemption.

The PHFA is required and has committed to redeem prior to maturity \$1.6 million of Single Family Mortgage Revenue Bonds, Series N and O, using mortgage prepayments. These redemptions occurred October 1, 1996 and resulted in an extraordinary loss of \$31 thousand.

In conformance with the resolutions of several bond issues, the PHFA has committed to redeem prior to maturity \$37.4 million of Single Family Mortgage Revenue Bonds, Series Y, Z, 1990-28, 1990-29, 1991-30, 1991-32, 1992-33, and 1994-38. These redemptions occurred October 1, 1996 and resulted in an extraordinary loss of \$600 thousand.

## **NOTES TO FINANCIAL STATEMENTS**

---

### **NOTE T—SUBSEQUENT EVENTS (continued)**

---

On October 18, 1996 the Pennsylvania Higher Education Assistance Agency, a proprietary fund component unit, refinanced the \$300 million note purchase agreement dated May 1, 1990 and the \$200 million note purchase agreement dated September 21, 1994 into a \$500 million note purchase agreement maturing November 1, 1997. Interest is the 91-day average Treasury bill plus .60 percent.

# Combining Financial Statements and Schedules



Commonwealth of Pennsylvania



**(THIS PAGE INTENTIONALLY LEFT BLANK)**

# Special Revenue Funds



Commonwealth of Pennsylvania

## SPECIAL REVENUE FUNDS DESCRIPTION

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

**State Lottery Fund** — to account for the payment of prizes to winners in the state lottery, for property tax and rent assistance to the elderly, for mass transit fare subsidies, 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. The Fund assesses insurance companies and self-insured businesses a periodic fee for costs incurred in administering these Acts.

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

**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.

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

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

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

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

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

**COMBINING BALANCE SHEET**  
**Special Revenue Funds**

June 30, 1996

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Budgeted Funds										Total	
	State Lottery	Motor License	Workmen's Compensation Administration	Public Transportation Assistance	Pharmaceutical Assistance	Water Facilities Loan	Pennsylvania Economic Revitalization	Recycling	Fish and Game	Hazardous Sites Cleanup		Other
<b>ASSETS:</b>												
Cash	14	\$ 26,700	\$ 61	\$ 3	\$ 623	\$	\$ 177	\$ 1	\$ 404	\$	\$ 339	\$ 28,322
Cash with fiscal agents								3				3
Temporary investments	202,368	449,854	46,300	5,864	9,804		3,166	104,774	59,880	130,617	198,918	1,211,545
Long-term investments	7,039											7,039
Receivables, net:												
Taxes		119,340		20,638								139,978
Accounts	55,332		38		8,648						4,268	68,286
Accrued interest	818	1,782	202	69	69	454	724	482	277	547	912	6,336
Notes and loans						23,499	60,489	95			7,989	92,072
Other	8	6,684									21	6,713
Due from other funds	1,367	20,089		2,675	1,175		1	7	3,358	21,603	12,146	62,421
Due from component units		898									6	904
Due from other governments	11,471	88,793							6,743	17	13,195	120,219
Advances to other funds										3,000		3,000
<b>TOTAL ASSETS</b>	<b>\$ 278,417</b>	<b>\$ 714,140</b>	<b>\$ 46,601</b>	<b>\$ 29,249</b>	<b>\$ 20,319</b>	<b>\$ 23,953</b>	<b>\$ 64,557</b>	<b>\$ 105,362</b>	<b>\$ 70,662</b>	<b>\$ 155,784</b>	<b>\$ 237,794</b>	<b>\$ 1,746,838</b>
<b>LIABILITIES AND FUND BALANCES</b>												
<b>Liabilities:</b>												
Accounts payable and accrued liabilities			\$ 9,533	\$ 5,474	\$ 11,793	\$	\$ 974	\$ 1,203	\$ 4,649	\$ 3,368	\$ 31,914	\$ 534,385
Tax refunds payable		733										733
Due to other funds	7,280	25,071	656	588	14	454	57	5	1,490	275	16,674	52,564
Due to component units		3,370										3,370
Due to other governments	8,527	16,083	74		2		1,489	5,193	176	18	508	32,070
Deferred revenue	2,802	614	246						2,091		15,150	20,903
Advances from other funds		2,175			2,033						3,000	7,208
Other liabilities											1	1
<b>TOTAL LIABILITIES</b>	<b>244,558</b>	<b>287,574</b>	<b>10,509</b>	<b>6,062</b>	<b>13,842</b>	<b>454</b>	<b>2,520</b>	<b>6,401</b>	<b>8,406</b>	<b>3,661</b>	<b>67,247</b>	<b>651,234</b>
<b>Fund Balance:</b>												
Reserved for:												
Encumbrances	3	109,141	444				4,566	1,142	2,742	13,717	12,879	144,634
Advances										3,000		3,000
Loans receivable						23,499	60,489	95			7,989	92,072
Long-term investments	7,039											7,039
Other	8										103	111
Unreserved:												
Designated for:												
Highways		153,507										153,507
Other	340							2,928	2,076		25,628	30,972
Undesignated (deficit)	26,469	163,918	35,648	23,187	6,477		(3,018)	94,796	57,438	135,406	123,948	664,269
<b>TOTAL FUND BALANCE</b>	<b>33,859</b>	<b>426,566</b>	<b>36,092</b>	<b>23,187</b>	<b>6,477</b>	<b>23,499</b>	<b>62,037</b>	<b>98,961</b>	<b>62,256</b>	<b>152,123</b>	<b>170,547</b>	<b>1,095,604</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 278,417</b>	<b>\$ 714,140</b>	<b>\$ 46,601</b>	<b>\$ 29,249</b>	<b>\$ 20,319</b>	<b>\$ 23,953</b>	<b>\$ 64,557</b>	<b>\$ 105,362</b>	<b>\$ 70,662</b>	<b>\$ 155,784</b>	<b>\$ 237,794</b>	<b>\$ 1,746,838</b>

# COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES Special Revenue Funds

For Fiscal Year Ended June 30, 1996

## COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Budgeted Funds					Recycling	Fish and Game	Hazardous Sites Cleanup	Other	Total
	State Lottery	Motor License	Workmen's Compensation Administration	Public Transportation Assistance	Pharmaceutical Assistance					
<b>REVENUES:</b>										
Taxes .....	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Licenses and fees .....	136	512,744	.....	.....	.....	35,468	36,507	34,941	34,721	634,241
Intergovernmental .....	66,266	679,916	.....	.....	.....	.....	2,611	105,205	105,205	866,476
Charges for sales and service .....	5,048	92,262	43,840	.....	.....	.....	10	73,186	73,186	234,197
Investment income .....	5,955	22,306	2,106	954	829	5,666	.....	3,662	12,677	61,414
Lottery revenues .....	1,699,277	.....	.....	.....	.....	.....	.....	.....	.....	1,699,277
Other .....	330	41,028	141	.....	.....	683	4,845	19,223	.....	69,729
<b>TOTAL REVENUES</b> .....	<b>1,777,012</b>	<b>2,653,360</b>	<b>46,087</b>	<b>174,271</b>	<b>829</b>	<b>41,817</b>	<b>50,746</b>	<b>279,953</b>	<b>279,953</b>	<b>5,115,204</b>
<b>EXPENDITURES:</b>										
<b>Current:</b>										
General government .....	1,065,401	321,312	41,814	.....	.....	.....	.....	69,364	9,203	1,498,016
Protection of persons and property .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	10,941
Public health and welfare .....	322,809	.....	.....	.....	207,023	.....	.....	140,432	.....	670,284
Public education .....	.....	.....	.....	.....	.....	.....	.....	149	.....	149
Conservation of natural resources .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	196,436
Economic development and assistance .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	17,596
Transportation .....	101,278	2,147,643	.....	164,668	.....	25,078	28,960	4,698	.....	2,413,589
Capital outlay .....	.....	32,808	.....	.....	.....	.....	.....	.....	.....	32,808
Debt service: .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Interest and fiscal charges .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>TOTAL EXPENDITURES</b> .....	<b>1,489,488</b>	<b>2,501,763</b>	<b>41,814</b>	<b>164,668</b>	<b>207,023</b>	<b>25,078</b>	<b>28,960</b>	<b>276,824</b>	<b>276,824</b>	<b>4,839,820</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b> .....	<b>287,524</b>	<b>151,597</b>	<b>4,273</b>	<b>9,603</b>	<b>(206,194)</b>	<b>16,739</b>	<b>21,786</b>	<b>3,129</b>	<b>3,129</b>	<b>275,384</b>
<b>OTHER FINANCING SOURCES (USES):</b>										
Bond proceeds .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	21,772
Operating transfers in .....	91	47	.....	.....	.....	.....	.....	33,826	.....	251,900
Operating transfers out .....	(241,387)	(184,733)	.....	(4,736)	216,000	.....	.....	(10,522)	.....	(453,014)
Capital lease and installment purchase obligation .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>NET OTHER FINANCING SOURCES (USES)</b> .....	<b>(241,296)</b>	<b>(184,686)</b>	<b>.....</b>	<b>(4,736)</b>	<b>216,000</b>	<b>.....</b>	<b>(7,000)</b>	<b>23,304</b>	<b>23,304</b>	<b>(179,342)</b>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b> .....	<b>46,228</b>	<b>(33,089)</b>	<b>4,273</b>	<b>4,867</b>	<b>9,806</b>	<b>16,739</b>	<b>14,786</b>	<b>26,433</b>	<b>26,433</b>	<b>96,042</b>
<b>FUND BALANCES (DEFICITS), JULY 1, 1995</b> .....	<b>(12,369)</b>	<b>459,655</b>	<b>31,819</b>	<b>18,320</b>	<b>(3,329)</b>	<b>82,522</b>	<b>137,337</b>	<b>145,239</b>	<b>145,239</b>	<b>1,020,772</b>
<b>RESIDUAL EQUITY TRANSFERS</b> .....	.....	.....	.....	.....	.....	<b>(300)</b>	.....	<b>(1,125)</b>	<b>(1,125)</b>	<b>(21,210)</b>
<b>FUND BALANCES JUNE 30, 1996</b> .....	<b>\$ 33,859</b>	<b>\$ 426,566</b>	<b>\$ 36,092</b>	<b>\$ 23,187</b>	<b>\$ 6,477</b>	<b>\$ 98,961</b>	<b>\$ 152,123</b>	<b>\$ 170,547</b>	<b>\$ 170,547</b>	<b>\$ 1,099,564</b>

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

For Fiscal Year Ended June 30, 1996

## COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	State Lottery		Motor License		Workmen's Compensation Administration		Total	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
<b>REVENUES:</b>								
State Programs:								
Taxes, net of refunds	\$ 808,391	\$ 856,428	\$ 993,751	\$ 986,508	\$ 42,643	\$ 42,577	\$ 1,036,394	\$ 1,029,085
Lottery receipts		48,037					808,391	856,428
Licenses and fees			497,200	506,055			497,200	506,055
Departmental services	10,536	10,536	33,584	33,584	1,302	1,302	45,422	45,422
Miscellaneous	4,594	6,350	77,900	78,182	4,100	2,180	86,594	86,712
TOTAL STATE PROGRAMS	823,521	873,314	1,602,435	1,604,329	48,045	46,059	2,474,001	2,523,702
Federal Programs	79,350	74,955	800,159	530,501			879,509	605,456
TOTAL REVENUES	902,871	948,269	2,402,594	2,134,830	48,045	46,059	3,353,510	3,129,158
<b>EXPENDITURES:</b>								
State Programs:								
General government	277,213	276,701	214,095	211,646	43,945	43,422	535,253	531,769
Protection of persons and property			251,950	247,759			251,950	247,759
Public health and welfare	601,928	596,553					601,928	596,553
Public education			1,498	1,413			1,498	1,413
Transportation			1,175,509	1,170,175			1,175,509	1,170,175
TOTAL STATE PROGRAMS	879,141	873,254	1,643,052	1,630,993	43,945	43,422	2,566,138	2,547,669
Federal Programs	79,350	74,955	800,159	530,501			879,509	605,456
TOTAL EXPENDITURES	958,491	948,209	2,443,211	2,161,494	43,945	43,422	3,445,647	3,153,125
REVENUES OVER (UNDER) EXPENDITURES	(55,620)	60	(40,617)	(26,664)	4,100	2,637	(92,137)	(23,967)
<b>OTHER FINANCING SOURCES:</b>								
Prior year lapses	20,877	20,877	26,602	26,602	3,587	3,587	51,066	51,066
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	(34,743)	20,937	(14,015)	(62)	7,687	6,224	(41,071)	27,099
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS) JULY 1, 1995	111,387	111,387	119,151	119,151	27,669	27,669	258,207	258,207
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 1996	\$ 76,644	\$ 132,324	\$ 105,136	\$ 119,089	\$ 35,356	\$ 33,893	\$ 217,136	\$ 285,306
								\$ 68,170

# Debt Service Funds



Commonwealth of Pennsylvania

## DEBT SERVICE FUNDS DESCRIPTION

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

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

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

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

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

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

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

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

There are a total of fourteen individual debt service funds.



**COMBINING BALANCE SHEET**  
**Debt Service Funds**

June 30, 1996

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Disaster Relief Redemption	Pennsylvania Infrastructure Authority Redemption	Capital Debt	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Land and Water Development Sinking	Other	Total
Cash	\$ 355	\$ 79	\$ 8,237	\$ 160	\$ 1	\$ 841	\$ 5	\$ 7
Cash with fiscal agents	22	79	4,613	585	25	13	405	10,057
Temporary investments							2,444	7,781
Receivables, net:								
Accounts			11,259					11,259
Accrued interest			22	3			749	774
Lease rental			2,468					2,468
Due from other funds				57	15	55		127
Due from component unit		33,766						33,766
<b>TOTAL ASSETS</b>	<b>\$ 377</b>	<b>\$ 33,846</b>	<b>\$ 26,599</b>	<b>\$ 805</b>	<b>\$ 100</b>	<b>\$ 909</b>	<b>\$ 3,603</b>	<b>\$ 66,239</b>

**LIABILITIES AND FUND BALANCES:**

	Disaster Relief Redemption	Pennsylvania Infrastructure Authority Redemption	Capital Debt	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Land and Water Development Sinking	Other	Total
Accounts payable and accrued liabilities			34					34
Matured debt principal and interest payable	355		8,237	160	59	841	405	10,057
Due to other funds							3,105	3,105
Deferred revenue			13,727					13,727
Other liabilities		79	1,248		25		89	1,441
<b>TOTAL LIABILITIES</b>	<b>355</b>	<b>79</b>	<b>23,246</b>	<b>160</b>	<b>84</b>	<b>841</b>	<b>3,599</b>	<b>28,364</b>
<b>Fund balance:</b>								
Unreserved:								
Designated for:								
Debt Service:								
Retirement of general obligation bonds	22	33,767	3,353	645	16	68	4	37,875
<b>TOTAL FUND BALANCES</b>	<b>22</b>	<b>33,767</b>	<b>3,353</b>	<b>645</b>	<b>16</b>	<b>68</b>	<b>4</b>	<b>37,875</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 377</b>	<b>\$ 33,846</b>	<b>\$ 26,599</b>	<b>\$ 805</b>	<b>\$ 100</b>	<b>\$ 909</b>	<b>\$ 3,603</b>	<b>\$ 66,239</b>

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

*For the Fiscal Year Ended June 30, 1996*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Disaster Relief Redemption	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Land and Water Development Sinking	Other	Total
<b>REVENUES:</b>								
Investment income .....	\$ 1	\$ 7	\$ 57	\$ 4	\$	\$ 44	\$ 1,233	\$ 1,346
License rental principal and interest .....	113	.....	2,159	.....	.....	.....	.....	2,159
Other .....	114	.....	43	.....	.....	.....	.....	156
<b>TOTAL REVENUES</b> .....			<b>2,259</b>	<b>4</b>		<b>44</b>	<b>1,233</b>	<b>3,661</b>
<b>EXPENDITURES:</b>								
<b>Debt Service:</b>								
Principal retirement .....	4,895	10,705	382,540	4,930	8,870	19,800	16,050	447,790
Interest and fiscal charges .....	2,290	13,146	223,456	5,272	7,618	5,211	16,942	273,935
<b>TOTAL EXPENDITURES</b> .....	<b>7,185</b>	<b>23,851</b>	<b>605,996</b>	<b>10,202</b>	<b>16,488</b>	<b>25,011</b>	<b>32,992</b>	<b>721,725</b>
<b>REVENUES UNDER EXPENDITURES</b> .....	<b>(7,071)</b>	<b>(23,844)</b>	<b>(603,737)</b>	<b>(10,198)</b>	<b>(16,488)</b>	<b>(24,967)</b>	<b>(31,759)</b>	<b>(718,064)</b>
<b>OTHER FINANCING SOURCES (USES):</b>								
Refunding bond proceeds .....	.....	.....	216,016	.....	.....	.....	.....	216,016
Operating transfers in .....	7,092	21,867	605,226	10,326	16,506	25,016	32,986	719,019
Operating transfers out .....	.....	.....	.....	.....	.....	.....	(1,231)	(1,231)
Payment to refunded bond escrow agent .....	.....	.....	(213,599)	.....	.....	.....	.....	(213,599)
<b>NET OTHER FINANCING SOURCES</b> .....	<b>7,092</b>	<b>21,867</b>	<b>607,643</b>	<b>10,326</b>	<b>16,506</b>	<b>25,016</b>	<b>31,755</b>	<b>720,205</b>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b> .....	<b>21</b>	<b>(1,977)</b>	<b>3,906</b>	<b>128</b>	<b>18</b>	<b>49</b>	<b>(4)</b>	<b>2,141</b>
<b>FUND BALANCES, JULY 1, 1995</b> .....	<b>1</b>	<b>35,744</b>	<b>(553)</b>	<b>517</b>	<b>(2)</b>	<b>19</b>	<b>8</b>	<b>35,734</b>
<b>FUND BALANCES, JUNE 30, 1996</b> .....	<b>22</b>	<b>\$ 33,767</b>	<b>\$ 3,353</b>	<b>\$ 645</b>	<b>\$ 16</b>	<b>\$ 68</b>	<b>\$ 4</b>	<b>\$ 37,875</b>

# Capital Projects Funds



Commonwealth of Pennsylvania

## **CAPITAL PROJECTS FUNDS DESCRIPTION**

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

***Capital Facilities Fund*** — to account for the proceeds of general obligation bonds to meet the financing costs of capital projects specifically itemized and authorized by Capital Budget Acts.

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

***Keystone Recreation, Park and Conservation Fund*** — to account for the proceeds of bonds issued to improve and expand Commonwealth and community parks, recreation facilities, historic sites, zoos, public libraries, nature preserves and wildlife habitats.

***Land and Water Development Fund*** — to account for the proceeds of bonds issued to meet the financing costs for the acquisition, development and improvement to Commonwealth land and water facilities.

There are a total of four individual capital projects funds.

**COMBINING BALANCE SHEET**  
**Capital Projects Funds**

*June 30, 1996*

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

	Capital Facilities	Local Criminal Justice	Keystone Recreation, Park and Conservation	Land and Water Development	Total
<b>ASSETS</b>					
Cash .....	\$ 4	\$ 1	\$ ....	\$ 1	\$ 6
Temporary investments .....	188,059	6,630	71,553	3,193	269,435
Receivables, net:					
Accrued interest .....	806	30	312	13	1,161
Due from other funds .....	952	....	2,871	....	3,823
Due from other governments .....	19	....	....	....	19
<b>TOTAL ASSETS</b> .....	<u>\$ 189,840</u>	<u>\$ 6,661</u>	<u>\$ 74,736</u>	<u>\$ 3,207</u>	<u>\$ 274,444</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable and accrued liabilities .....	\$ 46,457	\$ ....	\$ 4,629	\$ 24	\$ 51,110
Due to other funds .....	1	....	....	13	14
Due to other governments .....	5,382	....	269	....	5,651
<b>TOTAL LIABILITIES</b> .....	<u>51,840</u>	<u>....</u>	<u>4,898</u>	<u>37</u>	<u>56,775</u>
Fund Balance:					
Reserved for:					
Encumbrances .....	424,026	773	8,159	257	433,215
Unreserved:					
Designated for:					
Capital projects .....	....	5,888	61,679	2,913	70,480
Undesignated (deficit) .....	( 286,026 )	....	....	....	( 286,026 )
<b>TOTAL FUND BALANCES</b> .....	<u>138,000</u>	<u>6,661</u>	<u>69,838</u>	<u>3,170</u>	<u>217,669</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b> ..	<u>\$ 189,840</u>	<u>\$ 6,661</u>	<u>\$ 74,736</u>	<u>\$ 3,207</u>	<u>\$ 274,444</u>

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

**Capital Projects Funds**

*For the Fiscal Year Ended June 30, 1996*

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

	<b>Capital Facilities</b>	<b>Local Criminal Justice</b>	<b>Keystone Recreation, Park and Conservation</b>	<b>Land and Water Development</b>	<b>Total</b>
<b>REVENUES:</b>					
Taxes .....	\$ ....	\$ ....	\$ 34,492	\$ ....	\$ 34,492
Intergovernmental .....	6,149	....	....	30	6,179
Charges for sales and services .....	45,341	....	....	....	45,341
Investment income .....	3,288	597	2,680	173	6,738
Other .....	....	226	....	560	786
<b>TOTAL REVENUES</b> .....	<u>54,778</u>	<u>823</u>	<u>37,172</u>	<u>763</u>	<u>93,536</u>
<b>EXPENDITURES:</b>					
General government .....	585	....	....	10	595
Protection of persons and property .....	....	11,731	....	1,000	12,731
Conservation of natural resources .....	....	....	29,044	....	29,044
Economic development and assistance .....	39,240	....	....	....	39,240
Transportation .....	96,124	....	....	....	96,124
Capital outlay .....	239,214	....	....	186	239,400
Debt service:					
Interest and fiscal charges .....	....	....	18	....	18
<b>TOTAL EXPENDITURES</b> .....	<u>375,163</u>	<u>11,731</u>	<u>29,062</u>	<u>1,196</u>	<u>417,152</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b> .....	<u>( 320,385 )</u>	<u>( 10,908 )</u>	<u>8,110</u>	<u>( 433 )</u>	<u>( 323,616 )</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Bond proceeds .....	328,155	5,921	23,684	....	357,760
Operating transfers out .....	878	....	....	( 173 )	705
<b>NET OTHER FINANCING SOURCES (USES)</b> .....	<u>329,033</u>	<u>5,921</u>	<u>23,684</u>	<u>( 173 )</u>	<u>358,465</u>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b> .....	<u>8,648</u>	<u>( 4,987 )</u>	<u>31,794</u>	<u>( 606 )</u>	<u>34,849</u>
<b>FUND BALANCES, JULY 1, 1995</b> .....	<u>129,352</u>	<u>11,648</u>	<u>38,044</u>	<u>3,776</u>	<u>182,820</u>
<b>FUND BALANCES, JUNE 30, 1996</b> .....	<u>\$ 138,000</u>	<u>\$ 6,661</u>	<u>\$ 69,838</u>	<u>\$ 3,170</u>	<u>\$ 217,669</u>

**(THIS PAGE INTENTIONALLY LEFT BLANK)**

# Enterprise Funds



Commonwealth of Pennsylvania



## ENTERPRISE FUNDS DESCRIPTION

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

***Sunny Day Fund*** — to account for and provide assistance to the Governor and the Economic Development Partnership to provide low interest loans to attract industrial, manufacturing or research and development enterprises to the Commonwealth.

***Capital Loan Fund*** — to account for and provide low interest loans to businesses for the purchase of land, buildings, machinery, equipment and for working capital.

***State Workmen's Insurance Fund*** — to account for and provide workmen's insurance to private employers in the Commonwealth, including those unable to obtain coverage from 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.

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

***Minority Business Development Fund*** — to account for and provide loans to minority business and for operating expenses of the Pennsylvania Minority Business Development Authority. Sources of revenue include loan repayments, transfers from the General Fund and interest.

***Machinery and Equipment Loan Fund*** — to account for and provide low-interest machinery and equipment financing to Pennsylvania businesses to facilitate their growth, competitiveness and value added-capacity. Sources of revenue include loan repayments, transfers from the Pennsylvania Economic Revitalization Fund and interest earnings.

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

There are a total of thirteen individual enterprise funds.

**COMBINING BALANCE SHEET**  
**Enterprise Funds**

June 30, 1996

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

ASSETS:	Sunny Day	Capital Loan	State Workmen's Insurance (Dec. 31, 1995)	State Stores (June 25, 1996)	Volunteer Companies Loan	Minority Business Development	Machinery and Equipment Loan	Other	Total
Cash	\$ 754	\$ 212	\$ 2,923	\$ 3,755	\$ 1	\$ 23	\$ 166	\$ 103	\$ 7,937
Temporary investments	44,383	17,087	354,641	65,698	3,946	5,501	15,071	30,133	536,460
Long-term investments	.....	.....	1,224,509	.....	.....	.....	.....	.....	1,224,509
Receivables, net:									
Accounts	.....	.....	40,325	963	.....	.....	.....	43	41,331
Accrued interest	492	208	22,058	290	87	78	148	142	23,503
Notes and loans	117,565	36,220	8,169	.....	67,641	4,470	30,562	3,159	267,786
Due from other funds	.....	.....	503	439	.....	.....	.....	3,863	4,805
Due from other governments	.....	.....	.....	.....	.....	.....	.....	8	8
Inventory	.....	.....	.....	105,025	.....	.....	.....	265	105,290
Fixed assets	14,710	.....	11,694	51,472	.....	.....	.....	11,077	88,953
Less: accumulated depreciation	(14,710)	.....	(9,294)	(35,654)	.....	.....	.....	(8,536)	(68,194)
Other assets	.....	.....	633	250	.....	.....	.....	.....	883
<b>TOTAL ASSETS</b>	<b>\$ 163,194</b>	<b>\$ 53,727</b>	<b>\$ 1,656,161</b>	<b>\$ 192,238</b>	<b>\$ 71,675</b>	<b>\$ 10,072</b>	<b>\$ 45,947</b>	<b>\$ 40,257</b>	<b>\$ 2,233,271</b>

**LIABILITIES AND FUND EQUITY**

<b>Liabilities:</b>									
Accounts payable and accrued liabilities	.....	.....	7,725	79,700	.....	131	1	2,767	90,326
Due to other funds	4	.....	6,676	18,080	.....	36	1	213	25,010
Due to other governments	.....	.....	422	.....	.....	.....	.....	104	526
Deferred revenue	.....	38	66,503	.....	28	21	.....	2,912	69,502
Notes payable	.....	.....	.....	356	.....	.....	.....	.....	356
Advances from other funds	.....	.....	2,000	66,000	.....	.....	.....	.....	68,000
Other liabilities	17	.....	44,336	.....	.....	.....	.....	3	44,365
Insurance loss liability	.....	.....	1,463,301	.....	.....	.....	.....	.....	1,463,301
<b>TOTAL LIABILITIES</b>	<b>21</b>	<b>40</b>	<b>1,590,541</b>	<b>164,558</b>	<b>28</b>	<b>188</b>	<b>11</b>	<b>5,999</b>	<b>1,761,386</b>
<b>Fund Equity:</b>									
Contributed capital	140,000	34,073	.....	2,294	50,425	40,660	45,200	6,568	319,220
Retained earnings (deficit):									
Reserved	23,173	19,614	65,620	25,386	21,222	(30,776)	736	6,919	72,539
Unreserved	163,173	53,687	65,620	27,680	71,647	9,884	45,936	34,258	471,885
<b>TOTAL FUND EQUITY</b>	<b>163,194</b>	<b>53,727</b>	<b>1,656,161</b>	<b>192,238</b>	<b>71,675</b>	<b>10,072</b>	<b>45,947</b>	<b>40,257</b>	<b>2,233,271</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 163,194</b>	<b>\$ 53,727</b>	<b>\$ 1,656,161</b>	<b>\$ 192,238</b>	<b>\$ 71,675</b>	<b>\$ 10,072</b>	<b>\$ 45,947</b>	<b>\$ 40,257</b>	<b>\$ 2,233,271</b>

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

## Enterprise Funds

*For the Fiscal Year Ended June 30, 1996*

### COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Sunny Day	Capital Loan	State Workmen's Insurance (Dec. 31, 1995)	State Stores (June 25, 1996)	Volunteer Companies Loan	Minority Business Development	Machinery and Equipment Loan	Other	Total
<b>OPERATING REVENUES:</b>									
Sales and Service	\$ 1,959	1,076	332,605	704,798	281	388	648	16,249	\$ 1,053,652
Investment income	2,745	1,650	101,457	.....	1,342	401	739	96	105,905
Interest on notes and loans	496	.....	240	.....	.....	28	175	58	6,935
Other	5,200	2,726	434,302	704,798	1,623	817	1,562	4	943
<b>TOTAL OPERATING REVENUES</b>									<b>1,167,435</b>
<b>OPERATING EXPENSES:</b>									
Cost of sales and service	.....	105	568,856	649,091	(197)	292	154	16,698	1,234,999
Interest expense	.....	.....	999	.....	.....	.....	.....	.....	999
Depreciation	.....	.....	862	5,095	.....	.....	.....	635	6,592
Provision for uncollectible accounts	5,586	(1,464)	28,952	381	52	2,116	1,597	60	37,280
Other	.....	.....	.....	.....	.....	1,291	.....	(10)	1,281
<b>TOTAL OPERATING EXPENSES</b>	<b>5,586</b>	<b>(1,359)</b>	<b>599,669</b>	<b>654,567</b>	<b>(145)</b>	<b>3,699</b>	<b>1,751</b>	<b>17,383</b>	<b>1,281,151</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(386)</b>	<b>4,085</b>	<b>(165,367)</b>	<b>50,231</b>	<b>1,768</b>	<b>(2,882)</b>	<b>(189)</b>	<b>(976)</b>	<b>(113,716)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>									
Investment income	.....	.....	.....	3,864	.....	.....	.....	1,618	5,482
Interest expense	.....	.....	.....	(27)	.....	.....	.....	.....	(27)
Other	.....	.....	.....	(688)	.....	.....	.....	212	(476)
<b>NONOPERATING REVENUES, NET</b>	<b>.....</b>	<b>.....</b>	<b>.....</b>	<b>3,149</b>	<b>.....</b>	<b>.....</b>	<b>.....</b>	<b>1,830</b>	<b>4,979</b>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS</b>	<b>(386)</b>	<b>4,085</b>	<b>(165,367)</b>	<b>53,380</b>	<b>1,768</b>	<b>(2,882)</b>	<b>(189)</b>	<b>854</b>	<b>(108,737)</b>
<b>OPERATING TRANSFERS:</b>									
Operating transfers out	.....	.....	.....	(43,117)	.....	.....	.....	.....	(43,117)
<b>NET INCOME (LOSS)</b>	<b>(386)</b>	<b>4,085</b>	<b>(165,367)</b>	<b>10,263</b>	<b>1,768</b>	<b>(2,882)</b>	<b>(189)</b>	<b>854</b>	<b>(151,854)</b>
<b>RETAINED EARNINGS (DEFICITS), AS RESTATED, JULY 1, 1995</b>	<b>23,559</b>	<b>15,529</b>	<b>230,987</b>	<b>15,123</b>	<b>19,454</b>	<b>(27,894)</b>	<b>925</b>	<b>26,836</b>	<b>304,519</b>
<b>RETAINED EARNINGS (DEFICITS), JUNE 30, 1996</b>	<b>\$ 23,173</b>	<b>\$ 19,614</b>	<b>\$ 65,620</b>	<b>\$ 25,386</b>	<b>\$ 21,222</b>	<b>\$ (30,776)</b>	<b>\$ 736</b>	<b>\$ 27,690</b>	<b>\$ 152,665</b>

**COMBINING STATEMENT OF CASH FLOWS**  
**Enterprise Funds**

*For the Fiscal Year Ended June 30, 1996*

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

**CASH PROVIDED FROM (USED FOR) OPERATIONS:**

	Sunny Day	Capital Loan	State Workmen's Insurance (Dec. 31, 1995)	State Stores (June 25, 1996)	Volunteer Companies Loan	Minority Business Development	Machinery and Equipment Loan	Other	Total
Operating income (loss) .....	\$ (386)	\$ 4,085	\$ (165,367)	\$ 50,231	\$ 1,768	\$ (2,882)	\$ (189)	\$ (976)	\$ (113,716)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:									
Depreciation .....			862	5,095				635	6,592
Net amortization .....							(10,603)		(10,603)
Provision for uncollectible accounts .....	5,586	(1,464)	28,952	381	52	2,116	1,597	60	37,280
Nonoperating revenue .....	(1,959)	(1,076)	(101,457)		(281)	(388)	(648)	212	(105,905)
Reclassification of investment income .....									
Change in assets and liabilities:									
Increase in receivables .....	(11,880)	(6,838)	(15,913)	(75)	(4,634)	(1,770)	(4,152)	(874)	(46,156)
(Increase) decrease in due from other funds .....		316	(277)	(328)				(1,149)	(1,438)
Increase in due from other governments .....								(8)	(8)
(Increase) decrease in inventory .....				(6,580)				20	(6,560)
Decrease in other assets .....			283	48					331
Increase (decrease) in accounts payable and accrued liabilities .....	(1,150)		1,960	2,931		(1,034)	(7)	395	3,095
Increase (decrease) in due to other funds .....	4	(2,000)	(25)	1,382		36	1	25	(577)
Increase (decrease) in due to other governments .....		38		291	(7)			5	296
Increase (decrease) in deferred revenue .....								738	(9,623)
Increase in insurance loss liability .....	17		213,171						213,171
Increase in other liabilities .....			21,245					3	21,274
Total adjustments .....	(9,382)	(11,024)	138,368	3,145	(4,870)	(1,019)	(13,803)	(34)	101,381
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES .....	(9,768)	(6,939)	(26,999)	53,376	(3,102)	(3,901)	(13,992)	(1,010)	(12,335)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Principal paid on debt obligations .....				(357)					(357)
Interest paid on debt obligations .....				(27)					(27)
Operating transfers out .....				(43,117)					(43,117)
Increases in contributed capital .....		1,366				2,130		20	3,516
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES .....		1,366		(43,501)		2,130		20	(39,985)

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Increase in contributed capital .....	15,000						7,300	1,125	23,425
Acquisition and construction of capital assets .....			(251)	(3,282)				(1,439)	(4,972)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES .....	15,000		(251)	(3,282)			7,300	(314)	18,453

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchase of investments .....	(39,449)	(18,012)	(1,404,881)	(504,742)	(8,748)	(4,207)	(4,484)	(17,861)	(2,002,384)
Proceeds from sale and maturities of investments .....	33,011	22,612	1,327,710	494,335	11,569	5,608	10,603	17,399	1,922,847
Investment income .....	1,959	1,076	101,457	3,864	281	388	648	1,714	111,387
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES .....	(4,479)	5,676	24,286	(6,543)	3,102	1,789	6,767	1,252	31,850
NET INCREASE (DECREASE) IN CASH .....	753	103	(2,964)	50		18	75	(52)	(2,017)
CASH, JULY 1, 1995 .....	1	109	5,887	3,705	1	5	91	155	9,954
CASH, JUNE 30, 1996 .....	\$ 754	\$ 212	\$ 2,923	\$ 3,755	\$ 1	\$ 23	\$ 166	\$ 103	\$ 7,937

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

# Internal Service Funds



Commonwealth of Pennsylvania

## INTERNAL SERVICE FUNDS DESCRIPTION

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

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

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

There are a total of two individual internal service funds.

**COMBINING BALANCE SHEET**  
**Internal Service Funds**

*June 30, 1996*

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

	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<b>ASSETS</b>			
Cash .....	\$ 179	\$ 106	\$ 285
Temporary investments .....	12,810	3,266	16,076
Receivables, net:			
Accounts .....	26	....	26
Accrued interest .....	65	13	78
Other .....	....	135	135
Due from other funds .....	7,015	2,866	9,881
Due from component units .....	812	8	820
Due from other governments .....	107	33	140
Inventory .....	2,087	13,014	15,101
Fixed assets .....	46,932	20,907	67,839
Less: accumulated depreciation .....	( 22,702 )	( 10,406 )	( 33,108 )
Other assets .....	883	29	912
<b>TOTAL ASSETS</b> .....	<u>\$ 48,214</u>	<u>\$ 29,971</u>	<u>\$ 78,185</u>
<b>LIABILITIES AND FUND EQUITY</b>			
Liabilities:			
Accounts payable and accrued liabilities .....	\$ 8,626	\$ 4,616	\$ 13,242
Due to other funds .....	670	355	1,025
Due to other governments .....	13	22	35
Notes payable .....	1,410	....	1,410
<b>TOTAL LIABILITIES</b> .....	<u>10,719</u>	<u>4,993</u>	<u>15,712</u>
Fund Equity:			
Contributed capital .....	9,219	....	9,219
Retained earnings:			
Unreserved .....	28,276	24,978	53,254
<b>TOTAL FUND EQUITY</b> .....	<u>37,495</u>	<u>24,978</u>	<u>62,473</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b> .....	<u>\$ 48,214</u>	<u>\$ 29,971</u>	<u>\$ 78,185</u>

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

*For the Fiscal Year Ended June 30, 1996*

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

	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>			
Sales and services .....	\$ 80,704	\$ 31,209	\$ 111,913
Other .....	....	174	174
<b>TOTAL OPERATING REVENUES .....</b>	<u>80,704</u>	<u>31,383</u>	<u>112,087</u>
<b>OPERATING EXPENSES:</b>			
Cost of sales and services .....	69,932	28,307	98,239
Depreciation .....	6,522	1,206	7,728
Provision for uncollectible accounts .....	....	11	11
<b>TOTAL OPERATING EXPENSES .....</b>	<u>76,454</u>	<u>29,524</u>	<u>105,978</u>
<b>OPERATING INCOME .....</b>	<u>4,250</u>	<u>1,859</u>	<u>6,109</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment income .....	673	88	761
Interest expense .....	( 364 )	....	( 364 )
Other .....	86	14	100
<b>NONOPERATING REVENUES .....</b>	<u>395</u>	<u>102</u>	<u>497</u>
<b>NET INCOME .....</b>	<u>4,645</u>	<u>1,961</u>	<u>6,606</u>
<b>RETAINED EARNINGS, JULY 1, 1995 .....</b>	<u>23,631</u>	<u>23,017</u>	<u>46,648</u>
<b>RETAINED EARNINGS, JUNE 30, 1996 .....</b>	<u>\$ 28,276</u>	<u>\$ 24,978</u>	<u>\$ 53,254</u>



**COMBINING STATEMENT OF CASH FLOWS**  
**Internal Service Funds**

*For the Fiscal Year Ended June 30, 1996*

COMMONWEALTH OF PENNSYLVANIA  
 (Expressed in Thousands)

	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<b>CASH PROVIDED FROM (USED FOR) OPERATIONS:</b>			
Operating income .....	\$ 4,250	\$ 1,859	\$ 6,109
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation .....	6,522	1,206	7,728
Provision for uncollectible accounts .....	....	11	11
Nonoperating revenue .....	17	120	137
Changes in assets and liabilities:			
Increase in receivables .....	( 14 )	( 96 )	( 110 )
(Increase) decrease in due from other funds .....	6,296	( 518 )	5,778
Decrease in due from component units .....	165	22	187
Decrease in due from other governments .....	93	24	117
(Increase) decrease in inventory .....	46	( 446 )	( 400 )
Decrease (increase) in other assets .....	1,324	( 4 )	1,320
Increase (decrease) in accounts payable and accrued liabilities ...	( 2,082 )	1,247	( 835 )
Increase (decrease) in due to other funds .....	( 2,748 )	161	( 2,587 )
Increase in due to other governments .....	1	4	5
Decrease in deferred revenue .....	....	( 1 )	( 1 )
TOTAL ADJUSTMENTS .....	<u>9,620</u>	<u>1,730</u>	<u>11,350</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES .....	<u>13,870</u>	<u>3,589</u>	<u>17,459</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Principal paid on debt obligations .....	( 1,322 )	....	( 1,322 )
Interest paid on debt obligations .....	( 159 )	....	( 159 )
NET CASH USED FOR NONCAPITAL FINANCING ACTIVITIES .....	<u>( 1,481 )</u>	<u>....</u>	<u>( 1,481 )</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Interest paid on debt obligations .....	( 205 )	....	( 205 )
Acquisition and construction of capital assets .....	( 13,327 )	( 1,648 )	( 14,975 )
Proceeds from sale of capital assets .....	1,517	....	1,517
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES .....	<u>( 12,015 )</u>	<u>( 1,648 )</u>	<u>( 13,663 )</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of investments .....	( 46,549 )	( 17,742 )	( 64,291 )
Proceeds from sale and maturities of investments .....	45,590	15,633	61,223
Investment income .....	673	88	761
NET CASH USED FOR INVESTING ACTIVITIES .....	<u>( 286 )</u>	<u>( 2,021 )</u>	<u>( 2,307 )</u>
NET INCREASE/(DECREASE) IN CASH .....	88	( 80 )	8
CASH, JULY 1, 1995 .....	<u>91</u>	<u>186</u>	<u>277</u>
CASH, JUNE 30, 1996 .....	<u>\$ 179</u>	<u>\$ 106</u>	<u>\$ 285</u>

**(THIS PAGE INTENTIONALLY LEFT BLANK)**

# Trust and Agency Funds



Commonwealth of Pennsylvania

## TRUST AND AGENCY FUNDS DESCRIPTION

Trust and agency funds account for assets held by the Commonwealth in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include expendable trust funds, a pension trust fund and agency funds.

### EXPENDABLE TRUST FUNDS

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

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

*Catastrophic Loss Benefits Continuation Fund* — to account for the payment of medical and rehabilitative expenses over \$100,000 to residents injured in a motor vehicle accident covered by the original Catastrophic Loss Trust Fund (no longer in existence).

*Tuition Payment Fund* — to account for the tuition account program, which provides for the advance purchase of college tuition credits for the beneficiary to attend a college or university at a future time.

*Other* — to account for financial assistance to public schools for certain repairs or alterations to buildings and for reimbursement to aggrieved individuals upon judgements against any person licensed by the Real Estate Commission. This other category is an aggregation of two individual expendable trust funds.

### PENSION TRUST FUND:

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

### AGENCY FUNDS

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

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

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

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

*Municipal Pension Aid Fund* — to collect a portion of the insurance company tax revenues for distribution to municipalities for distribution to police and fire pension funds.

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

*INVEST Program For Local Governments* — to pool and invest amounts owned by local governments and school districts. Participation in the Program is voluntary.

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

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

**COMBINING BALANCE SHEET**  
**Trust and Agency Funds**

*June 30, 1996*

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

	<u>Expendable Trust Funds</u>	<u>Pension Trust Fund</u>	<u>Agency Funds</u>	<u>Total</u>
<b>ASSETS</b>				
Cash .....	\$ 288	\$ .....	\$ 4,916	\$ 5,204
Cash with fiscal agents .....	2,061,975	.....	14,856	2,076,831
Temporary investments .....	321,231	504,691	1,213,867	2,039,789
Long-term investments .....	190,136	15,674,568	405,233	16,269,937
Receivables, net:				
Taxes .....	327,106	.....	4,163	331,269
Accounts .....	7,792	.....	216,390	224,182
Accrued interest .....	5,030	77,772	4,889	87,691
Other .....	.....	107	85	192
Due from other funds .....	2,542	88,285	24,520	115,347
Due from component units .....	108	2,770	.....	2,878
Due from other governments .....	16,416	9,415	.....	25,831
Fixed assets .....	.....	759	.....	759
Less: accumulated depreciation .....	.....	( 287 )	.....	( 287 )
Other assets .....	.....	.....	202,106	202,106
<b>TOTAL ASSETS</b> .....	<u>\$ 2,932,624</u>	<u>\$ 16,358,080</u>	<u>\$ 2,091,025</u>	<u>\$ 21,381,729</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and accrued liabilities .....	\$ 133,677	\$ 12,891	\$ 340,404	\$ 486,972
Tax refunds payable .....	3,563	.....	.....	3,563
Due to other funds .....	21	2	2,399	2,422
Due to other governments .....	3,910	.....	645,880	649,790
Deferred revenue .....	194	.....	.....	194
Advances from other funds .....	650	.....	.....	650
Other liabilities .....	.....	.....	1,102,342	1,102,342
<b>TOTAL LIABILITIES</b> .....	<u>142,015</u>	<u>12,893</u>	<u>2,091,025</u>	<u>2,245,933</u>
Fund Balance:				
Reserved for:				
Encumbrances .....	9,432	.....	.....	9,432
Pension benefits .....	.....	16,345,187	.....	16,345,187
Long-term investments .....	190,136	.....	.....	190,136
Unreserved:				
Designated for:				
Other .....	3,353	.....	.....	3,353
Undesignated .....	2,587,688	.....	.....	2,587,688
<b>TOTAL FUND BALANCE</b> .....	<u>2,790,609</u>	<u>16,345,187</u>	<u>.....</u>	<u>19,135,796</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b> .....	<u>\$ 2,932,624</u>	<u>\$ 16,358,080</u>	<u>\$ 2,091,025</u>	<u>\$ 21,381,729</u>

**COMBINING BALANCE SHEET**  
**Expendable Trust Funds**

June 30, 1996

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

	Unemployment Compensation	Workmen's Compensation Security Trust	Catastrophic Loss Benefits Continuation	Tuition Payment	Other	Total
<b>ASSETS</b>						
Cash .....	\$ .....	\$ 113	\$ 1	\$ 170	\$ 4	\$ 288
Cash with fiscal agents .....	2,061,975	.....	.....	.....	.....	2,061,975
Temporary investments .....	214	252,569	33,286	30,371	4,791	321,231
Long-term investments .....	.....	166,322	.....	23,814	.....	190,136
Receivables, net:						
Taxes .....	327,106	.....	.....	.....	.....	327,106
Accounts .....	1,795	.....	5,997	.....	.....	7,792
Accrued interest .....	9	4,540	144	315	22	5,030
Due from other funds .....	2,540	.....	.....	2	.....	2,542
Due from component units .....	108	.....	.....	.....	.....	108
Due from other governments .....	16,416	.....	.....	.....	.....	16,416
<b>TOTAL ASSETS</b> .....	<b>\$ 2,410,163</b>	<b>\$ 423,544</b>	<b>\$ 39,428</b>	<b>\$ 54,672</b>	<b>\$ 4,817</b>	<b>\$ 2,932,624</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable and accrued liabilities .....	\$ 73,368	\$ 27,905	\$ 32,324	\$ 50	\$ 30	\$ 133,677
Tax refunds payable .....	3,563	.....	.....	.....	.....	3,563
Due to other funds .....	2	1	8	10	.....	21
Due to other governments .....	3,908	.....	.....	2	.....	3,910
Deferred revenue .....	.....	.....	.....	194	.....	194
Advances from other funds .....	.....	.....	.....	650	.....	650
<b>TOTAL LIABILITIES</b> .....	<b>80,841</b>	<b>27,906</b>	<b>32,332</b>	<b>906</b>	<b>30</b>	<b>142,015</b>
Fund Balance:						
Reserved for:						
Encumbrances .....	.....	9,426	.....	6	.....	9,432
Long-term investments .....	.....	166,322	.....	23,814	.....	190,136
Unreserved:						
Designated for:						
Other .....	.....	.....	.....	.....	3,353	3,353
Undesignated .....	2,329,322	219,890	7,096	29,946	1,434	2,587,688
<b>TOTAL FUND BALANCE</b> .....	<b>2,329,322</b>	<b>395,638</b>	<b>7,096</b>	<b>53,766</b>	<b>4,787</b>	<b>2,790,609</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b> .....	<b>\$ 2,410,163</b>	<b>\$ 423,544</b>	<b>\$ 39,428</b>	<b>\$ 54,672</b>	<b>\$ 4,817</b>	<b>\$ 2,932,624</b>

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

*For the Fiscal Year Ended June 30, 1996*

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

	Unemployment Compensation	Workmen's Compensation Security Trust	Catastrophic Loss Benefits Continuation	Tuition Payment	Other	Total
<b>REVENUES:</b>						
Taxes .....	\$ 5,765	\$ .....	\$ .....	\$ .....	\$ .....	\$ 5,765
Unemployment taxes .....	1,661,526	.....	.....	.....	.....	1,661,526
Licenses and fees .....	.....	35,494	33,165	21,069	419	90,147
Intergovernmental .....	80,860	.....	.....	.....	.....	80,860
Investment income .....	134,950	26,626	2,105	2,527	269	166,477
Other .....	432	.....	.....	28	.....	460
<b>TOTAL REVENUES</b> .....	<u>1,883,533</u>	<u>62,120</u>	<u>35,270</u>	<u>23,624</u>	<u>688</u>	<u>2,005,235</u>
<b>EXPENDITURES:</b>						
Current:						
General government .....	.....	14,852	1,466	1,651	.....	17,969
Protection of persons and property .....	.....	12,993	31,598	.....	481	45,072
Public health and welfare .....	1,804,647	.....	.....	.....	.....	1,804,647
<b>TOTAL EXPENDITURES</b> .....	<u>1,804,647</u>	<u>27,845</u>	<u>33,064</u>	<u>1,651</u>	<u>481</u>	<u>1,867,688</u>
<b>REVENUES OVER EXPENDITURES</b> .....	<u>78,886</u>	<u>34,275</u>	<u>2,206</u>	<u>21,973</u>	<u>207</u>	<u>137,547</u>
<b>OTHER FINANCING USES:</b>						
Operating transfers out .....	.....	.....	(25,333)	.....	.....	(25,333)
<b>REVENUES OVER EXPENDITURES AND OTHER USES</b> .....	<u>78,886</u>	<u>34,275</u>	<u>(23,127)</u>	<u>21,973</u>	<u>207</u>	<u>112,214</u>
<b>FUND BALANCES, JULY 1, 1995</b> .....	<u>2,250,436</u>	<u>361,363</u>	<u>30,223</u>	<u>31,793</u>	<u>4,580</u>	<u>2,678,395</u>
<b>FUND BALANCES, JUNE 30, 1996</b> .....	<u>\$ 2,329,322</u>	<u>\$ 395,638</u>	<u>\$ 7,096</u>	<u>\$ 53,766</u>	<u>\$ 4,787</u>	<u>\$ 2,790,609</u>

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**Agency Funds**

*For the Fiscal Year Ended June 30, 1996*

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)	Balance July 1, 1995	Additions	Deductions	Balance June 30, 1996
<b>UNDERGROUND STORAGE TANK INDEMNIFICATION FUND</b>				
<b>ASSETS</b>				
Cash .....	\$ 1	\$ 105,256	\$ 105,256	\$ 1
Temporary investments .....	155,871	98,138	9,948	244,061
Receivables, net:				
Accrued interest .....	769	11,418	11,100	1,087
<b>TOTAL ASSETS</b> .....	<u>\$ 156,641</u>	<u>\$ 214,812</u>	<u>\$ 126,304</u>	<u>\$ 245,149</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities .....	\$ 64,796	\$ 5,680	\$ 64,244	\$ 6,232
Due to other funds .....	21	11	21	11
Due to other governments .....	1	1	1	1
Other liabilities .....	91,823	154,200	7,118	238,905
<b>TOTAL LIABILITIES</b> .....	<u>\$ 156,641</u>	<u>\$ 159,892</u>	<u>\$ 71,384</u>	<u>\$ 245,149</u>
<b>STATUTORY LIQUIDATOR FUND</b>				
<b>ASSETS</b>				
Cash .....	\$ . . . .	\$ 129,797	\$ 129,797	\$ . . . .
Cash with fiscal agents .....	. . . .	14,851	. . . .	14,851
Temporary investments .....	193,575	167,488	193,575	167,488
Long-term investments .....	76,115	218,312	167,488	126,939
Receivables, net:				
Accounts .....	46,392	151,020	3,702	193,710
Accrued interest .....	5,632	905	5,632	905
Due from other funds .....	180	452	180	452
Other assets .....	99,715	105,078	8,564	196,229
<b>TOTAL ASSETS</b> .....	<u>\$ 421,609</u>	<u>\$ 787,903</u>	<u>\$ 508,938</u>	<u>\$ 700,574</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities .....	\$ 143	\$ . . . .	\$ 143	\$ . . . .
Due to other funds .....	3	259	3	259
Other liabilities .....	421,463	289,065	10,213	700,315
<b>TOTAL LIABILITIES</b> .....	<u>\$ 421,609</u>	<u>\$ 289,324</u>	<u>\$ 10,359</u>	<u>\$ 700,574</u>
<b>DEFERRED COMPENSATION FUND (December 31)</b>				
<b>ASSETS</b>				
Cash .....	\$ 1	\$ 330,669	\$ 330,669	\$ 1
Cash with fiscal agents .....	4	5	4	5
Temporary investments .....	12,499	47,644	31,859	28,284
Long-term investments .....	206,797	126,106	54,889	278,014
Receivables, net:				
Accrued interest .....	52	652	643	61
Other .....	193	85	193	85
<b>TOTAL ASSETS</b> .....	<u>\$ 219,546</u>	<u>\$ 505,161</u>	<u>\$ 418,257</u>	<u>\$ 306,450</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities .....	\$ 219,463	\$ 156,919	\$ 70,024	\$ 306,358
Due to other funds .....	83	92	83	92
<b>TOTAL LIABILITIES</b> .....	<u>\$ 219,546</u>	<u>\$ 157,011</u>	<u>\$ 70,107</u>	<u>\$ 306,450</u>



**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**Agency Funds — (continued)**

*For the Fiscal Year Ended June 30, 1996*

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

	Balance July 1, 1995	Additions	Deductions	Balance June 30, 1996
<b>FIRE INSURANCE TAX FUND</b>				
<b>ASSETS</b>				
Cash .....	\$ .....	\$ 110,554	\$ 110,554	\$ .....
Temporary investments .....	54,607	56,140	55,985	54,762
Receivables, net:				
Accrued interest .....	300	251	300	251
<b>TOTAL ASSETS</b> .....	<u>\$ 54,907</u>	<u>\$ 166,945</u>	<u>\$ 166,839</u>	<u>\$ 55,013</u>
<b>LIABILITIES</b>				
Due to other funds .....	\$ 300	\$ 251	\$ 300	\$ 251
Due to other governments .....	54,607	54,569	54,414	54,762
<b>TOTAL LIABILITIES</b> .....	<u>\$ 54,907</u>	<u>\$ 54,820</u>	<u>\$ 54,714</u>	<u>\$ 55,013</u>
<b>MUNICIPAL PENSION AID FUND</b>				
<b>ASSETS</b>				
Cash .....	\$ 1	\$ 277,656	\$ 277,657	\$ .....
Temporary investments .....	119,764	140,805	138,956	121,613
Receivables, net:				
Accrued interest .....	611	3,158	3,197	572
Due from other funds .....	263	299	263	299
<b>TOTAL ASSETS</b> .....	<u>\$ 120,639</u>	<u>\$ 421,918</u>	<u>\$ 420,073</u>	<u>\$ 122,484</u>
<b>LIABILITIES</b>				
Due to other funds .....	\$ 1	\$ .....	\$ 1	\$ .....
Due to other governments .....	120,638	136,851	135,005	122,484
<b>TOTAL LIABILITIES</b> .....	<u>\$ 120,639</u>	<u>\$ 136,851</u>	<u>\$ 135,006</u>	<u>\$ 122,484</u>
<b>MEDICAL PROFESSIONAL LIABILITY CATASTROPHE LOSS FUND</b>				
<b>ASSETS</b>				
Cash .....	\$ 20	\$ 291,832	\$ 291,343	\$ 509
Temporary investments .....	103,539	321,377	284,755	140,161
Receivables, net:				
Accounts .....	1,214	3,922	1,214	3,922
Accrued interest .....	496	7,077	6,956	617
<b>TOTAL ASSETS</b> .....	<u>\$ 105,269</u>	<u>\$ 624,208</u>	<u>\$ 584,268</u>	<u>\$ 145,209</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities .....	\$ 4,597	\$ 10,678	\$ 5,892	\$ 9,383
Due to other funds .....	47	79	47	79
Due to other governments .....	5	8	5	8
Other liabilities .....	100,620	291,195	256,076	135,739
<b>TOTAL LIABILITIES</b> .....	<u>\$ 105,269</u>	<u>\$ 301,960</u>	<u>\$ 262,020</u>	<u>\$ 145,209</u>

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

**Agency Funds — (continued)**

*For the Fiscal Year Ended June 30, 1996*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Balance July 1, 1995	Additions	Deductions	Balance June 30, 1996
<b>INVEST PROGRAM FOR LOCAL GOVERNMENTS</b>				
<b>(December 31)</b>				
<b>ASSETS</b>				
Temporary investments .....	\$ 271,991	\$ 1,743,924	\$ 1,598,347	\$ 417,568
Receivables, net:				
Accrued interest .....	.....	1,276	.....	1,276
<b>TOTAL ASSETS</b> .....	<u>\$ 271,991</u>	<u>\$ 1,745,200</u>	<u>\$ 1,598,347</u>	<u>\$ 418,844</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities .....	\$ 676	\$ 1,971	\$ 676	\$ 1,971
Obligations under reverse repurchase agreements .....	16,872	.....	16,872	.....
Due to other governments .....	254,443	1,741,953	1,579,523	416,873
<b>TOTAL LIABILITIES</b> .....	<u>\$ 271,991</u>	<u>\$ 1,743,924</u>	<u>\$ 1,597,071</u>	<u>\$ 418,844</u>
<b>OTHER FUNDS</b>				
<b>ASSETS</b>				
Cash .....	\$ 4,525	\$ 525,494	\$ 525,614	\$ 4,405
Temporary investments .....	38,481	439,476	438,027	39,930
Long-term investments .....	288	.....	8	280
Receivables, net:				
Taxes .....	2,596	30,365	28,798	4,163
Accounts .....	16,620	18,758	16,620	18,758
Accrued interest .....	128	120	128	120
Due from other funds .....	5,045	23,769	5,045	23,769
Other assets .....	5,646	5,877	5,646	5,877
<b>TOTAL ASSETS</b> .....	<u>\$ 73,329</u>	<u>\$ 1,043,859</u>	<u>\$ 1,019,886</u>	<u>\$ 97,302</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities .....	\$ 14,962	\$ 17,860	\$ 16,362	\$ 16,460
Due to other funds .....	158	1,610	61	1,707
Due to other governments .....	31,476	442,601	422,325	51,752
Other liabilities .....	26,733	975,497	974,847	27,383
<b>TOTAL LIABILITIES</b> .....	<u>\$ 73,329</u>	<u>\$ 1,437,568</u>	<u>\$ 1,413,595</u>	<u>\$ 97,302</u>
<b>TOTAL — ALL FUNDS</b>				
<b>ASSETS</b>				
Cash .....	\$ 4,548	\$ 1,771,258	\$ 1,770,890	\$ 4,916
Cash with fiscal agents .....	4	14,856	4	14,856
Temporary investments .....	950,327	3,014,992	2,751,452	1,213,867
Long-term investments .....	283,200	344,418	222,385	405,233
Receivables, net:				
Taxes .....	2,596	30,365	28,798	4,163
Accounts .....	64,226	173,700	21,536	216,390
Accrued interest .....	7,988	24,857	27,956	4,889
Other .....	193	85	193	85
Due from other funds .....	5,488	24,520	5,488	24,520
Other assets .....	105,361	110,955	14,210	202,106
<b>TOTAL ASSETS</b> .....	<u>\$ 1,423,931</u>	<u>\$ 5,510,006</u>	<u>\$ 4,842,912</u>	<u>\$ 2,091,025</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities .....	\$ 304,637	\$ 193,108	\$ 157,341	\$ 340,404
Obligations under reverse repurchase agreements .....	16,872	.....	16,872	.....
Due to other funds .....	613	2,302	516	2,399
Due to other governments .....	461,170	2,375,983	2,191,273	645,880
Other liabilities .....	640,639	1,709,957	1,248,254	1,102,342
<b>TOTAL LIABILITIES</b> .....	<u>\$ 1,423,931</u>	<u>\$ 4,281,350</u>	<u>\$ 3,614,256</u>	<u>\$ 2,091,025</u>

# General Fixed Assets Account Group



Commonwealth of Pennsylvania

**GENERAL FIXED ASSETS ACCOUNT GROUP  
DESCRIPTION**

The General Fixed Assets Account Group is maintained to account for fixed assets acquired or constructed for general government purposes. These include all fixed assets except those accounted for in proprietary and pension trust funds.

**SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS BY SOURCE**

*For the Fiscal Year Ended June 30, 1996*

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

	<u>Balance July 1, 1995</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 1996</u>
<b>GENERAL FIXED ASSETS:</b>				
Land .....	\$ 241,269	\$ 3,469	\$ ....	\$ 244,738
Buildings .....	2,693,616	215,337	1,220	2,907,733
Improvements other than buildings .....	196,895	32,670	....	229,565
Furniture, machinery and equipment ....	552,997	78,217	54,313	576,901
	<u>3,684,777</u>	<u>329,693</u>	<u>55,533</u>	<u>3,958,937</u>
Construction in progress .....	231,257	132,552	....	363,809
Total General Fixed Assets .....	<u>\$ 3,916,034</u>	<u>\$ 462,245</u>	<u>\$ 55,533</u>	<u>\$ 4,322,746</u>
 <b>INVESTMENT IN GENERAL FIXED ASSETS:</b>				
Acquired on or before June 30, 1986 ...	\$ 2,003,705	\$ 20	\$ 20,502	\$ 1,983,223
Acquired after June 30, 1986 from:				
General fund revenues .....	592,908	293,708	19,485	867,131
General obligation bonds .....	760,411	2,794	....	763,205
Federal grants .....	33,942	334	3,148	31,128
Special revenue funds .....	285,726	32,837	12,398	306,165
Donations .....	7,841	....	....	7,841
Confiscations .....	244	....	....	244
Total sources .....	<u>3,684,777</u>	<u>329,693</u>	<u>55,533</u>	<u>3,958,937</u>
Construction in progress .....	231,257	132,552	....	363,809
Total Investment in General Fixed Assets .....	<u>\$ 3,916,034</u>	<u>\$ 462,245</u>	<u>\$ 55,533</u>	<u>\$ 4,322,746</u>

Funding sources for General Fixed Assets acquired on or before June 30, 1986 are not available.

## SCHEDULE OF GENERAL FIXED ASSETS BY FUNCTION

June 30, 1996

### COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)

FUNCTION	Land	Buildings	Improvements Other Than Buildings	Furniture Machinery and Equipment	Total
General government .....	\$ 9,792	\$ 454,935	\$ 23,096	\$ 47,080	\$ 534,903
Protection of persons and property .....	9,089	1,152,005	121,280	77,325	1,359,699
Public health and welfare .....	2,954	576,733	18,132	88,246	686,065
Public education .....	17,453	597,219	49,418	3,112	667,202
Conservation of natural resources .....	202,104	59,066	10,996	22,196	294,362
Economic development and assistance .....	.....	.....	.....	358	358
Transportation .....	3,346	67,775	6,643	338,584	416,348
<b>TOTALS ALLOCATED TO FUNCTIONS .....</b>	<b>\$ 244,738</b>	<b>\$2,907,733</b>	<b>\$229,565</b>	<b>\$576,901</b>	<b>3,958,937</b>
Construction in progress .....					363,809
<b>TOTAL GENERAL FIXED ASSETS .....</b>					<b>\$ 4,322,746</b>

## SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS BY FUNCTION

For the Fiscal Year Ended June 30, 1996

### COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)

	Balance July 1, 1995	Bifurcation of Department of Environmental Resources		Retirements	Transfers In	Transfers Out	Balance June 30, 1996
		Additions					
General government .....	\$ 547,029	\$ ....	\$ 3,692	\$ 30,405	\$ 18,555	\$ 3,968	\$ 534,903
Protection of persons and property .....	1,089,468	11,270	264,855	8,423	6,736	4,207	1,359,699
Public health and welfare .....	666,717	....	28,266	187	250	8,981	686,065
Public education .....	669,429	....	20	2,247	....	....	667,202
Conservation of natural resources .....	305,777	(11,270)	6,083	3,868	1,355	3,715	294,362
Economic development and assistance ..	406	....	....	....	....	48	358
Transportation .....	405,951	....	26,777	10,403	....	5,977	416,348
	3,684,777	....	329,693	55,533	26,896	26,896	3,958,937
Construction in progress .....	231,257	....	132,552	....	....	....	363,809
<b>TOTALS .....</b>	<b>\$ 3,916,034</b>	<b>\$ ....</b>	<b>\$ 462,245</b>	<b>\$ 55,533</b>	<b>\$ 26,896</b>	<b>\$ 26,896</b>	<b>\$ 4,322,746</b>

On July 1, 1995 the Department of Environmental Resources (DER) was divided into two new agencies: the Department of Environmental Protection (DEP) and the Department of Conservation and Natural Resources (DCNR). As a result of this bifurcation, \$11,270 (in thousands) of general fixed assets from the predecessor DER became the property of the DEP. The function of these assets has been changed from "conservation of natural resources" to "protection of persons and property." The remaining assets of the predecessor DER became the property of the DCNR and continue to be reported as part of "conservation of natural resources."

# Statistical Section



Commonwealth of Pennsylvania

**REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
ALL GOVERNMENTAL FUND TYPES<sup>(1)</sup>**

**TABLE 1**

*For the Last Ten Fiscal Years Ended June 30*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	1987	1988	1989	1990	1991	1992	1993	1994 <sup>(2)</sup>	1995 <sup>(3)</sup>	1996 <sup>(3)</sup>
<b>REVENUES BY SOURCE</b>										
Taxes .....	\$ 10,652,020	\$ 10,888,272	\$ 11,758,767	\$ 12,052,117	\$ 11,980,586	\$ 15,444,361	\$ 15,467,501	\$ 16,094,540	\$ 16,990,198	\$ 17,220,048
Licenses and fees .....	564,781	588,526	629,370	661,265	685,196	699,141	717,508	740,723	773,463	796,150
Inergovernmental .....	3,751,334	3,873,583	4,248,709	4,358,109	5,165,068	6,004,765	6,949,683	7,822,596	7,959,997	9,517,277
Charges for sales and services .....	486,243	536,175	528,691	503,643	1,015,169	1,754,679	1,654,175	847,520	894,852	1,311,375
Investment income .....	194,900	193,945	226,190	221,835	158,280	141,433	94,362	79,329	145,124	152,724
Lottery receipts .....	1,341,631	1,472,311	1,575,312	1,529,835	1,520,943	1,374,271	1,440,784	1,574,949	1,595,726	1,699,277
Other <sup>(2)</sup> .....	185,341	153,580	281,251	389,318	411,195	343,661	348,727	171,555	167,452	228,931
<b>TOTAL REVENUES</b> .....	<b>\$ 17,176,250</b>	<b>\$ 17,706,392</b>	<b>\$ 19,248,290</b>	<b>\$ 19,716,122</b>	<b>\$ 20,936,437</b>	<b>\$ 25,762,311</b>	<b>\$ 26,672,740</b>	<b>\$ 27,331,212</b>	<b>\$ 28,526,812</b>	<b>\$ 30,925,782</b>
<b>EXPENDITURES BY FUNCTION</b>										
General government .....	\$ 1,516,385	\$ 1,741,126	\$ 1,873,466	\$ 1,921,076	\$ 1,890,388	\$ 1,917,410	\$ 2,004,638	\$ 2,152,254	\$ 2,313,118	\$ 2,630,517
Protection of persons and property .....	948,562	1,021,668	1,092,335	1,217,333	1,291,746	1,377,461	1,466,885	1,772,639	1,927,228	2,345,462
Public health and welfare .....	6,360,862	6,704,892	7,175,239	7,745,019	9,200,299	11,132,219	11,288,552	11,810,077	12,249,729	13,651,317
Public education .....	4,395,740	4,761,170	5,166,302	5,597,935	5,852,950	6,015,589	6,460,659	6,784,190	7,006,744	7,417,504
Conservation of natural resources .....	305,599	334,833	368,906	373,719	431,006	468,431	483,644	525,401	571,502	348,639
Economic development and assistance .....	206,355	346,037	349,767	363,950	315,362	302,028	284,940	272,212	338,377	285,092
Transportation .....	2,114,625	2,171,964	2,304,822	2,392,365	2,391,785	2,265,894	2,536,894	2,695,546	2,773,086	2,832,031
Capital outlay .....	476,118	274,336	229,753	168,807	298,306	207,168	418,062	210,083	264,464	319,195
Debt Service .....										
Principal retirement .....	659,548	482,277	440,152	608,360	526,625	568,900	594,472	482,344	516,705	447,790
Interest and fiscal charges .....	405,701	408,968	448,482	455,574	452,986	487,479	430,947	291,731	301,480	289,138
<b>TOTAL EXPENDITURES</b> .....	<b>\$ 17,389,495</b>	<b>\$ 18,247,271</b>	<b>\$ 19,449,224</b>	<b>\$ 20,844,138</b>	<b>\$ 22,651,653</b>	<b>\$ 24,742,579</b>	<b>\$ 25,969,693</b>	<b>\$ 26,996,477</b>	<b>\$ 28,262,433</b>	<b>\$ 30,566,685</b>

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

<sup>(2)</sup> Prior to 1989, lease rental principal and interest payments, included as other revenue, were classified as "Other Financing Sources."

<sup>(3)</sup> Includes primary government only.

**NET BONDED DEBT PER CAPITA**

**TABLE 2**

*For the Last Ten Fiscal Years*

**COMMONWEALTH OF PENNSYLVANIA**

<b>For The Fiscal Year Ended June 30</b>	<b>(Expressed in Thousands)</b>		<b>Debt Per Capita</b>
	<b>Net Bonded Debt</b>	<b>Population</b>	
1986	\$ 4,529,393	11,784	\$ 384
1987	4,558,839	11,812	386
1988	4,698,645	11,847	397
1989	4,705,202	11,866	397
1990	4,633,507	11,882	390
1991	4,787,512	11,958	400
1992	4,873,542	11,990	406
1993	5,040,938	12,030	419
1994	5,100,012	12,052	423
1995	5,040,662	12,072	418

SOURCE: Population Information — U.S. Department of  
Commerce, Bureau of the 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**

<u>For The Fiscal Year Ended June 30</u>	<u>(Expressed in Thousands)</u>		<u>%</u>
	<u>Debt Service Requirements Funded by General Fund</u>	<u>Budgetary Basis General Fund Expenditures <sup>(1)</sup></u>	
1987	\$ 371,702	\$ 12,395,674	3.00
1988	393,907	13,180,073	2.99
1989	381,617	13,949,111	2.74
1990	450,752	15,137,774	2.98
1991	456,325	16,251,111	2.81
1992	521,875	19,540,459	2.67
1993	497,045	19,986,749	2.49
1994	512,094	21,060,058	2.43
1995	525,889	22,467,672	2.34
1996	551,133	23,480,336	2.35

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

**COMPUTATION OF LEGAL DEBT MARGIN**

**TABLE 4**

*As of August 31, 1996*

**COMMONWEALTH OF PENNSYLVANIA**

Average annual tax revenues deposited in the previous five fiscal years .....	\$ 18,895,078,079
Constitutional factor .....	x 1.75
<hr/>	
Constitutional debt limit for debt incurred without the approval of the electors .....	33,066,386,638
Less outstanding net debt (non electorate approved) .....	3,866,564,569
<hr/>	
Legal debt margin .....	<u>\$ 29,199,822,069</u>

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

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

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

The figures above are abstracted from a certification of the Auditor General dated August 31, 1996.

**SCHEDULE OF REVENUE BOND COVERAGE**

**TABLE 5**

*For the Last Ten Fiscal Years*

**COMMONWEALTH OF PENNSYLVANIA**

<b>Pennsylvania Turnpike Commission<sup>(b)</sup></b>							
<b>(Expressed in Thousands)</b>							
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	
1987	\$ 180,692	\$ 101,692	\$ 79,000	\$ 2,299	\$ 46,500	\$ 48,799	1.62
1988	221,807	100,875	120,932	3,225	56,514	59,739	2.02
1989	245,192	105,619	139,573	4,070	58,789	62,859	2.22
1990	252,373	113,546	138,827	123,940	73,051	196,991	.70
1991	246,985	115,103	131,882	64,135	75,811	139,946	.94
1992	312,079	113,217	198,862	7,450	76,628	84,078	2.37
1993	329,452	134,844	194,608	11,595	65,600	77,195	2.52
1994	344,617	142,915	201,702	9,405	70,892	80,297	2.51
1995	375,754	146,325	229,429	15,715	72,548	88,263	2.60
1996	389,774	162,150	227,624	23,900	71,623	95,523	2.38

<b>Pennsylvania Industrial Development Authority<sup>(b)</sup></b>							
<b>(Expressed in Thousands)</b>							
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	
1987	\$ 23,370	\$ 1,574	\$ 21,796	\$ 8,620	\$ 12,433	\$ 21,053	1.04
1988	25,479	1,765	23,714	8,525	11,257	19,782	1.20
1989	29,477	2,223	27,254	8,505	10,584	19,089	1.43
1990	30,422	1,997	28,425	8,900	9,873	18,773	1.51
1991	28,963	2,055	26,908	8,440	11,015	19,455	1.38
1992	24,592	1,994	22,598	10,645	18,920	29,565	.76
1993	25,204	2,368	22,836	10,645	18,595	29,240	.78
1994	29,802	2,138	27,664	23,085	19,116	42,201	.66
1995	30,806	2,864	27,942	4,335	20,123	24,458	1.14
1996	30,487	2,898	27,589	10,695	19,747	30,442	.91

<b>Pennsylvania Housing Finance Agency<sup>(b)</sup></b>							
<b>(Expressed in Thousands)</b>							
For the Fiscal Year Ended June 30	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest <sup>(a)</sup>	Total	
1987	\$ 159,034	\$ 8,088	\$ 150,946	\$ 14,987	\$ 136,625	\$ 151,612	1.00
1988	162,172	8,593	153,579	15,960	138,508	154,468	.99
1989	182,535	8,402	174,133	20,226	148,327	168,553	1.03
1990	199,101	9,133	189,968	21,568	157,104	178,672	1.06
1991	214,580	9,944	204,636	25,173	153,305	178,478	1.15
1992	206,991	8,496	198,495	28,118	172,146	200,264	.99
1993	200,268	9,803	190,465	27,410	166,480	193,890	.98
1994	194,025	13,325	180,700	29,426	143,904	173,330	1.05
1995	196,023	16,095	179,928	51,406	139,621	191,027	.94
1996	208,048	16,979	191,069	40,839	146,452	187,291	1.02

<sup>(a)</sup> Excludes interest on notes payable

<sup>(b)</sup> Discretely Presented Component Unit.

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

**TABLE 6**

*For the Last Ten Calendar Years*

**COMMONWEALTH OF PENNSYLVANIA**

<u>Calendar Year</u>	<u>(Expressed in Thousands)</u>		<u>%</u>
	<u>United States</u>	<u>Pennsylvania</u>	
1986	240,162	11,784	4.9
1987	242,321	11,812	4.9
1988	244,534	11,847	4.8
1989	246,820	11,866	4.8
1990	248,710	11,882	4.8
1991	252,160	11,958	4.7
1992	255,028	11,990	4.7
1993	257,783	12,030	4.7
1994	260,341	12,052	4.6
1995	264,023	12,072	4.6

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

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

**TABLE 7**

*For the Last Ten Calendar Years*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

<u>Calendar Year</u>	<u>Demand Deposits</u>	<u>Time and Savings Deposits</u>
1986	\$ 6,632,325	\$ 45,351,526
1987	6,443,804	47,556,165
1988	6,558,607	50,347,975
1989	6,481,900	53,565,427
1990	6,453,740	50,542,812
1991	6,308,495	52,112,591
1992	7,150,024	51,434,858
1993	7,620,397	54,334,637
1994	6,952,868	49,674,200
1995	7,124,441	51,766,777

SOURCE: Pennsylvania Department of Banking

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

**TABLE 8**  
**For the Last Ten Calendar Years**

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands  
Except Percents)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
<b>PENNSYLVANIA</b>										
Civilian labor force .....	5,637	5,653	5,764	5,857	5,791	5,826	5,886	5,889	5,826	5,838
Employment .....	5,251	5,333	5,470	5,592	5,476	5,419	5,440	5,470	5,465	5,495
Unemployment .....	386	320	294	265	315	407	446	416	360	343
Rate % .....	6.8	5.7	5.1	4.5	5.4	6.9	7.5	7.1	6.2	5.9
<b>UNITED STATES</b>										
Civilian labor force .....	117,835	119,865	121,669	123,869	125,840	126,346	128,105	129,200	131,056	132,304
Employment .....	109,598	112,440	114,968	117,342	118,793	117,718	118,492	120,260	123,060	124,900
Unemployment .....	8,237	7,425	6,701	6,527	7,047	8,628	9,613	8,940	7,996	7,404
Rate % .....	7.0	6.2	5.5	5.3	5.6	6.8	7.5	6.9	6.1	5.6

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	%
1986	3,519,364	169,697	4.8	14,910	14,715	98.7
1987	3,754,577	180,559	4.8	15,641	15,449	98.8
1988	4,063,045	195,107	4.8	16,615	16,468	99.1
1989	4,366,135	211,739	4.8	17,690	17,844	100.9
1990	4,655,420	224,628	4.8	18,718	18,905	101.0
1991	4,841,078	234,643	4.8	19,201	19,640	102.3
1992	5,137,875	247,323	4.8	20,146	20,627	102.4
1993	5,364,300	256,408	4.8	20,809	21,314	102.4
1994	5,649,010	267,501	4.7	21,699	22,196	102.3
1995	5,987,536	281,021	4.7	22,788	23,279	102.2

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

**THIRTY LARGEST NONGOVERNMENTAL EMPLOYERS**

**TABLE 10**

*For the Calendar Year 1995*

**COMMONWEALTH OF PENNSYLVANIA**

EMPLOYER	RANK
Pennsylvania State University .....	1
K Mart Corporation .....	2
United Parcel Service Inc .....	3
Trustees of the University of Pennsylvania .....	4
Wal-Mart Stores Inc .....	5
US Air, Incorporated .....	6
Mellon Bank, NA .....	7
Bell Atlantic .....	8
Sears Roebuck and Company .....	9
Weis Markets Inc .....	10
University of Pittsburgh .....	11
PNC Bank .....	12
JC Penney Co, Inc .....	13
Strawbridge & Clothier .....	14
Westinghouse Electric Corp .....	15
The Prudential Insurance Co .....	16
Giant Food Stores, Inc .....	17
CoreStates .....	18
Acme Markets Inc .....	19
AMP Incorporated .....	20
Temple University .....	21
Thomas Jefferson University .....	22
Penn Traffic Company .....	23
Hershey Foods Corporation .....	24
Southeastern PA Transportation .....	25
Presbyterian University Hospital .....	26
Thrift Drug, Inc. ....	27
AT&T .....	28
Giant Eagle Inc. ....	29
General Electric Company .....	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**

Advanta Corporation	Harsco Corporation
Air Products and Chemicals, Inc.	Hershey Foods Corporation
Airgas	Integra Financial Corporation
Alco Standard Corporation	Intelligent Electronics
Allegheny Ludlum Corporation	Jones Apparel Group
Aluminum Company of America	Mellon Bank Corp.
AMP Incorporated	Meridian Bancorp, Inc.
Aramark	Mylan Laboratories
ARCO Chemical	PNC Financial Corporation
Armstrong World Industries, Inc.	PPG Industries, Inc.
Arrow International	PECO Energy
Bell Atlantic Corporation	Pennsylvania Power & Light Co.
Bethlehem Steel Corporation	Pep Boys
Betz Laboratories	Quaker State Corporation
Centocor	Rhone—Poulenc Rorer
Cigna Corporation	Rite Aid Corporation
Comcast Corporation	Rohm and Haas Company
Consolidated Natural Gas Co.	Sun Company, Inc.
Consolidated Rail Corporation	Sungard Data Systems
CoreStates Financial Corporation	UGI Corporation
Crown Cork and Seal Company	Union Pacific Corporation
Dauphin Deposit Corporation	UNISYS Corporation
Dentsply International	U.S. Healthcare
DQE Corporation	USX Corporation
Equitable Resources	VF Corporation
General Nutrition	Vishay Intertechnology
Glatfelter (P.H.) Company	Weis Markets, Incorporated
Fore Systems	Westinghouse Electric Corporation
H.J. Heinz Company	York International

SOURCE: *Fortune*, April 29, 1996; *The Business Week 1000*, March 25, 1996.

*June 30, 1996***COMMONWEALTH OF PENNSYLVANIA**

Date of Ratification of U.S. Constitution	December 12, 1787
Form of Government	Legislative-Executive-Judicial
Miles of State Highway	40,408
Land Area – in square miles	44,888
State Police Protection:	
Number of Stations	106
Number of State Police	4,228
Higher Education (Universities, Colleges and Community Colleges):	
Number of campuses in state	239
Number of educators	22,213
Number of students	618,644
Recreation:	
Number of State Parks	116
Area of State Parks	282,500 Acres
Area of State Forests	2,095,315 Acres

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