

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For Fiscal Year Ended June 30, 1997



Commonwealth of Pennsylvania
Tom Ridge
Governor

Prepared By:

Office of the Budget
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Comptroller Operations
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Commonwealth of Pennsylvania
 Comprehensive Annual Financial Report
 For the Fiscal Year Ended June 30, 1997

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COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

December 9, 1997

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 complete 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, 1997, 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.

Pennsylvania's economy performed quite well during 1996 and the first half of 1997. During the fiscal year ended June 1997, the number of jobs in the state grew 2.0 percent over the previous twelve months, a growth rate that was above the national rate for the same period. The significance of this achievement is highlighted by the ranking of Pennsylvania among the states -- in the first quarter of 1996 Pennsylvania's employment growth rate was zero and it ranked 49th among the states. In the first quarter of 1997, the number of jobs grew by 2.3 percent and Pennsylvania ranked 20th among the states. More jobs brought faster growing personal income. For the four quarters ended with the first quarter of 1997, personal income in Pennsylvania rose at a rate of over 6 percent. This healthy advance contributed to a 6.1 percent increase in General Fund tax revenue for fiscal year 1996-97 due to similar increases in collections for the personal income tax and the sales and use tax. While it is anticipated that national and Pennsylvania economic growth will not maintain the pace experienced during the 1996-97 fiscal year, expectations are for continued economic growth, though at a rate below 2 percent and for conditions in Pennsylvania to remain close to the national average.

On a budgetary basis, the Commonwealth's General Fund ended the 1996-97 fiscal year with a \$591.4 million unreserved/undesignated fund balance prior to reserving \$189 million for transfer to the Tax Stabilization Reserve (Rainy Day) Fund. The increase of available reserves in the Tax Stabilization Reserve Fund and the unreserved/undesignated fund balance was one of the major factors in the actions taken by two bond rating agencies to increase the Commonwealth's general obligation bond rating in October 1997. This was the first increase in that rating since 1986 and the first time since 1968 that all ratings were in the "AA" category.

Economic development continues to be a long-term commitment of the Commonwealth as evidenced by the significant amount of funds appropriated for loans and grants to employers. Among these loans and grants was \$35 million transferred from the General Fund to the Ben Franklin/Industrial Resource Centers Partnership, to create jobs through the development and application of technology and advanced production techniques. Also, \$15 million of loans and grants for infrastructure development of industrial sites were made from the General Fund. The Machinery and Equipment Loan Fund provided \$19 million in low interest loans for machinery and equipment purchases and the Pennsylvania Industrial Development Authority provided \$33 million in loans to local industrial development agencies to stimulate economic activity. The new

Opportunity Grants program funded by the General Fund, provided \$25 million for grants to attract and retain businesses.

The Small Business First Fund combined three existing funds to streamline loans for small businesses.

Tax cuts enacted for the General Fund during the past two years resulted in 1996-97 fiscal year savings of \$214.8 million for Pennsylvania taxpayers through reductions in the corporate net income, capital stock and franchise, inheritance, insurance premium and other tax rates. Also a \$15 million tax credit program for businesses creating new jobs was enacted.

In addition, Pennsylvania is working to create jobs in other ways. The Commonwealth recognizes that success begins with a well-trained work force and provided funding from the General Fund for customized job training and supported the opportunity to capitalize on the global marketplace to operate and expand Pennsylvania's international trade in the amounts of \$15 million and \$4.4 million, respectively.

The Commonwealth continued its commitment to its communities by providing \$18.6 million from the General Fund, 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. The General Fund provided nearly \$3.4 billion to our public schools through the Basic Education Funding program. Total funding for basic education was just over \$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. In addition, over \$1.5 billion was provided for higher education institutions and students.

The Commonwealth began a planned three-year technology initiative known as Project Link to Learn. This initiative will help bring the global computer resources into Pennsylvania's classrooms. Over \$40 million in first-year funding was provided for the acquisition of computers and network connections. This will allow schools to participate in advances in computing and communications. This three-year initiative will provide for the development of the community-based Pennsylvania Education Network.

In the Department of Corrections, efforts continued to meet the need for additional correctional facilities. Construction continued on a new 1,096 bed correctional facility in southeastern Pennsylvania. Over \$60 million was committed for cell block additions that will provide 2,200 more beds at five existing correctional institutions.

During the 1996-1997 fiscal year several major laws were enacted that created new programs or modified existing programs. The following summarizes some of these changes:

- Act 1996-111 provided for a nonrecurring transfer of \$5 million from the State Stores Fund to the Children's Health Fund for the Children's Health Insurance Program.
- Act 1996-134 amended the Lottery Law to include changes to the Pharmaceutical Assistance Contract for the Elderly (PACE) program to: a) increase PACE eligibility levels, and b) enact a new program entitled PACENET for people whose incomes are above the eligibility levels for the basic program. It also permits lottery winners of over \$1 million the option of receiving their prize payment in one lump sum rather than through an annuity.

- Act 1996-189 amended the Unemployment Compensation Act to further provide for the determination of contribution rates and employer reserve accounts. This Act provides for the relief of any benefit changes to an employer that are caused by a cessation of business of eighteen months or less due to a disaster defined as fire, flood or other physical occurrence, beyond the employer's control, caused naturally or accidentally.
- Act 1997-3 increased the amount of tax on gasoline and petroleum products, dedicated a portion of the sales tax for public transportation assistance, increased vehicle registration fees and revised the formula for distribution of funds which support local road maintenance. Most of the increased revenue will be used for highway construction and maintenance at either the state or local level.
- Act 1997-23 amended the Job Enhancement Act to establish the Export Financing Program within the Small Business First Fund. The Export Financing Program will provide necessary capital to Pennsylvania's small businesses in the form of loans guaranteed by the Export-Import Bank to finance export trade. It also amended the Family Savings Account Program which is a matching grant program established to help eligible individuals or families save for education, purchase of a home, participation in an entrepreneurial activity or enroll a saver's child in day care to enable the saver to participate in job training, any work-related activity or educational program.

The Commonwealth initiated a comprehensive welfare reform program based on individual and family self-sufficiency. The program incorporates the changes made by Congress in passage of the Personal Responsibility and Work Opportunity Reconciliation Act and those changes authorized by the Pennsylvania General Assembly in Act 35 of 1996. The program provides time limited cash assistance for families and other supports to enable individuals to get and keep a job. Federal support includes two new block grants: Temporary Assistance to Needy Families and Child Care Development. State and Federal expenditures for these programs amounted to \$8.8 billion in the 1996-97 fiscal year. Approximately 40 percent of the total cost of assistance to the economically needy is funded by the General Fund, with the balance provided by the Federal government. A Medical Assistance Intergovernmental Transfer provided additional funds totaling \$694 million during the 1996-97 fiscal year.

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 9, 1997

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, 1997. 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 Employees' Retirement System—Fiduciary Fund
State Employees' Retirement System—Pension Trust Fund
State Public School Building Authority—Governmental Fund
State System of Higher Education—College and University Funds

BUDGETARY CONTROLS AND ACCOUNTING SYSTEMS

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

Pennsylvania has shared in the benefits of continued modest national economic growth. The nation completed its sixth consecutive year of economic expansion that has brought the economic growth differential between the Middle Atlantic Region and the United States to the lowest level in a decade. Within this region (PA, NY, NJ) over the last year, Pennsylvania has had the best performance as represented by its 2 percent growth in jobs. The expansion of jobs increased total employment to a new record level during this fiscal year. More jobs brought faster growing wage and salary income for state residents, which resulted in increased housing and retail sales.

As of June 30, 1997, national economic growth was expanding at an annual rate of 3.6 percent. Continuation of that growth rate is not anticipated during the second half of calendar year 1997. The predicted slowing of economic growth is not expected to be concentrated in any sectors as consumption, business investment, and government purchases move slightly slower to a more sustainable growth rate. Without the shift to a more sustainable growth rate, the potential for a rising inflation rate increases significantly. Any evidence of increasing inflation will cause the Federal Reserve Board to increase interest rates in an effort to reduce inflation. The effort to keep interest rates under control will likely cause economic activity to slow and may possibly end the economic expansion that began in 1991.

THE GENERAL FUND

The General Fund, the Commonwealth's largest fund, is the focal point of any assessment of Pennsylvania's financial position. It accounts for all revenues and receipts which are not required by law to be accounted for or deposited elsewhere and for the major portion of Commonwealth expenditures. Tax receipts, principally personal and corporate income and sales and use taxes, constitute approximately 62.8 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, 1997, the Commonwealth reported an unreserved/undesignated fund balance (budgetary basis) of \$402.7 million in the General Fund. This compares to a budgetary basis fund balance of \$158.5 million, as restated, at June 30, 1996. The budgetary basis fund balance for the fiscal year ended June 30, 1997 was the result of revenue collections totaling \$26,149.6 million less appropriation authorizations totaling \$25,835.7 million, less other net financing uses totaling \$69.7 million. Included in the \$25,835.7 million appropriation authorizations are \$164.3 million of state supplemental appropriations and \$207.0 million in federal supplemental appropriations authorized during the fiscal year.

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

<u>At June 30</u>	<u>Unreserved/ Undesignated Fund Balance</u>	<u>Increase (Decrease)</u>
1993	214.9	206.1
1994	302.2	87.3
1995 (Restated)	437.0	134.8
1996 (Restated)	158.5	(278.5)
1997	402.7	244.2

Modified Accrual Basis: At June 30, 1997 the Commonwealth's General Fund reported a fund balance of \$1,364.9 million, an increase of \$729.7 million from the \$635.2 million fund balance at June 30, 1996. Total assets increased by \$563.4 million to \$4,268.5 million. Liabilities decreased \$166.3 million to \$2,903.6 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, 1997</u>	<u>June 30, 1996</u>	<u>Increase (Decrease)</u>
Assets			
Cash and temporary investments	\$ 1,779.9	\$ 1,155.4	\$ 624.5
Receivables, net	941.0	874.9	66.1
Due from other funds/component units/governments	1,184.3	1,274.9	(90.6)
Food stamp coupons	358.6	391.6	(33.0)
Other assets	4.7	8.3	(3.6)
Total Assets	<u>\$ 4,268.5</u>	<u>\$ 3,705.1</u>	<u>\$ 563.4</u>
Liabilities			
Accounts payable and other accrued liabilities	\$ 1,920.5	\$ 1,924.4	\$ (3.9)
Due to other funds/component units/governments	602.2	739.1	(136.9)
Deferred revenue	380.9	406.4	(25.5)
Total Liabilities	<u>2,903.6</u>	<u>3,069.9</u>	<u>(166.3)</u>
Fund Balance			
Reserved	345.2	253.4	91.8
Unreserved:			
Designated	832.4	381.8	450.6
Undesignated	187.3	-	187.3
Total Fund Balance	<u>1,364.9</u>	<u>635.2</u>	<u>729.7</u>
Total Liabilities and Fund Balance	<u>\$ 4,268.5</u>	<u>\$ 3,705.1</u>	<u>\$ 563.4</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, 1997 increased by \$914.6 million to \$2,900.9 million from a \$1,986.3 million balance at the beginning of the fiscal year. Unreserved/undesignated fund balances at June 30, 1997 amount to \$699.2 million as compared to a \$378.2 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 totaled \$32,073 million. This represents a 3.7 percent increase over the previous year. Taxes constituted 56.6 percent of general governmental revenues; intergovernmental revenues, primarily Federal funds, constituted 29.6 percent.

<u>Revenue Source</u>	<u>Fiscal Years Ended</u>		<u>Increase (Decrease)</u>
	<u>June 30, 1997</u>	<u>June 30, 1996</u>	
Taxes.....	\$ 18,168	\$ 17,220	\$ 948
Licenses and fees	804	796	8
Intergovernmental	9,499	9,517	(18)
Charges for sales and services	1,517	1,312	205
Investment income	175	153	22
Lottery receipts	1,723	1,699	24
Lease rental principal and interest.....	2	2	-
Other	<u>185</u>	<u>227</u>	<u>(42)</u>
Total Revenues	<u>\$ 32,073</u>	<u>\$ 30,926</u>	<u>\$ 1,147</u>

Charges for sales and services increased \$205 million primarily because of increased departmental revenues for services provided to other departments and the public.

Tax revenue increased \$948 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, 1997</u>	<u>June 30, 1996</u>	
Personal income	\$ 5,606	\$ 5,165	\$ 441
Sales and Use	6,198	5,736	462
Corporation	3,612	3,688	(76)
Liquid Fuels	762	730	32
Other	<u>1,990</u>	<u>1,901</u>	<u>89</u>
Total Tax Revenue	<u>\$ 18,168</u>	<u>\$ 17,220</u>	<u>\$ 948</u>

General Governmental Expenditures by Function. Expenditures of the Commonwealth's General, Special Revenue, Debt Service and Capital Projects Funds totaled \$30,797 million, an increase of \$230 million over the previous year. Of the total amount expended, public health and welfare accounted for 45.2 percent, public education for 24.0 percent and transportation for 9.5 percent.

Expenditure Function	Fiscal Years Ended		Increase (Decrease)
	June 30, 1997	June 30, 1996	
General government.....	\$ 2,469	\$ 2,631	\$ (162)
Protection of persons and property	2,462	2,345	117
Public health and welfare.....	13,907	13,651	256
Public education.....	7,397	7,418	(21)
Conservation of natural resources.....	369	349	20
Economic development and assistance	300	285	15
Transportation.....	2,913	2,832	81
Capital outlay.....	254	319	(65)
Debt service:			
Principal retirement.....	438	448	(10)
Interest and fiscal charges.....	<u>288</u>	<u>289</u>	<u>(1)</u>
Total expenditures.....	<u>\$ 30,797</u>	<u>\$ 30,567</u>	<u>\$ 230</u>

Expenditures for public health and welfare increased by \$256 million or 1.9 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.

Expenditures for protection of persons and property increased by \$117 million or 5.0 percent over the previous fiscal year, due mainly to increased incarceration expenditures for the Department of Corrections.

Expenditures for general government decreased \$162 million or 6.2 percent primarily because of a reduction in the estimated expenditures for self-insurance liabilities.

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, 1997 decreased \$28.9 million to \$345.0 million from a \$373.9 million balance at the beginning of the fiscal year.

Revenues of the component unit governmental funds totaled \$257.9 million at June 30, 1997. Lease rental principal and interest revenue of \$217.8 million represents 84.5 percent of total revenues.

Expenditures of the component unit governmental funds totaled \$491.8 million at June 30, 1997. Of the total amount expended, debt service principal and interest expenditures were \$214.9 million or 43.7 percent of total expenditures and capital outlay was \$230.4 million or 46.8 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 29, 1997 was \$34.3 billion. Outstanding capital project debt at August 29, 1997 amounted to \$3.7 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, 1997 was \$4,842 million. Total debt service transfers paid from General Fund and Motor License Fund appropriations during the fiscal year ended June 30, 1997 amounted to \$781.5 million.

During the fiscal year ending June 30, 1998 the Office of the Budget projects general obligation bond issuances amounting to \$495.5 million, a decrease of \$56 million as compared to actual bond issuances of \$551.5 million during the fiscal year ended June 30, 1997. This forecast reflects the need to make investments in the Commonwealth's capital infrastructure, particularly prisons, highway bridges, mass transportation and water supply systems. Debt principal retirements of \$435 million are forecast during fiscal 1998. 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>
1991	4,788
1992	4,874
1993	5,041
1994	5,100
1995	5,041
1996	5,062
1997	4,842

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, 1998, total General Fund revenues and budgeted expenditures, including Federal funds, are expected to increase by .7 percent and 3.7 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 \$225 million in General Fund tax anticipation notes during the 1997-98 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>
1994	\$ 400	3
1995	600	4
1996	500	3
1997	550	3
1998 (Estimated)	225	1

CASH MANAGEMENT

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

In addition, the Treasury Department is empowered to invest Commonwealth monies that are in excess of daily needs of the various Commonwealth Funds. Virtually all excess amounts are invested in the Treasury Short-Term Investment Pool (STIP). The STIP includes the following types of investments, with related weighted average maturity and percent of total STIP investments at June 30, 1997:

<u>Investment Type</u>	<u>Weighted Average Maturity (days)</u>	<u>Percent</u>
Commercial Paper (Moody's Prime One Rating or Equivalent)	14	4.4
United States Treasury and Agency Obligations	337	8.8
Repurchase Agreements.....	5	77.5
Certificates of Deposit	197	2.6
Corporate Bonds and Notes	2,094	0.5
Other	166	6.2
		<u>100.0</u>

Total STIP investments amounted to over \$4.5 billion at June 30, 1997. Almost all STIP investments are reported as temporary investments by participating Funds. The STIP earned \$221 million during the fiscal year, at an average yield of 5.53 percent.

RISK MANAGEMENT

The Commonwealth maintains ongoing training and information programs to reduce risks associated with employe 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 employe disability and medical claims on July 1, 1983. The Commonwealth is also self-insured for annuitant medical/hospital benefits and tort liabilities, including automobile, employe 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, 1997 amounted to \$373 million. Authorized but unissued general obligation bonds at June 30, 1997 totaled \$17.6 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, 1997 of \$122.3 million, which represents a decrease of \$30.4 million from the \$152.7 million retained earnings, reported the previous year.

Fiduciary type funds, including expendable trust funds and a pension trust fund, reported total fund balance of \$21,543 million, compared to \$19,136 million in the previous year. Total fund balances of the expendable trust funds increased \$259 million over the previous fiscal year, for total fund balances of \$3,050 million at June 30, 1997. The State Employees' Retirement System, the pension trust fund, reported a fund balance of \$18,492 million, an increase of \$2,147 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, 1997, totaling \$1,887 million, which represents an increase of \$82 million from the \$1,805 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 \$39,386 million at June 30, 1997, which represents a \$5,656 million increase over the \$33,730 million previous fiscal year fund balance.

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, 1997 was \$329 million, compared to \$296 million at June 30, 1996.

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, 1997 amounted to \$4,409 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, 1996. This represents the eleventh consecutive year the Commonwealth of Pennsylvania has received this award.

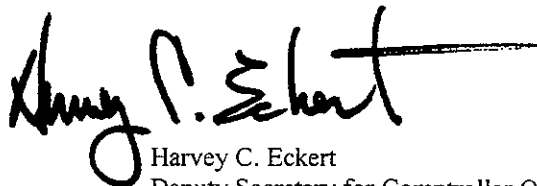
To merit a certificate of achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report which conforms to GFOA standards and satisfies both generally accepted accounting principles and applicable legal requirements. A certificate of achievement 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, 1997 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, 1996

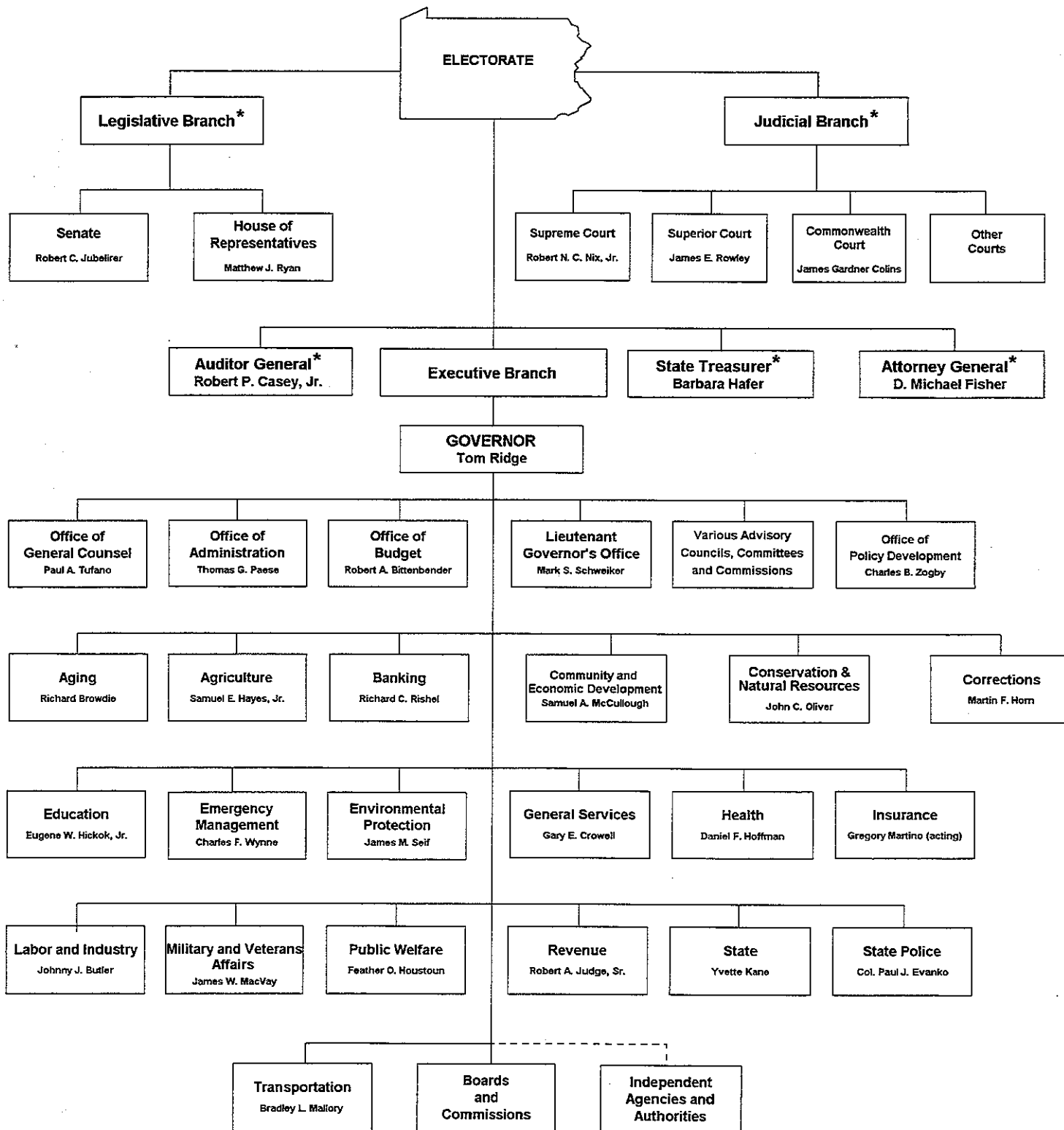
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



Linda K. Savitsky
President

Jeffrey L. Esler
Executive Director

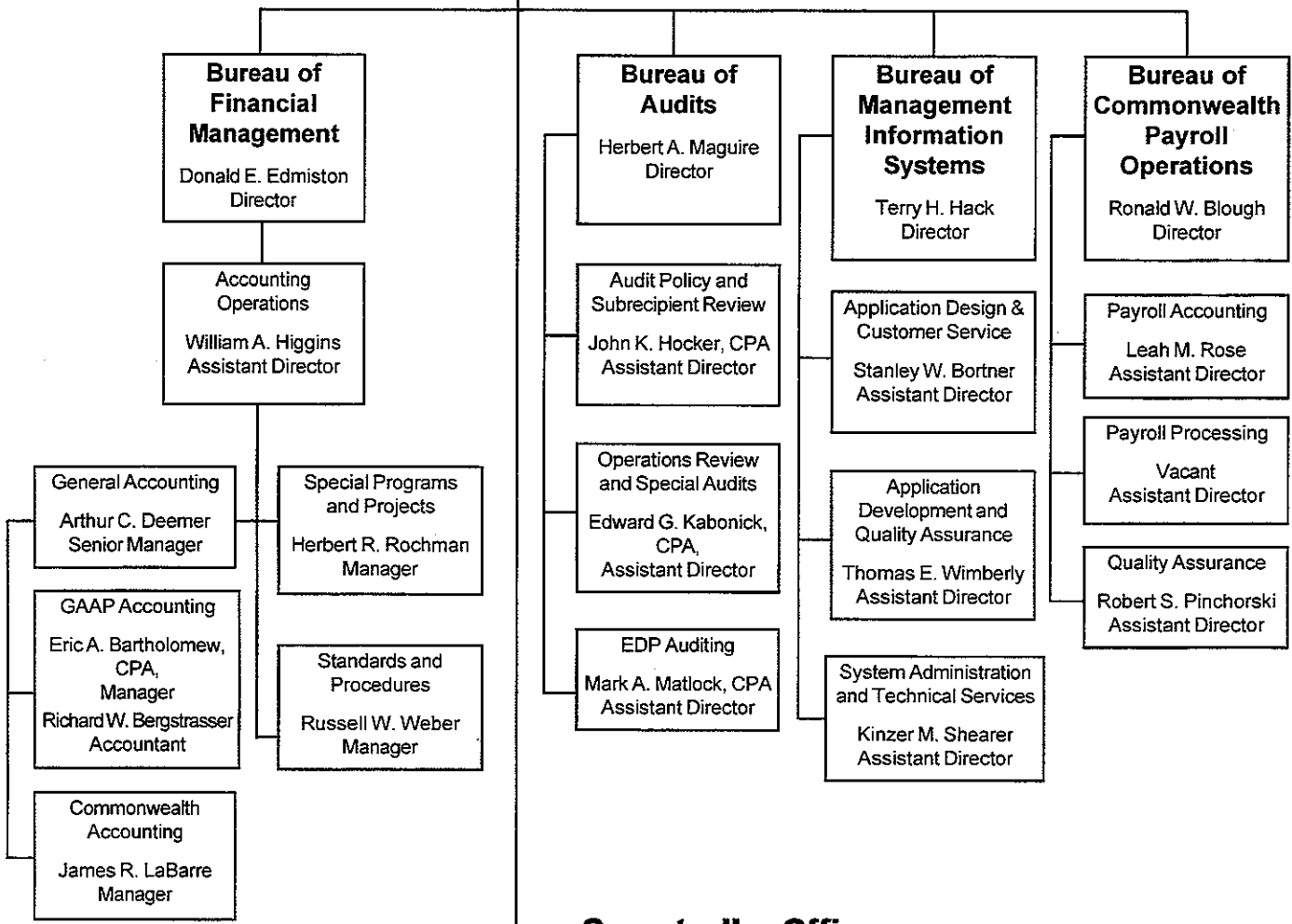
COMMONWEALTH OF PENNSYLVANIA
ORGANIZATION AND OFFICIALS CHART
JUNE 30, 1997



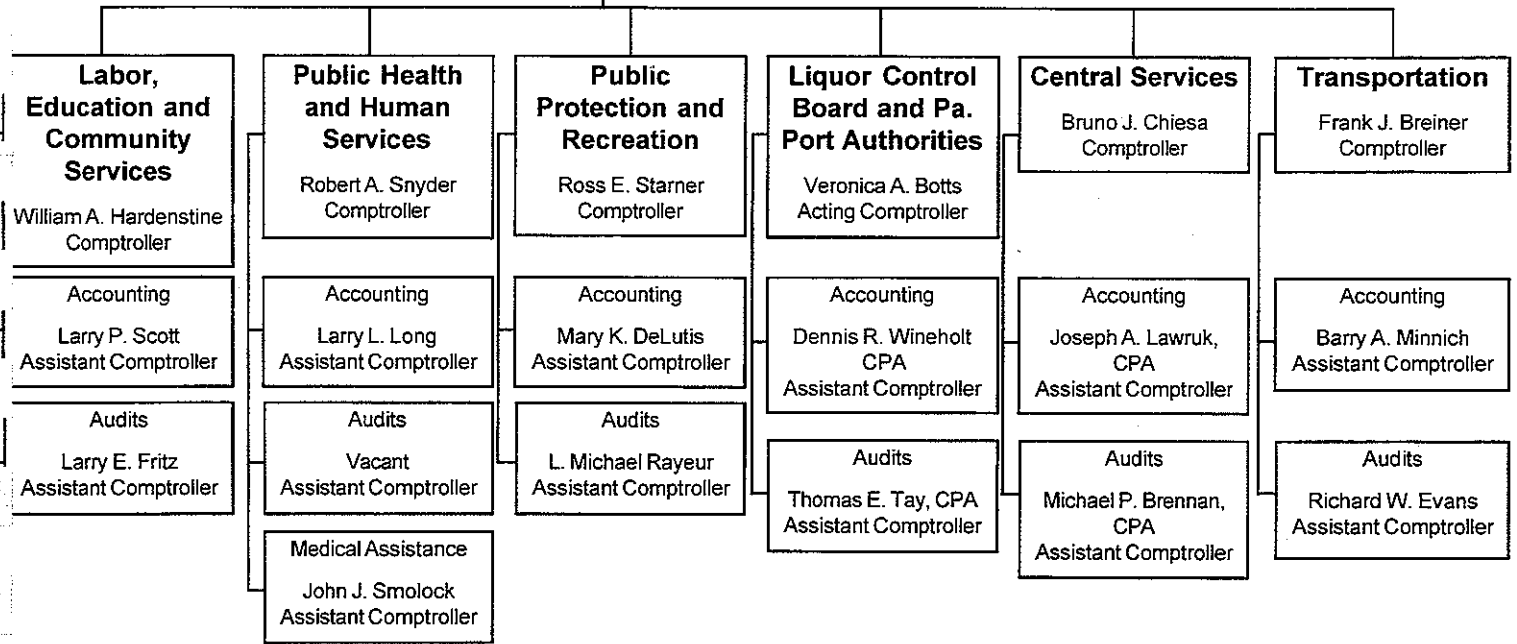
* Independently Elected

**Office of the Budget
Comptroller Operations
June 30, 1997**

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



Comptroller Offices



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Financial Section



Commonwealth of Pennsylvania



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

ERNST & YOUNG LLP

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

Independent Auditors' Report

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

We have jointly audited the general purpose financial statements of the Commonwealth of Pennsylvania (commonwealth) as of and for the fiscal year ended June 30, 1997, 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 79 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 5 percent of total revenues of the discretely presented component units.

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

As discussed in Notes F and O, the insurance loss liability of the State Workmen's Insurance Fund, an Enterprise Fund, and the Commonwealth's workers' compensation self-insurance liabilities, which are recorded in the Commonwealth's General Fund and General Long-Term Obligations Account Group, are based on actuarial analysis of historical experience adjusted to estimate the impact of Act 44 and Act 57 and changes in claims management practices adopted by Commonwealth management. These factors should be considered when evaluating the reported liabilities.

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, 1997, 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.

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 of the reports of other auditors, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

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

Robert P. Casey, Jr.

Ernst + Young LLP

November 14, 1997

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General Purpose Financial Statements



Commonwealth of Pennsylvania

COMBINED BALANCE SHEET

All Fund Types, Account Groups and Discretely Presented Component Units

June 30, 1997

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Governmental Fund Types				Proprietary Fund Types			Fiduciary Fund Type		Account Groups		Total (Memorandum Only)		Total (Memorandum Only) Reporting Entity	
	Special Revenue		Debt Service		Enterprise		Internal Service		Trust and Agency		General Fixed Assets		General Long-Term Obligations		
	3	4	3	4	3	4	3	4	3	4	3	4	3		4
ASSETS AND OTHER DEBITS															
Assets:															
Cash—Note D.....	\$ 89,708	\$ 29,369	\$ 9,721	\$ 4	\$ 7,214	\$ 683	\$ 11,236	\$ -	\$ -	\$ -	\$ -	\$ 138,217	\$ 76,636	\$ 214,853	
Cash with fiscal agents—Note D.....	-	-	-	-	-	-	2,294,681	-	-	-	-	2,304,402	-	2,328,479	
Temporary investments—Note D.....	1,690,225	1,349,539	84,801	157,422	645,006	16,999	2,192,228	-	-	-	-	6,136,220	3,370,064	9,456,284	
Long-term investments—Note D.....	-	138,193	-	-	1,303,941	-	20,460,270	-	-	-	-	21,902,404	44,673,526	66,575,930	
Receivables, net:															
Taxes—Note G.....	845,481	160,032	-	-	-	-	303,997	-	-	-	-	1,309,510	-	1,309,510	
Accounts.....	67,351	36,143	9,688	-	32,210	28	226,868	-	-	-	-	372,288	52,239	424,527	
Accrued interest.....	4,590	7,970	1,224	845	21,986	84	108,346	-	-	-	-	145,045	291,172	436,217	
Notes and loans—Note G.....	-	77,956	-	-	159,716	-	-	-	-	-	-	237,672	5,780,656	6,018,328	
License rental—Note G.....	-	-	2,352	-	-	-	-	-	-	-	-	2,352	3,014,621	3,016,973	
Pension contributions.....	-	-	-	-	-	-	-	-	-	-	-	-	329,552	329,552	
Investment proceeds.....	-	-	-	-	-	-	-	-	-	-	-	130,113	326,949	457,062	
Other.....	23,509	8,346	-	-	-	103	165	-	-	-	-	32,123	16,284	48,407	
Due from other funds—Note H.....	46,732	62,922	95	4,040	5,344	10,596	20,938	-	-	-	-	150,667	158,952	309,619	
Due from primary government—Note H.....	-	-	-	-	-	-	-	-	-	-	-	-	5,448	5,448	
Due from component units—Note H.....	3,907	58	31,780	-	-	661	7,255	-	-	-	-	43,661	138	43,799	
Due from other governments—Note B.....	1,058,890	131,230	-	-	38	293	20,678	-	-	-	-	1,211,129	51,252	1,262,381	
Advances to other funds—Note H.....	74,808	3,000	-	-	-	-	-	-	-	-	-	77,808	-	77,808	
Food stamp coupons.....	358,650	-	-	-	114,883	-	-	-	-	-	-	358,650	-	358,650	
Inventory.....	-	-	-	-	76,735	14,605	-	-	-	-	-	129,488	11,162	140,650	
Fixed assets—Note E.....	-	-	-	-	(57,524)	72,105	-	-	-	-	4,409,177	4,558,017	4,309,417	8,867,434	
Less: accumulated depreciation.....	-	-	-	-	1,026	(34,300)	-	-	-	-	-	(91,824)	(1,864,059)	(1,955,883)	
Other assets.....	4,659	-	-	-	-	84	319,618	-	-	-	-	325,387	106,909	432,296	
Other Debits:															
Amounts available in Commonwealth Funds for:															
Retirement of general obligation bonds.....	-	-	-	-	-	-	-	-	-	-	116,028	116,028	-	116,028	
Retirement of other bonds.....	-	-	-	-	-	-	-	-	-	-	-	-	46,032	46,032	
Other general long-term obligations.....	-	-	-	-	-	-	-	-	-	-	-	68,206	-	68,206	
Amounts to be provided for the retirement of:															
General obligation bonds.....	-	-	-	-	-	-	-	-	-	-	-	4,725,701	-	4,725,701	
Other bonds.....	-	-	-	-	-	-	-	-	-	-	-	-	3,043,674	3,043,674	
Other general long-term obligations.....	-	-	-	-	-	-	-	-	-	-	-	2,776,639	234	2,776,873	
TOTAL ASSETS AND OTHER DEBITS	\$ 4,268,510	\$ 2,004,758	\$ 139,664	\$ 162,311	\$ 2,310,575	\$ 81,941	\$ 26,096,393	\$ 4,409,177	\$ 7,686,574	\$ 47,159,903	\$ 63,774,935	\$ 110,934,838	\$ 110,934,838		

- See notes to financial statements. -

COMBINED BALANCE SHEET

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

June 30, 1997

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Governmental Fund Types				Fiduciary		Proprietary Fund Types			Account Groups			Total	
	General	Special Revenue	Debt Service	Capital Projects	Fund Type		Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	(Memorandum Only) Primary Government	Component Units	Total (Memorandum Only) Reporting Entity
					Enterprise	Internal Service								
LIABILITIES, EQUITY AND OTHER CREDITS														
Liabilities:														
Accounts payable and accrued liabilities.....	\$ 1,497,973	\$ 527,437	\$ 34	\$ 61,675	\$ 92,177	\$ 12,436	\$ 593,208	\$ -	\$ -	\$ -	\$ 2,784,940	\$ 394,323	\$ 3,179,263	
Investment purchases payable.....	422,519	801	-	-	-	-	563,551	-	-	-	563,551	689,470	1,253,021	
Tax refunds payable.....	-	-	9,721	-	-	-	1,514	-	-	-	424,834	-	424,834	
Matured debt principal and interest payable.....	-	-	-	-	-	-	-	-	-	-	9,721	-	9,721	
Obligations under securities lending.....	-	-	-	-	253,574	-	1,627,088	-	-	-	1,880,662	5,727,379	7,608,041	
Due to other funds—Note H.....	84,209	58,448	1,057	18	21,805	694	1,106	-	-	-	167,337	158,952	326,289	
Due to primary government—Note II.....	-	-	-	-	-	-	-	-	-	-	-	47,329	47,329	
Due to component units—Note II.....	461	4,391	-	-	-	-	-	-	-	-	4,852	138	4,990	
Due to other governments.....	516,662	22,619	-	754	542	41	676,257	-	-	-	1,216,875	12,447	1,229,322	
Deferred revenue.....	380,887	26,513	12,040	-	42,690	125	-	-	-	-	462,256	3,089,235	3,551,491	
Notes payable—Note J.....	-	-	-	-	-	-	-	-	-	-	-	427,956	427,956	
Demand revenue bonds payable—Note J.....	-	-	-	-	-	-	-	-	-	-	-	696,000	696,000	
Advances from other funds—Note II.....	-	6,508	-	-	71,000	-	550	-	-	-	78,058	-	78,058	
Other liabilities.....	899	-	784	-	28,832	-	1,090,462	-	-	-	1,120,977	-	1,777,792	
Insurance loss liability—Note F.....	-	-	-	-	1,474,757	-	-	-	-	4,841,729	1,474,757	-	1,474,757	
General obligation bonds payable—Note K.....	-	-	-	-	-	-	-	-	-	-	-	-	4,841,729	
Bonds payable—Note K.....	-	-	-	-	-	-	-	-	-	-	-	-	3,089,706	
Revenue bonds payable—Note K.....	-	-	-	-	-	-	-	-	-	-	-	5,070,317	5,070,317	
Bond anticipation notes payable.....	-	15,400	-	22,500	-	-	-	-	-	-	37,900	-	37,900	
Capital lease and other general long-term obligations—Note K.....	-	-	-	-	-	-	-	-	-	-	-	-	-	
TOTAL LIABILITIES.....	2,903,610	662,117	23,636	84,947	1,985,377	13,296	4,553,737	-	2,844,845	7,686,574	2,844,845	20,406,976	38,320,270	
Equity and Other Credits:														
Contributed capital—Note II.....	-	-	-	-	202,914	9,187	-	-	-	-	212,101	1,420,453	1,632,554	
Investment in fixed assets.....	-	-	-	-	-	-	-	-	4,409,177	-	4,409,177	232,986	4,642,163	
Retained earnings:														
Reserved—Note C.....	-	-	-	-	68,053	59,458	-	-	-	-	68,053	1,385,831	1,453,884	
Unreserved.....	-	-	-	-	54,231	-	-	-	-	-	113,689	501,306	614,995	
Fund balance:														
Reserved for:														
Encumbrances.....	242,435	236,679	-	374,597	-	-	5,706	-	-	-	839,417	30,848	890,265	
Advances—Note C.....	74,808	3,000	-	-	-	-	-	-	-	-	77,808	-	77,808	
Pension benefits.....	-	-	-	-	-	-	18,492,216	-	-	-	18,492,216	39,386,330	57,878,546	
Loans receivable.....	-	77,956	-	-	-	-	-	-	-	-	77,956	31,001	108,957	
Long-term investments.....	-	138,193	-	-	-	-	191,244	-	-	-	329,437	161,683	491,120	
Endowment and similar funds.....	-	-	-	-	-	-	-	-	-	-	-	10,002	10,002	
Restricted fund balance.....	-	-	-	-	-	-	-	-	-	-	-	34,062	34,062	
Other—Note C.....	27,918	10	-	-	-	-	-	-	-	-	27,928	141,133	169,061	
Unreserved:														
Capital projects.....	-	-	-	67,846	-	-	-	-	-	-	67,846	120,075	187,921	
Debt service:														
Retirement of general obligation bonds.....	-	-	116,028	-	-	-	-	-	-	-	116,028	-	116,028	
Retirement of other bonds.....	-	-	-	-	-	-	-	-	-	-	-	46,032	46,032	
Highways.....	-	169,444	-	-	-	-	-	-	-	-	169,444	-	169,444	
Other—Note C.....	832,435	29,064	-	-	-	-	3,395	-	-	-	864,894	4,302	869,196	
Undesignated (deficit)—Note C.....	187,304	688,295	-	(365,079)	-	-	2,850,095	-	-	-	3,360,615	(138,085)	3,222,530	
TOTAL EQUITY AND OTHER CREDITS.....	1,364,900	1,342,641	116,028	77,364	325,198	68,645	21,542,656	4,409,177	-	-	29,246,609	43,367,959	72,614,568	
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS.....	\$ 4,268,510	\$ 2,004,758	\$ 139,664	\$ 162,311	\$ 2,310,575	\$ 81,941	\$ 26,096,393	\$ 4,409,177	\$ 7,686,574	\$ 47,159,903	\$ 63,774,935	\$ 110,934,838		

- See notes to financial statements. -

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

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

For the Fiscal Year Ended June 30, 1997

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Governmental Fund Types				Fiduciary Fund Type	Total (Memorandum Only)	Component Units	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	Primary Government		Reporting Entity
REVENUES:								
Taxes.....	\$ 16,502,772	\$ 1,630,274	\$ -	\$ 35,535	\$ 5,880	\$ 18,174,461	\$ -	\$ 18,174,461
Unemployment taxes.....	-	-	-	-	1,555,866	1,555,866	-	1,555,866
License and fees.....	164,189	640,240	-	-	98,703	903,132	-	903,132
Intergovernmental.....	8,469,358	1,023,250	-	6,475	63,180	9,562,263	484	9,562,747
Charges for sales and services.....	1,302,115	202,544	-	11,868	-	1,516,527	9,965	1,526,492
Investment income.....	97,323	64,304	2,454	10,523	192,827	367,431	20,031	387,462
Lottery revenues.....	-	1,722,558	-	-	-	1,722,558	-	1,722,558
Lease rental principal and interest.....	-	-	2,159	-	-	2,159	217,836	219,995
Other.....	99,702	85,003	728	-	465	185,898	9,608	195,506
TOTAL REVENUES	26,635,459	5,368,173	5,341	64,401	1,916,921	33,990,295	257,924	34,248,219
EXPENDITURES:								
Current:								
General government.....	969,809	1,497,867	-	1,070	6,755	2,475,499	-	2,475,499
Protection of persons and property.....	2,430,269	26,369	-	5,388	66,140	2,528,166	7,442	2,535,608
Public health and welfare.....	13,245,591	661,576	-	-	1,555,913	15,463,080	-	15,463,080
Public education.....	7,397,080	194	-	-	-	7,397,274	3,570	7,400,844
Conservation of natural resources.....	116,955	209,228	-	43,284	-	369,467	-	369,467
Economic development and assistance.....	244,098	20,020	-	36,192	-	300,310	35,569	335,879
Transportation.....	311,648	2,507,288	-	93,647	-	2,912,583	-	2,912,583
Capital outlay.....	9,804	33,285	-	210,669	-	253,758	230,350	484,108
Debt service:								
Principal retirement.....	-	-	437,880	-	-	437,880	64,517	502,397
Interest and fiscal charges.....	17,834	-	270,024	8	13,013	300,879	150,343	451,222
TOTAL EXPENDITURES	24,743,088	4,955,827	707,904	390,258	1,641,819	32,438,896	491,791	32,930,687
REVENUES OVER (UNDER) EXPENDITURES	1,892,371	412,346	(702,563)	(325,857)	275,102	1,551,399	(233,867)	1,317,532
OTHER FINANCING SOURCES (USES):								
Bond proceeds.....	-	3,928	-	185,701	-	189,629	165,680	555,309
Refunding bond proceeds.....	-	-	364,785	-	-	364,785	75,530	440,315
Operating transfers in—Note H.....	121,494	266,391	781,845	-	-	1,169,730	197,551	1,367,281
Operating transfers out—Note H.....	(664,252)	(435,859)	(1,129)	(149)	(15,271)	(1,116,660)	(197,551)	(1,314,211)
Operating transfers from primary government—Note H.....	-	-	-	-	-	-	35,200	35,200
Operating transfers to component units—Note H.....	(717,517)	-	-	-	-	(717,517)	-	(717,517)
Payment to refunded bond escrow agent....	-	-	(364,785)	-	-	(364,785)	(71,352)	(436,137)
Capital lease and installment purchase obligations.....	940	4,343	-	-	-	5,283	-	5,283
NET OTHER FINANCING SOURCES (USES)	(1,259,335)	(161,197)	780,716	185,552	(15,271)	(469,535)	205,058	(264,477)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES.....								
FUND BALANCES, JULY 1, 1996— NOTE C.....	633,036	251,149	78,153	(140,305)	259,831	1,081,864	(28,809)	1,053,055
RESIDUAL EQUITY TRANSFERS— NOTE H.....	635,182	1,095,604	37,875	217,669	2,790,609	4,776,939	373,850	5,150,789
FUND BALANCES JUNE 30, 1997	\$ 1,364,900	\$ 1,342,641	\$ 116,028	\$ 77,364	\$ 3,050,440	\$ 5,951,373	\$ 345,041	\$ 6,296,414

— 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, 1997

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	General Fund			Budgeted Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
State Programs:						
Taxes, net of refunds.....	\$ 15,861,900	\$ 16,418,168	\$ 556,268	\$ 1,018,228	\$ 1,053,157	\$ 34,929
Lottery receipts.....	-	-	-	906,515	928,259	21,744
Liquor store profits transfer.....	50,000	50,000	-	-	-	-
Licenses and fees.....	72,400	72,830	430	499,700	519,578	19,878
Fines, penalties and interest.....	23,400	32,017	8,617	-	-	-
Departmental services.....	1,368,487	1,368,487	-	43,589	43,589	-
Miscellaneous.....	196,800	207,539	10,739	89,252	96,298	7,046
TOTAL STATE PROGRAMS.....	17,572,987	18,149,041	576,054	2,557,284	2,640,881	83,597
Federal Programs.....	8,671,339	8,000,602	(670,737)	751,648	718,852	(12,796)
TOTAL REVENUES.....	26,244,326	26,149,643	(94,683)	3,288,932	3,359,733	70,801
EXPENDITURES:						
State Programs:						
General government.....	1,482,898	1,478,703	4,195	535,131	515,748	19,383
Protection of persons and property.....	2,118,478	2,075,663	42,815	256,085	255,330	755
Public health and welfare.....	6,341,791	6,527,011	14,780	612,936	599,288	13,648
Public education.....	7,332,775	7,325,410	7,365	1,498	1,279	219
Conservation of natural resources.....	108,935	108,855	80	-	-	-
Economic development and assistance.....	234,345	234,345	-	-	-	-
Transportation.....	297,569	285,148	12,421	1,247,165	1,245,692	1,473
TOTAL STATE PROGRAMS.....	17,916,791	17,835,135	81,656	2,652,815	2,617,357	35,478
Federal Programs.....	8,671,339	8,000,602	670,737	751,648	718,852	12,796
TOTAL EXPENDITURES.....	26,588,130	25,835,737	752,393	3,384,463	3,336,189	48,274
REVENUES OVER (UNDER) EXPENDITURES.....	(343,804)	313,906	657,710	(95,531)	23,544	119,075
OTHER FINANCING SOURCES (USES):						
Prior-year lapses.....	118,977	118,977	-	40,453	40,453	-
Transfer to Tax Stabilization Reserve Fund.....	-	(188,708)	(188,708)	-	-	-
Increase in budgeted revenues.....	576,054	-	(576,054)	80,127	-	(80,127)
NET OTHER FINANCING SOURCES.....	695,031	(69,731)	(764,762)	120,580	40,453	(80,127)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES —NOTE M.....	351,227	244,175	(107,052)	25,049	63,997	38,948
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), AS RESTATED, JULY 1, 1996 — NOTE C.....	158,503	158,503	-	285,306	285,306	-
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS) JUNE 30, 1997.....	\$ 509,730	\$ 402,678	\$ (107,052)	\$ 310,355	\$ 349,303	\$ 38,948

— See notes to financial statements. —

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS/FUND BALANCES
All Proprietary Fund Types and Discretely Presented Component Units**

For the Fiscal Year Ended June 30, 1997

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Proprietary Fund Types		Total (Memorandum Only) Primary Government	Component Units	Total (Memorandum Only) Reporting Entity
	Enterprise	Internal Service			
OPERATING REVENUES:					
Sales and services.....	\$ 1,014,901	\$ 119,030	\$ 1,133,931	\$ 813,451	\$ 1,947,382
Investment income.....	120,587	-	120,587	83,065	203,652
Interest on notes and loans.....	4,783	-	4,783	329,078	333,861
Other.....	186	35	221	15,036	15,257
TOTAL OPERATING REVENUES.....	1,140,457	119,065	1,259,522	1,240,630	2,500,152
OPERATING EXPENSES:					
Cost of sales and services.....	1,040,057	106,033	1,146,090	956,931	2,103,021
Interest expense.....	16,709	-	16,709	307,434	324,143
Depreciation.....	6,053	8,195	14,248	169,946	184,194
Provision for uncollectible accounts.....	17,851	8	17,859	26,467	44,326
Other.....	148	-	148	647	795
TOTAL OPERATING EXPENSES.....	1,080,818	114,236	1,195,054	1,461,425	2,656,479
OPERATING INCOME (LOSS).....	59,639	4,829	64,468	(220,795)	(156,327)
NONOPERATING REVENUES (EXPENSES):					
Investment income.....	5,606	859	6,465	26,194	32,659
Interest expense.....	(27)	(26)	(53)	(54,426)	(54,479)
Oil company franchise tax.....	-	-	-	42,313	42,313
Other.....	181	542	723	6,243	6,966
NONOPERATING REVENUES, NET.....	5,760	1,375	7,135	20,324	27,459
INCOME (LOSS) BEFORE OPERATING TRANSFERS AND EXTRAORDINARY ITEMS.....	65,399	6,204	71,603	(200,471)	(128,868)
OPERATING TRANSFERS:					
Operating transfers in—Note H.....	4,122	-	4,122	-	4,122
Operating transfers out—Note H.....	(57,192)	-	(57,192)	-	(57,192)
Operating transfers from primary government—Note H.....	-	-	-	283,830	283,830
OPERATING TRANSFERS, NET.....	(53,070)	-	(53,070)	283,830	230,760
INCOME BEFORE EXTRAORDINARY ITEMS.....	12,329	6,204	18,533	83,359	101,892
Extraordinary loss on early extinguishment of debt.....	-	-	-	(789)	(789)
NET INCOME.....	12,329	6,204	18,533	82,570	101,103
RETAINED EARNINGS/FUND BALANCES, JULY 1, 1996.....					
	152,665	53,254	205,919	1,804,567	2,010,486
RESIDUAL EQUITY TRANSFERS.....					
	(42,710)	-	(42,710)	-	(42,710)
RETAINED EARNINGS/FUND BALANCES, JUNE 30, 1997.....					
	<u>\$ 122,284</u>	<u>\$ 59,458</u>	<u>\$ 181,742</u>	<u>\$ 1,887,137</u>	<u>\$ 2,068,879</u>

— See notes to financial statements. —

COMBINED STATEMENT OF CASH FLOWS
All Proprietary Fund Types and
Discretely Presented Component Units

For the Fiscal Year Ended June 30, 1997

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	Proprietary Funds		Total (Memorandum Only) Primary Government	Component Units	Total (Memorandum Only) Reporting Entity
	Enterprise	Internal Service			
CASH FLOWS FROM OPERATING ACTIVITIES:					
Operating income (loss).....	\$ 59,639	\$ 4,829	\$ 64,468	\$ (220,795)	\$ (156,327)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation.....	6,053	8,195	14,248	169,946	184,194
Provision for uncollectible accounts.....	17,851	8	17,859	26,467	44,326
Nonoperating revenues.....	244	6	250	6,445	6,695
Reclassification of investment income.....	(120,587)	-	(120,587)	(83,065)	(203,652)
Changes in assets and liabilities:					
(Increase) decrease in receivables.....	100,857	16	100,873	(740,425)	(639,552)
(Increase) decrease in due from other funds.....	(539)	(715)	(1,254)	172	(1,082)
Increase in due from primary government.....	-	-	-	(23)	(23)
(Increase) decrease in due from component units.....	-	159	159	(138)	21
(Increase) decrease in due from other governments.....	(30)	(153)	(183)	9,805	9,622
(Increase) decrease in inventory.....	(9,593)	496	(9,097)	84	(9,013)
(Increase) decrease in other current assets.....	(143)	828	685	599	1,284
Increase (decrease) in accounts payable and accrued liabilities.....	1,851	(806)	1,045	36,016	37,061
Decrease in due to other funds.....	(3,205)	(331)	(3,536)	(172)	(3,708)
Decrease in due to primary government.....	-	-	-	(3,624)	(3,624)
Increase in due to component units.....	-	-	-	138	138
Increase (decrease) in due to other governments.....	16	6	22	(4,362)	(4,340)
Increase (decrease) in deferred revenue.....	(26,812)	125	(26,687)	2,911	(23,776)
Increase in insurance loss liability.....	11,456	-	11,456	-	11,456
Increase in obligations under securities lending.....	253,574	-	253,574	-	253,574
Increase (decrease) in other current liabilities.....	(15,533)	-	(15,533)	18,005	2,472
TOTAL ADJUSTMENTS.....	215,460	7,834	223,294	(561,221)	(337,927)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	275,099	12,663	287,762	(782,016)	(494,254)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Net borrowings under advances from other funds.....	3,000	-	3,000	-	3,000
Proceeds from issuance of debt obligations.....	-	-	-	605,858	605,858
Principal paid on debt obligations.....	(356)	(1,410)	(1,766)	(354,807)	(356,573)
Interest paid on debt obligations.....	(27)	(24)	(51)	-	(51)
Operating transfers in.....	4,122	-	4,122	-	4,122
Operating transfers from primary government.....	-	-	-	283,830	283,830
Operating transfers out.....	(57,192)	-	(57,192)	-	(57,192)
Increase in contributed capital.....	3,973	-	3,973	-	3,973
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES.....	(46,480)	(1,434)	(47,914)	534,881	486,967
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Principal paid on debt obligations.....	-	-	-	(27,334)	(27,334)
Interest paid on debt obligations.....	-	(2)	(2)	(54,426)	(54,428)
Increases in contributed capital.....	56,568	-	56,568	233,967	290,535
Decreases in contributed capital.....	(176,847)	(32)	(176,879)	(113,401)	(290,280)
Acquisition and construction of capital assets.....	(4,568)	(13,403)	(17,971)	(189,350)	(207,321)
Proceeds from sale of capital assets.....	-	2,670	2,670	-	2,670
Oil company franchise tax.....	-	-	-	42,313	42,313
Residual equity transfer in.....	119	-	119	-	119
Residual equity transfer out.....	(42,829)	-	(42,829)	-	(42,829)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....	(167,557)	(10,767)	(178,324)	(108,231)	(286,555)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of investments.....	(2,763,190)	(67,149)	(2,830,339)	(17,465,126)	(20,295,465)
Proceeds from sale of maturities of investments.....	2,573,212	66,226	2,641,438	17,679,058	20,320,496
Investment income.....	126,193	859	127,052	109,259	236,311
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	(61,785)	(64)	(61,849)	323,191	261,342
NET INCREASE (DECREASE) IN CASH.....	(723)	398	(325)	(32,175)	(32,500)
CASH, JULY 1, 1996.....	7,937	285	8,222	98,780	107,002
CASH, JUNE 30, 1997.....	\$ 7,214	\$ 683	\$ 7,897	\$ 66,605	\$ 74,502

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

— See notes to financial statements. —

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS**Pension Trust Fund***For the Fiscal Year Ended December 31, 1996***COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	<u>State Employees' Retirement System</u>
ADDITIONS:	
Net appreciation in fair value of investments.....	\$ 1,915,391
Pension contributions.....	583,483
Investment income.....	593,939
TOTAL ADDITIONS	<u>3,092,813</u>
DEDUCTIONS:	
Benefit payments.....	918,218
Refunds of contributions.....	10,126
Administrative expenses.....	15,062
TOTAL DEDUCTIONS	<u>943,406</u>
Net increase.....	2,149,407
Fund balance reserved for pension benefits:	
JANUARY 1, 1996, AS RESTATED - NOTE C.....	16,342,809
DECEMBER 31, 1996.....	<u>\$ 18,492,216</u>

— See notes to financial statements. —

COMBINED BALANCE SHEET
Discretely Presented Component Units

June 30, 1997

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Governmental Funds	Proprietary Funds	Fiduciary Fund - Note I	College and University Funds	Total (Memorandum Only) Component Units
ASSETS AND OTHER DEBITS					
Assets:					
Cash—Note D.....	\$ 675	\$ 42,882	\$ -	\$ 33,079	\$ 76,636
Cash with fiscal agents—Note D.....	354	23,723	-	-	24,077
Temporary investments—Note D.....	214,682	1,973,160	970,791	161,431	3,320,064
Long-term investments—Note D.....	161,683	144,666	44,023,027	344,150	44,673,526
Receivable, net:					
Accounts.....	10	17,926	-	34,303	52,239
Accrued interest.....	2,155	78,409	210,608	-	291,172
Notes and loans—Note G.....	3,992	5,747,892	-	28,772	5,780,656
Lease rental—Note G.....	2,999,912	14,709	-	-	3,014,621
Pension contributions.....	-	-	329,552	-	329,552
Investment proceeds.....	-	-	326,949	-	326,949
Other.....	-	-	10,241	6,043	16,284
Due from other funds—Note H.....	-	-	-	158,952	158,952
Due from primary government—Note H.....	338	4,054	1,056	-	5,448
Due from component units.....	-	138	-	-	138
Due from other governments—Note B.....	186	51,050	16	-	51,252
Inventory.....	-	6,591	-	4,571	11,162
Fixed assets—Note E.....	-	3,468,364	14,894	826,159	4,309,417
Less: accumulated depreciation.....	-	(1,594,134)	(9,311)	(260,614)	(1,864,059)
Other assets.....	27	70,276	-	36,606	106,909
Other Debits:					
Amounts available for retirement of other bonds.....	46,032	-	-	-	46,032
Amounts to be provided for the retirement of:					
Other bonds.....	3,043,674	-	-	-	3,043,674
Other general long-term obligations.....	234	-	-	-	234
TOTAL ASSETS AND OTHER DEBITS	\$ 6,473,954	\$ 10,049,706	\$ 45,877,823	\$ 1,373,452	\$ 63,774,935
LIABILITIES, EQUITY AND OTHER CREDITS					
Liabilities:					
Accounts payable and accrued liabilities.....	\$ 3,780	\$ 203,077	\$ 68,153	\$ 119,313	\$ 394,323
Investment purchases payable.....	-	-	689,470	-	689,470
Obligations under securities lending.....	-	-	5,727,379	-	5,727,379
Due to other funds—Note H.....	-	-	-	158,952	158,952
Due to primary government—Note H.....	-	35,303	6,149	5,877	47,329
Due to component units.....	-	138	-	-	138
Due to other governments.....	98	12,349	-	-	12,447
Deferred revenue.....	3,000,155	53,994	342	34,744	3,089,235
Notes payable—Note J.....	34,785	393,171	-	-	427,956
Demand revenue bonds payable—Note J.....	-	696,000	-	-	696,000
Other liabilities.....	155	277,767	-	378,893	656,815
Bonds payable—Note K.....	3,089,706	-	-	-	3,089,706
Revenue bonds payable—Note K.....	-	5,070,317	-	-	5,070,317
Capital lease obligations—Note K.....	234	-	-	346,675	346,909
TOTAL LIABILITIES	6,128,913	6,742,116	6,491,493	1,044,454	20,406,976
Equity and Other Credits:					
Contributed capital—Note H.....	-	1,420,453	-	-	1,420,453
Investment in fixed assets.....	-	-	-	232,986	232,986
Retained earnings:					
Reserved—Note C.....	-	1,385,831	-	-	1,385,831
Unreserved.....	-	501,306	-	-	501,306
Fund balance:					
Reserved for:					
Encumbrances.....	-	-	-	30,848	30,848
Pension benefits.....	-	-	39,386,330	-	39,386,330
Loans receivable.....	-	-	-	31,001	31,001
Long-term investments.....	161,683	-	-	-	161,683
Endowment and similar funds.....	-	-	-	10,002	10,002
Restricted fund balance.....	7,210	-	-	26,852	34,062
Other—Note C.....	-	-	-	141,133	141,133
Unreserved:					
Designated for:					
Capital projects.....	120,075	-	-	-	120,075
Debt service:					
Retirement of other bonds.....	46,032	-	-	-	46,032
Other.....	4,302	-	-	-	4,302
Undesignated (deficit)—Note C.....	5,739	-	-	(143,824)	(138,085)
TOTAL EQUITY AND OTHER CREDITS	345,041	3,307,590	39,386,330	328,998	43,367,959
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS	\$ 6,473,954	\$ 10,049,706	\$ 45,877,823	\$ 1,373,452	\$ 63,774,935

— See notes to financial statements. —

COMBINING BALANCE SHEET

Governmental Funds - Discretely Presented Component Units

June 30, 1997

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	State Public School Building Authority	Ben Franklin/ IRC Partnership	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority	Total
ASSETS AND OTHER DEBITS					
Assets:					
Cash—Note D.....	\$ 81	\$ 1	\$ 1	\$ 592	\$ 675
Cash with fiscal agents.....	-	-	354	-	354
Temporary investments—Note D.....	54,182	1,935	5,590	152,975	214,682
Long-term investments—Note D.....	23,549	-	-	138,134	161,683
Receivables, net:					
Accounts.....	10	-	-	-	10
Accrued interest.....	380	24	-	1,751	2,155
Notes and loans—Note G.....	3,992	-	-	-	3,992
Lease rental—Note G.....	315,202	-	-	2,684,710	2,999,912
Due from primary government—Note H.....	-	338	-	-	338
Due from other governments.....	-	-	186	-	186
Other assets.....	-	-	27	-	27
Other Debits:					
Amounts available for retirement of other bonds.....	801	-	-	45,231	46,032
Amounts to be provided for the retirement of:					
Other bonds.....	315,202	-	-	2,728,472	3,043,674
Other general long-term obligations.....	234	-	-	-	234
TOTAL ASSETS AND OTHER DEBITS	\$ 713,633	\$ 2,298	\$ 6,158	\$ 5,751,865	\$ 6,473,954
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities.....	\$ 1,973	\$ 487	\$ 1,276	\$ 44	\$ 3,780
Due to other governments.....	-	98	-	-	98
Deferred revenue.....	315,202	-	-	2,684,953	3,000,155
Notes payable—Note J.....	34,785	-	-	-	34,785
Other liabilities.....	155	-	-	-	155
Bonds payable—Note K.....	316,003	-	-	2,773,703	3,089,706
Capital lease and other general long-term obligations.....	234	-	-	-	234
TOTAL LIABILITIES	668,352	585	1,276	5,458,700	6,128,913
Fund Balance:					
Reserved for:					
Long-term investments.....	23,549	-	-	138,134	161,683
Restricted fund balance.....	2,089	-	-	5,121	7,210
Unreserved:					
Designated for:					
Capital projects.....	15,396	-	-	104,679	120,075
Debt service:					
Retirement of other bonds.....	801	-	-	45,231	46,032
Other.....	-	-	4,302	-	4,302
Undesignated.....	3,446	1,713	580	-	5,739
TOTAL FUND BALANCES	45,281	1,713	4,882	293,165	345,041
TOTAL LIABILITIES AND FUND BALANCES	\$ 713,633	\$ 2,298	\$ 6,158	\$ 5,751,865	\$ 6,473,954

— 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, 1997

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	State Public School Building Authority	Ben Franklin/ IRC Partnership	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority	Total
REVENUES:					
Intergovernmental.....	\$ -	\$ 484	\$ -	\$ -	\$ 484
Charges for sales and services.....	1,023	-	7,927	1,015	9,965
Investment income.....	5,021	348	346	14,316	20,031
Lease rental principal and interest.....	35,872	-	-	181,964	217,836
Other.....	1,252	-	115	8,241	9,608
TOTAL REVENUES	43,168	832	8,388	205,536	257,924
EXPENDITURES:					
Protection of persons and property.....	-	-	7,442	-	7,442
Public education.....	1,834	-	-	1,736	3,570
Economic development and assistance.....	-	35,569	-	-	35,569
Capital outlay.....	22,166	-	-	208,184	230,350
Debt service:					
Principal retirement.....	21,824	-	-	42,693	64,517
Interest and fiscal charges.....	16,713	-	-	133,630	150,343
TOTAL EXPENDITURES	62,537	35,569	7,442	386,243	491,791
REVENUES OVER (UNDER) EXPENDITURES	(19,369)	(34,737)	946	(180,707)	(233,867)
OTHER FINANCING SOURCES (USES):					
Bond proceeds.....	2,700	-	-	162,980	165,680
Refunding bond proceeds.....	9,730	-	-	65,800	75,530
Operating transfers in—Note H.....	34,433	-	-	163,118	197,551
Operating transfers out—Note H.....	(34,433)	-	-	(163,118)	(197,551)
Operating transfer from primary government—Note H.....	-	35,200	-	-	35,200
Payment to refunded bond escrow agent.....	(9,362)	-	-	(61,990)	(71,352)
NET OTHER FINANCING SOURCES	3,068	35,200	-	166,790	205,058
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(16,301)	463	946	(13,917)	(28,809)
FUND BALANCES, JULY 1, 1996	61,582	1,250	3,936	307,082	373,850
FUND BALANCES, JUNE 30, 1997	\$ 45,281	\$ 1,713	\$ 4,882	\$ 293,165	\$ 345,041

— See notes to financial statements. —

COMBINING BALANCE SHEET
Proprietary Funds - Discretely Presented Component Units

June 30, 1997

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Pennsylvania Turnpike Commission (May 31, 1997)	Pennsylvania Industrial Development Authority	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	Total
ASSETS						
Cash—Note D.....	\$ 34,883	\$ 3,001	\$ -	\$ 4,390	\$ 608	\$ 42,882
Cash with fiscal agents—Note D.....	-	2,410	-	19,452	1,861	23,723
Temporary investments—Note D.....	604,923	99,870	562,739	525,661	179,967	1,973,160
Long-term investments—Note D.....	-	58,957	74,257	11,452	-	144,666
Receivables, net:						
Accounts.....	8,688	-	-	9,238	-	17,926
Accrued interest.....	1,436	3,147	-	71,571	2,255	78,409
Notes and loans—Note G.....	-	661,994	2,482,534	1,582,004	1,021,360	5,747,892
Lease rental—Note G.....	-	14,709	-	-	-	14,709
Due from primary government—Note H.....	4,054	-	-	-	-	4,054
Due from component units—Note H.....	-	-	100	-	38	138
Due from other governments—Note B.....	-	-	-	50,952	98	51,050
Inventory.....	6,591	-	-	-	-	6,591
Fixed assets—Note E.....	3,308,818	-	7,183	152,131	232	3,468,364
Less: accumulated depreciation.....	(1,534,859)	-	(3,502)	(55,596)	(177)	(1,594,134)
Other assets.....	16,434	12,211	12,106	17,700	11,825	70,276
TOTAL ASSETS	\$ 2,450,968	\$ 856,299	\$ 3,135,417	\$ 2,388,955	\$ 1,218,067	\$ 10,049,706
LIABILITIES AND EQUITY						
Liabilities:						
Accounts payable and accrued liabilities.....	\$ 77,911	\$ 697	\$ 53,330	\$ 67,005	\$ 4,134	\$ 203,077
Due to primary government—Note H.....	3,330	1	36	149	31,787	35,303
Due to component units—Note H.....	-	-	38	-	100	138
Due to other governments.....	-	-	-	12,346	3	12,349
Deferred revenue.....	-	-	-	53,994	-	53,994
Notes payable—Note J.....	-	-	13,056	380,115	-	393,171
Demand revenue bonds payable—Note J.....	-	-	-	696,000	-	696,000
Other liabilities.....	11,893	11,663	199,474	54,737	-	277,767
Revenue bonds payable—Note K.....	1,164,674	414,027	2,447,467	837,785	206,364	5,070,317
TOTAL LIABILITIES	1,257,808	426,388	2,713,401	2,102,131	242,388	6,742,116
Equity:						
Contributed capital—Note H.....	189,539	292,841	1,960	-	936,113	1,420,453
Retained earnings:						
Reserved—Note C.....	1,003,621	-	123,406	258,804	-	1,385,831
Unreserved.....	-	137,070	296,650	28,020	39,566	501,306
TOTAL EQUITY	1,193,160	429,911	422,016	286,824	975,679	3,307,590
TOTAL LIABILITIES AND EQUITY	\$ 2,450,968	\$ 856,299	\$ 3,135,417	\$ 2,388,955	\$ 1,218,067	\$ 10,049,706

— 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, 1997

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)	Proprietary Fund Type					Total
	Pennsylvania Turnpike Commission (May 31, 1997)	Pennsylvania Industrial Development Authority	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	
OPERATING REVENUES:						
Sales and services.....	\$ 320,140	\$ -	\$ 135,636	\$ 356,234	\$ 1,441	\$ 813,451
Investment income.....	-	10,679	33,524	30,972	7,890	83,065
Interest on notes and loans.....	-	21,121	172,433	117,524	18,000	329,078
Other.....	10,250	944	3,462	299	81	15,036
TOTAL OPERATING REVENUES.....	330,390	32,744	345,055	505,029	27,412	1,240,630
OPERATING EXPENSES:						
Cost of sales and services.....	158,705	2,873	139,067	654,482	1,804	956,931
Interest expense.....	-	22,314	159,851	113,101	12,168	307,434
Depreciation.....	155,574	-	363	13,989	20	169,946
Provision for uncollectible accounts.....	-	2,145	23,133	-	1,189	26,467
Other.....	-	-	647	-	-	647
TOTAL OPERATING EXPENSES.....	314,279	27,332	323,061	781,572	15,181	1,461,425
OPERATING INCOME (LOSS).....	16,111	5,412	21,994	(276,543)	12,231	(220,795)
NONOPERATING REVENUES (EXPENSES):						
Investment income.....	26,194	-	-	-	-	26,194
Interest expense.....	(54,426)	-	-	-	-	(54,426)
Oil company franchise tax.....	42,313	-	-	-	-	42,313
Other.....	-	-	(202)	6,445	-	6,243
NONOPERATING REVENUES, NET.....	14,081	-	(202)	6,445	-	20,324
INCOME (LOSS) BEFORE OPERATING TRANSFERS AND EXTRAORDINARY ITEMS.....	30,192	5,412	21,792	(270,098)	12,231	(200,471)
OPERATING TRANSFERS:						
Operating transfers from primary government— Note H.....	-	-	3,000	280,830	-	283,830
INCOME BEFORE EXTRAORDINARY ITEMS.....	30,192	5,412	24,792	10,732	12,231	83,359
Extraordinary loss on early extinguishment of debt.....	-	-	(789)	-	-	(789)
NET INCOME.....	30,192	5,412	24,003	10,732	12,231	82,570
RETAINED EARNINGS, JULY 1, 1996.....	973,429	131,658	396,053	276,092	27,335	1,804,567
RETAINED EARNINGS, JUNE 30, 1997.....	\$ 1,003,621	\$ 137,070	\$ 420,056	\$ 286,824	\$ 39,566	\$ 1,887,137

— See notes to financial statements. —

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

For the Fiscal Year Ended June 30, 1997

COMMONWEALTH OF PENNSYLVANIA						
(Expressed in Thousands)						
	Pennsylvania Turnpike Commission (May 31, 1997)	Pennsylvania Industrial Development Authority	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	Total
CASH FLOWS FROM OPERATING ACTIVITIES:						
Operating income (loss).....	\$ 16,111	\$ 5,412	\$ 21,994	\$ (276,543)	\$ 12,231	\$ (220,795)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Depreciation.....	155,574	-	363	13,989	20	169,946
Provision for uncollectible accounts.....	-	2,145	23,133	-	1,189	26,467
Nonoperating revenues.....	-	-	-	6,445	-	6,445
Reclassification of investment income.....	-	(10,679)	(33,524)	(30,972)	(7,890)	(83,065)
Changes in assets and liabilities:						
(Increase) decrease in receivables.....	4,165	(142,044)	(333,622)	(232,029)	(36,895)	(740,425)
Decrease in due from other funds.....	-	-	98	-	74	172
Increase in due from primary government.....	(23)	-	-	-	-	(23)
Increase in due from component units.....	-	-	(100)	-	(38)	(138)
(Increase) decrease in due from other governments.....	-	-	-	(12,874)	22,679	9,805
Decrease in inventory.....	84	-	-	-	-	84
(Increase) decrease in other current assets.....	1,207	(973)	(402)	1,278	(511)	599
Increase in accounts payable and accrued liabilities.....	5,631	371	5,883	23,145	986	36,016
Decrease in due to other funds.....	-	-	(74)	-	(98)	(172)
Increase (decrease) in due to primary government.....	(746)	1	(1)	(830)	(2,048)	(3,624)
Increase in due to component units.....	-	-	38	-	100	138
Increase (decrease) in due to other governments.....	-	-	-	(4,363)	1	(4,362)
Increase in deferred revenue.....	-	-	-	2,911	-	2,911
Increase (decrease) in other current liabilities.....	(5,208)	1,935	22,078	(800)	-	18,005
TOTAL ADJUSTMENTS.....	160,684	(149,244)	(316,130)	(234,100)	(22,431)	(561,221)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	176,795	(143,832)	(294,136)	(510,643)	(10,200)	(782,016)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Proceeds from issuance of debt obligations.....	-	84,877	344,261	176,720	-	605,858
Principal paid on debt obligations.....	-	(13,064)	(209,638)	(132,105)	-	(354,807)
Operating transfers from primary government.....	-	-	3,000	280,830	-	283,830
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES.....	-	71,813	137,623	325,445	-	534,881
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Principal paid on debt obligations.....	(20,100)	-	-	-	(7,234)	(27,334)
Interest paid on debt obligations.....	(54,426)	-	-	-	-	(54,426)
Increase in contributed capital.....	9,472	178,173	-	-	46,322	233,967
Decrease in contributed capital.....	-	(111,682)	-	-	(1,719)	(113,401)
Acquisition and construction of capital assets.....	(180,276)	-	(641)	(8,405)	(28)	(189,350)
Oil company franchise tax.....	42,313	-	-	-	-	42,313
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES.....	(203,017)	66,491	(641)	(8,405)	37,341	(108,231)
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of investments.....	(659,976)	(14,186,093)	(456,349)	(1,535,041)	(627,667)	(17,465,126)
Proceeds for sale and maturities of investments.....	623,456	14,185,379	579,979	1,696,112	594,132	17,679,058
Investment income.....	26,194	10,679	33,524	30,972	7,890	109,259
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	(10,326)	9,965	157,154	192,043	(25,645)	323,191
NET INCREASE (DECREASE) IN CASH.....	(36,548)	4,437	-	(1,560)	1,496	(32,175)
CASH, JULY 1, 1996.....	71,431	974	-	25,402	973	98,780
CASH, JUNE 30, 1997.....	\$ 34,883	\$ 5,411	\$ -	\$ 23,842	\$ 2,469	\$ 66,605

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

— See notes to financial statements. —

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS

Pension Trust Fund - Discretely Presented Component Unit

For the Fiscal Year Ended June 30, 1997

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Public School Employees' Retirement System		
	Pension	Postemployment Healthcare	Total
ADDITIONS:			
Net appreciation (depreciation) in fair value of investments.....	\$ 4,862,629	\$ (393)	\$ 4,862,236
Pension contributions.....	1,261,781	48,394	1,310,175
Investment income.....	1,280,892	3,802	1,284,694
TOTAL ADDITIONS	7,405,302	51,803	7,457,105
DEDUCTIONS:			
Benefit payments.....	1,719,494	27,623	1,747,117
Refunds of contributions.....	17,296	-	17,296
Administrative expenses.....	23,370	599	23,969
Net account transfers.....	12,074	-	12,074
TOTAL DEDUCTIONS	1,772,234	28,222	1,800,456
Net increase.....	5,633,068	23,581	5,656,649
Fund balance reserved for pension and postemployment healthcare benefits:			
JULY 1, 1996.....	33,662,460	67,221	33,729,681
JUNE 30, 1997.....	\$ 39,295,528	\$ 90,802	\$ 39,386,330

— See notes to financial statements. —

COMBINING BALANCE SHEET

College and University Funds - Discretely Presented Component Unit

June 30, 1997

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds			Agency Funds	Component Units	Total
	Unrestricted	Restricted			Unexpended	Renewal and Replacement	Retirement of Indebtedness				Investment in Plant
ASSETS:										
Cash—Note D.....	\$ 10,740	\$ -	\$ -	\$ -	\$ 7,930	\$ -	\$ -	\$ -	\$ 8,613	\$ 33,079
Temporary investments—Note D.....	136,083	-	-	-	25,348	-	-	-	-	161,431
Long-term investments—Note D.....	201,962	308	-	6,920	1,500	-	128,351	-	5,109	344,150
Receivables, net:										
Accounts.....	20,123	8,976	-	-	200	2,350	133	-	2,415	34,303
Notes and loans—Note G.....	-	-	28,772	-	-	-	-	-	-	28,772
Other.....	-	-	-	-	6,043	-	-	-	-	6,043
Due from other funds—Note H.....	-	3,811	2,345	3,082	42,029	77,943	6,434	15,783	7,505	158,952
Inventory.....	4,571	-	-	-	-	-	-	-	-	4,571
Fixed assets—Note I.....	-	-	-	-	-	-	814,900	-	-	826,159
Less: accumulated depreciation.....	-	-	-	-	-	-	(260,614)	-	-	(260,614)
Other assets.....	19,207	16	-	-	293	129	7,577	-	9,384	36,606
TOTAL ASSETS	\$ 392,686	\$ 13,111	\$ 31,117	\$ 10,002	\$ 83,343	\$ 80,422	\$ 148,311	\$ 15,889	\$ 44,285	\$ 1,373,452

LIABILITIES AND FUND EQUITY

Liabilities:										
Accounts payable and accrued liabilities.....	\$ 88,974	\$ 1,814	\$ -	\$ -	\$ 6,762	\$ 5,682	\$ -	\$ 217	\$ 15,864	\$ 119,313
Due to other funds—Note H.....	156,407	-	-	-	-	-	2,545	-	-	158,952
Due to primary government—Note H.....	5,877	-	-	-	-	-	-	-	-	5,877
Deferred revenue.....	34,744	-	-	-	-	-	-	-	-	34,744
Other liabilities.....	358,709	-	116	-	-	-	1,203	15,672	-	378,893
Capital lease obligations—Note K.....	-	-	-	-	21,588	-	9,525	-	-	346,675
TOTAL LIABILITIES	644,711	1,814	116	-	28,350	5,682	10,728	15,889	15,864	1,044,454
Fund Equity:										
Investment in fixed assets.....	-	-	-	-	-	-	-	232,986	-	232,986
Fund balance:										
Reserved for:										
Encumbrances.....	9,715	1,566	-	-	10,547	9,003	-	-	17	30,848
Loans receivable.....	-	-	31,001	-	-	-	-	-	-	31,001
Endowment and similar funds.....	-	-	-	10,002	-	-	-	-	-	10,002
Restricted fund balance.....	-	9,731	-	-	1,445	13,941	1,735	-	-	26,852
Other—Note C.....	96,969	-	-	-	14,218	17,934	1,711	-	10,301	141,133
Unreserved:										
Undesignated (deficit)—Note C.....	(358,709)	-	-	-	28,783	33,862	134,137	-	18,103	(143,824)
TOTAL FUND EQUITY (DEFICIT)	(252,025)	11,297	31,001	10,002	54,993	74,740	137,583	232,986	28,421	328,998
TOTAL LIABILITIES AND FUND EQUITY	\$ 392,686	\$ 13,111	\$ 31,117	\$ 10,002	\$ 83,343	\$ 80,422	\$ 148,311	\$ 15,889	\$ 44,285	\$ 1,373,452

- 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, 1997

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds				Component Units	Total	
	Unrestricted	Restricted			Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant			Total
REVENUES AND OTHER ADDITIONS:											
Unrestricted current funds.....	\$ 444,919	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 444,919	
Gifts and bequests.....	-	3,489	-	604	-	-	1,362	1,838	-	8,834	
Grants and contracts.....	-	123,848	114	-	-	-	1,135	764	-	127,842	
Federal advances.....	-	-	947	-	-	-	-	-	-	947	
Endowment income.....	-	622	-	31	-	-	-	-	-	653	
Investment income.....	-	312	144	382	-	-	363	4,416	-	7,076	
Interest on loans receivable.....	-	-	669	-	-	-	-	-	-	669	
Expended for plant facilities—Net of disposals (including \$20,197 charged to current funds expenditures).....	-	-	-	-	-	-	-	-	-	-	
Retirement of indebtedness.....	-	-	-	-	-	-	-	-	-	-	
Other.....	126,508	283	130	324	652	353	7,241	143	45,380	182,788	
TOTAL REVENUES AND OTHER ADDITIONS	571,427	128,554	2,004	1,341	5,652	8,293	10,101	96,791	45,380	869,543	
EXPENDITURES AND OTHER DEDUCTIONS:											
Educational and general.....	798,450	126,091	-	-	-	-	-	-	-	924,541	
Auxiliary enterprises.....	117,141	262	-	-	-	-	-	-	-	117,403	
Loan cancellations.....	-	-	846	-	-	-	-	-	-	846	
Administrative and collection costs.....	-	-	447	-	-	-	-	-	-	447	
Expended for plant facilities.....	-	-	-	-	-	-	-	-	-	-	
Depreciation on plant facilities.....	-	-	-	-	4,273	435	28,746	38,952	-	72,406	
Retirement of indebtedness.....	-	-	-	-	-	-	-	39,654	-	39,654	
Interest on indebtedness.....	-	-	-	-	-	-	-	12,906	-	12,906	
Other.....	-	2,391	188	168	27	65	-	2,022	44,280	17,835	
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	915,591	128,744	1,481	168	4,300	31,241	28,746	80,628	44,280	1,235,179	
TRANSFER AND ALLOCATION AMONG FUNDS—ADDITIONS (DEDUCTIONS):											
Mandatory:											
Principal and interest.....	(13,439)	-	-	-	(502)	14,575	(634)	-	-	-	
Other.....	(363)	(167)	203	299	(100)	-	128	-	-	-	
Nonmandatory:											
Operating transfers from Primary Government—Note H.....	389,665	1,562	-	-	791	-	6,102	367	-	398,487	
Other.....	(42,669)	-	-	20	(2,314)	15,342	30,057	-	(436)	-	
TRANSFERS AND ALLOCATIONS, NET	333,194	1,395	203	319	(2,125)	29,917	35,653	367	(436)	398,487	
NET INCREASE (DECREASE) FOR THE YEAR	(10,970)	1,205	726	1,492	(773)	6,969	17,008	16,530	664	32,851	
FUND BALANCES (DEFICITS), JULY 1, 1996	(241,055)	10,092	30,275	8,510	55,766	130,614	57,732	216,456	27,757	296,147	
FUND BALANCES (DEFICITS), JUNE 30, 1997—NOTE C	(252,025)	\$ 11,297	\$ 31,001	\$ 10,002	\$ 54,993	\$ 137,583	\$ 74,740	\$ 232,986	\$ 28,421	\$ 328,998	

- 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, 1997

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Unrestricted	Restricted	Total
REVENUES:			
Tuition and fees.....	\$ 391,809	\$ -	\$ 391,809
Government grants and contracts:			
State and local.....	37	55,858	55,895
Federal.....	1,839	60,561	62,400
Private gifts, grants and contracts.....	4,020	7,217	11,237
Investment income.....	18,360	262	18,622
Endowment income.....	78	499	577
Activities of educational departments.....	8,352	-	8,352
Other sources.....	11,377	367	11,744
Auxiliary enterprises.....	135,555	-	135,555
TOTAL REVENUES	571,427	124,764	696,191
EXPENDITURES AND MANDATORY TRANSFERS:			
EXPENDITURES:			
Educational and general:			
Instruction.....	412,290	6,638	418,928
Research.....	936	2,388	3,324
Public service.....	8,877	15,223	24,100
Academic support.....	86,289	2,615	88,904
Student services.....	73,641	4,125	77,766
Operations and maintenance of plant.....	85,250	177	85,427
General institutional support.....	122,831	3,273	126,104
Student aid.....	8,336	91,652	99,988
TOTAL EDUCATIONAL AND GENERAL.....	798,450	126,091	924,541
Auxiliary enterprises.....	117,141	262	117,403
TOTAL EXPENDITURES.....	915,591	126,353	1,041,944
MANDATORY TRANSFERS:			
Principal and interest.....	13,437	-	13,437
Other.....	363	167	530
TOTAL MANDATORY TRANSFERS.....	13,800	167	13,967
TOTAL EXPENDITURES AND MANDATORY TRANSFERS.....	929,391	126,520	1,055,911
OPERATING TRANSFERS, OTHER TRANSFERS AND ADDITIONS:			
Operating transfers from Primary Government—Note H.....	389,665	1,562	391,227
Other transfers.....	(42,671)	-	(42,671)
Additions.....	-	1,399	1,399
OPERATING TRANSFERS, OTHER TRANSFERS AND ADDITIONS, NET.....	346,994	2,961	349,955
NET INCREASE (DECREASE) IN FUND BALANCES	\$ (10,970)	\$ 1,205	\$ (9,765)

— See notes to financial statements. —

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NOTES TO FINANCIAL STATEMENTS

COMMONWEALTH OF PENNSYLVANIA

NOTE A—FINANCIAL REPORTING ENTITY

Primary Government

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

Component Units

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

Blended Component Unit

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

Discretely Presented Component Units

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

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE A— Financial Reporting Entity (continued)

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 DCED.

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

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE A— Financial Reporting Entity (continued)

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 Employees' 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.

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.

NOTES TO FINANCIAL STATEMENTS

NOTE A— Financial Reporting Entity (continued)

Financial Reports

Audited financial statements for component units are available by writing to the Deputy Secretary for Comptroller Operations, Room 207 Finance Building, Harrisburg, PA 17120.

Related Organizations

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

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

Joint Venture

The Commonwealth, through its Office of Administration, created the Pennsylvania Employee Benefit Trust Fund (PEBTF) using a contractual agreement with various Commonwealth employee labor unions. The PEBTF establishes and provides Commonwealth employee health and welfare benefits. 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. Employee unions are not financially responsible for making contributions. Neither the Commonwealth nor the employee unions have an equity interest or any ongoing financial interest in the PEBTF. Aside from its obligation to make periodic, established contributions, the Commonwealth is not responsible for any obligations of the PEBTF.

Excluded Organizations

School districts, local governments and counties are considered separate, stand-alone primary governments, 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, 1996 and the State Stores Fund for its fiscal year ended June 24, 1997.

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, 1996.

Account Groups

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

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

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

College and University Funds

Account for the operations of the Office of the Chancellor and the 14 state-owned universities, which comprise the State System of Higher Education, in accordance with the accounting guidance and reporting practices outlined in the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities*, and other applicable guidance. Accordingly, the College and University Funds

NOTES TO FINANCIAL STATEMENTS

NOTE B— Summary of Significant Accounting Policies (continued)

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:

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

NOTES TO FINANCIAL STATEMENTS

NOTE B— Summary of Significant Accounting Policies (continued)

total assets) consists of contributed capital and retained earnings. Under the accrual basis of accounting, revenues are recognized in the fiscal year earned and expenses are recognized in the fiscal year incurred. Under GASB Statement 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Commonwealth has elected not to adopt the Financial Accounting Standards Board pronouncements issued after November 30, 1989.

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

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

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

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, 1997 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.

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 \$164.3 million in supplemental appropriations approved during the fiscal year ended June 30, 1997.

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 Fiscal Code, cash balances of most Commonwealth funds are pooled by the

NOTES TO FINANCIAL STATEMENTS

NOTE B— Summary of Significant Accounting Policies (continued)

Treasury Department. Cash balances are segregated by fund, but accounted for centrally for receipt and disbursement purposes. The law requires that collateral be pledged by banks and other financial institutions to guarantee the Commonwealth's cash on deposit.

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

Temporary Investments: The Fiscal Code provides the Treasury Department with investment control over most Commonwealth funds. The Treasury Department manages the Short Term Investment Pool (STIP) as a cash management and investment tool to provide safety, liquidity and income for the participating funds. Practically all individual funds which are part of primary government are participants in the STIP. The Treasury Department accounts for each participating fund's equity (considered "shares") in the STIP on a daily basis. "Share" balances of participating funds fluctuate considerably during the fiscal year, based on the timing of cash receipts and disbursements in the participating fund, and are reported as temporary investments.

Several individual funds may own direct investments in specific securities. Such investments which are expected to be realized in cash within twelve months or less are reported as temporary investments. All temporary investments are stated at cost except for investments of the State Employees' Retirement System, the Public School Employees' Retirement System and the Deferred Compensation Fund, which are stated at fair value typically using quoted market prices.

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 Public School Employees' Retirement System and the Deferred Compensation 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.

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE B— Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE B— Summary of Significant Accounting Policies (continued)

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, 1997 is presented in Note H.

New Accounting Pronouncements: The State Employees' Retirement System (SERS), a blended component unit, adopted GASB Statement 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." GASB Statement 25 requires a change in the SERS' financial statement format. The standard requires that plan investments be reported at fair value and changes required disclosures. Note C provides a restatement of SERS net plan assets based on adoption of GASB Statement 25.

Effective July 1, 1996, the Commonwealth has early adopted GASB Statement 27, "Accounting for Pensions by State and Local Governmental Employers." This standard changes the way pension liabilities are recognized and measured by the Commonwealth and changes the pension disclosures related to the SERS and the PSERS included in Note I. There is no pension liability (asset) prior to, or as a result of, implementing GASB Statement 27. There were no changes to fund equity based on adoption of GASB Statement 27.

Effective July 1, 1996, the Commonwealth has adopted GASB Statement 28, "Accounting and Financial Reporting for Securities Lending Transactions." This standard requires that securities lent and collateral received be reported as assets, with a related liability being recorded equal to the fair value of the collateral received. Identification of the few Commonwealth organizations/funds participating in the securities lending program, a description of the program and related disclosures are provided as part of Note D. There were no changes to fund equity based on adoption of GASB Statement 28.

Effective July 1, 1996, the Commonwealth has adopted GASB Statement 30, "Risk Financing Omnibus." Adoption of this standard had an immaterial effect on the amounts reported for self-insurance claim expenditures/expense and liabilities. Self-insurance disclosures are included in Note O.

Effective July 1, 1996, the Commonwealth has adopted GASB Interpretation 2, "Disclosure of Conduit Debt Obligations." Adoption of this standard had little effect on the disclosures included as part of Note K.

Effective July 1, 1996, the Commonwealth has adopted GASB Interpretation 3, "Financial Reporting for Reverse Repurchase Agreements." Adoption of this standard had an immaterial effect on the financial statements or the disclosures included as part of Note D.

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

NOTES TO FINANCIAL STATEMENTS

NOTE C—FUND BALANCE/RETAINED EARNINGS

Deficits: The Disaster Relief Fund, the Workmen's Compensation Supersedeas Fund and the Home Investment Trust Fund, Special Revenue Funds, reported fund balance deficits of \$15,551, \$941 and \$261 (amounts in thousands), respectively, at June 30, 1997.

The Capital Facilities Fund, a Capital Projects Fund, reported a deficit unreserved/undesignated fund balance of \$365,079 at June 30, 1997. In total, the Capital Facilities Fund reported a fund balance of \$6,556 at June 30, 1997. Total Capital Projects Funds reported reservations for encumbrances of \$374,597, designations for Capital Projects of \$67,846 and a deficit unreserved/undesignated fund balance of \$365,079, for a total combined fund balance of \$77,364 at June 30, 1997 (amounts in thousands).

The Catastrophic Loss Benefits Continuation Fund, an Expendable Trust Fund, reported a fund balance deficit of \$17,669 (in thousands) at June 30, 1997.

The Minority Business Development Fund, an Enterprise Fund, reported deficit retained earnings of \$31,373 (in thousands) at June 30, 1997.

The State System of Higher Education, College and University Funds, reported a current funds unrestricted fund balance deficit of \$252,025 (in thousands) at June 30, 1997.

Restatements: The unreserved/undesignated budgetary basis fund balance for the General Fund has been restated from \$156,249 at June 30, 1996 to \$158,503 at July 1, 1996 to account for \$2,254 in spending authority which was cancelled subsequent to the fiscal year ended June 30, 1996 (amounts in thousands).

The previously reported net assets of the State Employees' Retirement System, a Pension Trust Fund, have decreased from \$16,345,187 to \$16,342,809 at December 31, 1995, due to an increase in plan liabilities of \$1,906 resulting from adoption of GASB Statement 25, and the elimination of \$472 of previously reported fixed assets (amounts in thousands).

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, \$74.8 million, is applicable to a demand loan to the State Stores Fund for \$66 million, an advance to the State Workmen's Insurance Fund for \$2.3 million, both Enterprise Funds, and an advance to the Motor License Fund for \$2.2 million and the Pharmaceutical Assistance Fund for \$4.3 million, both, Special Revenue Funds. For its fiscal year ended December 31, 1996 the State Workmen's Insurance Fund has reported an advance from the General Fund in the amount of \$2 million.

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

The \$27.9 million reported as "Reserved for other" in the General Fund at June 30, 1997 pertains to \$23.5 million for other receivables and a \$4.4 million portion of the \$4.7 million in other assets.

The \$10 thousand reported as "Reserved for other" in the Special Revenue Funds at June 30, 1997 pertains to reserves for other receivables in the State Lottery Fund and the Supplemental Municipal Pension Aid Fund in the amount of \$8 thousand and \$2 thousand, respectively.

The \$141.1 million reported as "Reserved for other" in the College and University Funds, a discretely presented component unit, at June 30, 1997 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

NOTES TO FINANCIAL STATEMENTS

NOTE C—Fund Balance/Retained Earnings (continued)

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, 1997 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.....	\$ 62,647	\$
Pennsylvania Turnpike Commission .....	.....	1,003,621
Pennsylvania Higher Education Assistance Agency .....	.....	258,804
Pennsylvania Housing Finance Agency .....	.....	123,406
Other Enterprise Funds.....	5,406	.....
Total.....	<u>\$ 68,053</u>	<u>\$ 1,385,831</u>

Designations of unreserved fund balances reflect managerial plans for the future use of financial resources. At June 30, 1997 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	\$ 412,313
Restricted revenue	166,974
Continuing programs.....	117,092
Group medical and life insurance.....	64,471
Other.....	71,585
Total General Fund.....	<u>\$ 832,435</u>
Special Revenue Funds:	
Land reclamation.....	\$ 23,422
Recycling programs.....	2,354
Fishing, boating and game programs.....	1,780
Other.....	1,508
Total Special Revenue Funds	<u>\$ 29,064</u>

In addition, the Self-Insurance Guaranty Fund, an Expendable Trust Fund, reported \$3,395 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 \$4,302 thousand as "Designated—Other" for future program grants.

NOTES TO FINANCIAL STATEMENTS

NOTE D — DEPOSITS AND INVESTMENTS

Authority for deposits and investments:

The deposit and investment policies of the Treasury Department are governed by section 301, 301.1 and 505 of the Pennsylvania Fiscal Code (Act of 1929, P.L. 343, No. 176, amended November 16, 1985). Treasury deposits must be held in insured depositories approved by the Board of Finance and Revenue and must be fully collateralized. The Treasury Department may invest in direct obligations of the U.S. Treasury and U.S. Government agencies with maturities not exceeding two years; commercial paper rated "Prime One" by Moody's Investors Service or the equivalent by Standard and Poor's or Fitch Investors Service; certificates of deposit issued by Pennsylvania banks or savings and loan associations; repurchase agreements secured by Federal obligations; banker's acceptances; and up to a maximum of 10 percent of the book value of a fund's assets in any investment (other than common stock) not otherwise specifically authorized.

The Treasury Department uses a variety of sophisticated investment pools to ensure safety and maximize efficiency, liquidity and yield for Commonwealth funds. All participating funds report amounts invested in such pools as temporary and/or long-term investments; the pools themselves are not financially reported. The Treasury Department 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, 1997 (expressed in thousands).

Primary Government

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total Bank Balance</u>	<u>Carrying Amount</u>
Cash.....	\$ 41,623	\$ 45,000	\$ 10,345	\$ 96,968	\$ 138,217
Cash with fiscal agents.....	2,290,595	6,195	9,721	2,306,511	2,304,402
Certificates of deposit and related items.....	130,063	5,114	14,489	149,666	149,666

The above-listed \$149,666 in certificates of deposit and related items is reported as part of primary government temporary investments at June 30, 1997.

Discretely Presented Component Units

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total Bank Balance</u>	<u>Carrying Amount</u>
Cash.....	\$ 42,741	\$ 8,875	\$ 33,628	\$ 85,244	\$ 76,636
Cash with fiscal agents.....	2,261	.....	19,319	21,580	24,077

NOTES TO FINANCIAL STATEMENTS

NOTE D— Deposits and Investments (continued)

Investments:

The Treasury Department, other agencies in the primary government and discretely presented component units (Commonwealth) categorize investments according to the level of credit risk assumed by the Commonwealth. Category 1 includes investments that are insured, registered or held by the Commonwealth or the Commonwealth's agent in the Commonwealth's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the Commonwealth's name. Category 3 includes uninsured and unregistered investments held by the counterparty, or by its trust department or its agent, but not in the Commonwealth's name. Certain investments have not been categorized because securities are not used as evidence of the investment. These uncategorized investments include ownership interests in mutual funds 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, 1997 (expressed in thousands).

Primary Government

All primary government investments susceptible to credit risk are in Category 1, except \$4,700 in corporate bonds and notes which are in Category 2.

	Carrying Amount	Market Value
Commercial paper.....	\$ 216,841	\$ 217,596
Common and preferred stock.....	3,992,673	4,001,312
Corporate bonds and notes.....	2,292,670	2,293,267
International equities.....	1,788,407	1,788,407
International fixed income.....	474,311	474,311
Mortgage-based loans.....	187	187
Repurchase agreements.....	4,493,368	4,493,383
State and municipal obligations.....	324,052	323,899
U.S. Government obligations.....	2,343,111	2,356,258
U.S. Government agency obligations.....	642,264	640,549
Total categorized investments.....	<u>16,567,884</u>	<u>16,589,169</u>
Add investments not susceptible to credit risk categorization:		
Investments owned by the Deferred Compensation Fund at December 31, 1996:		
Mutual funds.....	388,323	388,323
Investments owned by the State Employees' Retirement System (SERS) at December 31, 1996:		
Mortgage loans.....	406,797	406,797
Mutual funds.....	5,186,740	5,186,740
Real estate.....	1,395,008	1,395,008
Securities lending collateral.....	1,436,603	1,436,603
Venture capital.....	551,805	551,805
Securities lent by SERS at December 31, 1996:		
U.S. Government securities.....	400,112	400,112
Corporate bonds and notes.....	72,063	72,063
Common and preferred stocks.....	367,414	367,414
International equities.....	506,627	506,627
International fixed income.....	156,281	156,281
Investments owned by the Statutory Liquidator Fund at June 30, 1997:		
Loans.....	828	828
Mortgage loans.....	6,837	6,837
Partnership interests.....	93	93
Subsidiaries.....	1,484	1,484
Securities lending collateral held by the Workmen's Compensation Security Trust Fund at June 30, 1997.....	190,485	190,485
Securities lending collateral held by the State Workmen's Insurance Fund at December 31, 1996.....	253,574	253,574
	<u>27,888,958</u>	<u>27,910,243</u>
Certificates of deposit and related items.....	149,666	149,666
Total temporary and long-term investments.....	<u>\$ 28,038,624</u>	<u>\$ 28,059,909</u>

The above-listed \$149,666 in certificates of deposit and related items are reported as investments at June 30, 1997, but are treated as deposits for a determination of the level of credit risk associated with them. From time to time

NOTES TO FINANCIAL STATEMENTS

NOTE D— Deposits and Investments (continued)

during the fiscal year ended June 30, 1997, the Treasury Department participated in reverse repurchase agreements; no agreements were outstanding at June 30, 1997.

The State Employees' Retirement System, a Pension Trust Fund, owns approximately 99 percent of the common and preferred stock, 85 percent of the corporate bonds and notes, 100 percent of international equities, and 50 percent of the U.S. government obligations reported in the above summary. The Treasury short-term investment pool owns 86 percent of the repurchase agreements in the above summary. There were no violations of statutory authority or contractual provisions for investments during the year ended June 30, 1997.

Financial Instruments With Off-Balance Sheet Risk

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

At December 31, 1996, the SERS had contracts maturing through December 4, 1997 to purchase or sell foreign currency as follows (expressed in thousands):

	Buy at Spot Rate	Sell at Spot Rate	Net Payable
Deutschmark.....	\$ 330,865	\$ 698,533	\$ (367,668)
French Franc.....	194,988	298,055	(103,067)
Swedish Kroner.....	.....	105,265	(105,265)
Pound Sterling.....	381,884	546,215	(164,331)
Japanese Yen.....	176,666	416,169	(239,503)
Other.....	209,564	445,536	(235,972)
	<u>\$1,293,967</u>	<u>\$2,509,773</u>	<u>\$ (1,215,806)</u>

Discretely Presented Component Units

	Carrying Amount				Market Value
	Category 1	Category 2	Category 3	Total	
Asset backed securities.....	\$	\$ 61,023	\$	\$ 61,023	\$ 61,090
Commercial paper.....	.....	116,896	.....	116,896	116,896
Common and preferred stock.....	17,802,511	126	1,924	17,804,561	17,805,180
Corporate bonds and notes.....	1,016,663	2,177	.....	1,018,840	1,019,020
Guaranteed investment contracts.....	.....	90,232	.....	90,232	90,232
International equities.....	5,976,614	.....	.....	5,976,614	5,976,614
International fixed income.....	2,131,629	.....	.....	2,131,629	2,131,629
Investment agreements.....	.....	1,334	.....	1,334	1,334
Limited partnership.....	.....	.....	69	69	44
Mortgage-backed securities.....	2,369,342	70,493	.....	2,439,835	2,440,182
Repurchase agreements.....	157,251	576,390	211,698	945,339	945,352
State and municipal obligations.....	450,606	63,061	.....	513,667	513,642
U.S. Government obligations.....	74,203	138,381	.....	212,584	228,622
U.S. Government agency obligations.....	1,139,555	216,713	408	1,356,676	1,381,803
Various short-term investments.....	288,932	.....	2,309	291,241	291,241
Total categorized investments.....	<u>\$ 31,407,306</u>	<u>\$1,336,826</u>	<u>\$ 216,408</u>	<u>32,960,540</u>	<u>33,002,881</u>

NOTES TO FINANCIAL STATEMENTS

NOTE D— Deposits and Investments (continued)

Investments not susceptible to credit risk categorization:

Investments owned by the State Public School Building Authority at June 30, 1997:		
Pennsylvania Treasury investment pool.....	33,752	33,752
Money market.....	10,175	10,175
Investments owned by the Higher Educational Facilities Authority at June 30, 1997:		
Money market.....	88,402	88,402
Investments owned by the Ben Franklin/IRC Partnership in Pennsylvania Treasury investment pool at June 30, 1997.....		
	1,935	1,939
Investments owned by the Insurance Fraud Prevention Authority in the Pennsylvania Treasury investment pool at June 30, 1997.....		
	5,591	5,591
Investments owned by the Pennsylvania Industrial Development Authority in Pennsylvania Treasury investment pool at June 30, 1997.....		
	809	809
Investments owned by the Pennsylvania Housing Finance Agency at June 30, 1997:		
Investment agreements.....	69,682	69,682
Mutual funds.....	72,339	72,339
Pennsylvania Treasury investment pool.....	3,536	3,536
Money market.....	128,073	128,073
Investments owned by the Pennsylvania Higher Education Assistance Agency at June 30, 1997:		
Guaranteed investment contracts.....	5,552	5,552
Money market.....	93,093	93,093
Investment agreements.....	100,612	100,612
Pennsylvania Treasury investment pool.....	158,014	158,014
Investments owned by the Pennsylvania Infrastructure Investment Authority at June 30, 1997:		
Pennsylvania Treasury investment pool.....	89,170	89,170
Mutual funds.....	53,041	53,041
Investments owned by the Public School Employees' Retirement System at June 30, 1997:		
Common and preferred stock.....	1,642,203	1,642,203
Corporate bonds and notes.....	19,441	19,441
Farmland investments.....	78,858	78,858
U.S. Government agency.....	1,440,420	1,440,420
International equities.....	1,198,696	1,198,696
International fixed income.....	1,235,137	1,235,137
Limited partnerships.....	41,583	41,583
Pennsylvania Treasury investment pool.....	681,859	681,859
Private placements, fixed income and equity.....	111,488	111,488
Real estate.....	1,538,364	1,538,364
Securities lending collateral.....	5,727,379	5,727,379
Venture capital.....	395,180	395,180
Investments owned by the State System of Higher Education at June 30, 1997:		
Mutual funds.....	2,049	2,049
Pooled common funds.....	5,093	5,093
Other short-term investments.....	1,524	1,524
Total temporary and long-term investments.....	<u>\$47,993,590</u>	<u>\$48,035,935</u>

The Public School Employees' Retirement System (PSERS), a Pension Trust Fund, owns approximately 100 percent of the common and preferred stock, 100 percent of the corporate bonds and notes, 100 percent of international equities, 100 percent of international fixed income, 97 percent of mortgage-backed securities, 100 percent of the real estate, and 62 percent of U.S. government agency obligations reported in the above summary. The Pennsylvania Turnpike Commission, a Proprietary Fund, owns 61 percent of the repurchase agreements in the above summary. There were no violations of statutory authority or contractual provisions for investments during the fiscal year ended June 30, 1997.

NOTES TO FINANCIAL STATEMENTS

NOTE D— Deposits and Investments (continued)

Financial Instruments with Off-Balance Sheet Risk

The Public Employees' Retirement System (PSERS) enters into a variety of financial contracts, which include options, 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.

The following table summarizes the number of open contracts, and aggregate notional or contractual amounts for the PSERS's derivative financial instruments at June 30, 1997 (dollar amounts in thousands):

	Number of contracts	Contractual amount
Futures contracts long and short	27,110	\$ 4,265,882
Foreign exchange forward and spot contracts, gross	272	2,652,174
Options—calls purchased	2,785	244,220
Options—puts purchased	72,999	473,245
Options—calls sold	14,247	657,493
Options—puts sold	5,979	526,082

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

Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or at a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise. The PSERS 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 \$4.5 billion of the equity portfolio.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. The contracts reported above primarily include forwards. The \$2,652.2 million of foreign currency contracts outstanding at June 30, 1997 consists of "buy" contracts of \$1,336.9 million, which represent the U.S. dollar equivalent of commitments to purchase foreign currency commitments, and "sell" contracts of \$1,315.2 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, 1997 is \$1,214.3 million.

NOTES TO FINANCIAL STATEMENTS

NOTE D— Deposits and Investments (continued)

Securities Lending Program

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

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

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

The program requires that the lending agent indemnify the Treasury Department for all claims, liabilities and costs resulting from the lending agent's negligence or intentional misconduct. During the fiscal year ended June 30, 1997 (December 31, 1996 for the SWIF and the SERS), there were no failures by any borrower to return securities lent or pay distributions thereon. Also, there were no losses resulting from a lending agent or borrower default and there were no Treasury Department restrictions on the amount of the loans that could be made.

At June 30, 1997 (December 31, 1996 for the SWIF and the SERS), there was no Treasury Department or participant credit risk to the borrowers because the fair value of collateral received was greater than the fair value of the securities lent, consistent with the lending agreements outstanding. The carrying amount and fair value of the securities lent are (amounts in thousands):

	<u>Carrying Amount</u>	<u>Fair Value</u>
State Workmen's Insurance	\$ 276,870	\$ 276,870
Workmen's Compensation Security Trust	188,145	188,145
State Employees' Retirement System	1,502,497	1,502,497
Public School Employees' Retirement System	6,085,807	6,085,807

Neither the State Lottery Fund nor the Statutory Liquidator Fund had outstanding lending agreements at June 30, 1997.

NOTES TO FINANCIAL STATEMENTS

NOTE E— FIXED ASSETS

A summary of fixed assets by category at June 30, 1997 is as follows (expressed in thousands):

	Primary Government			Discretely Presented Component Units		
	Enterprise Funds	Internal Service Funds	General Fixed Assets Account Group	Proprietary Funds	Fiduciary Fund	College and University Funds
Land.....	\$ 323	\$ 6	\$ 248,735	\$ 88,979	\$ -	\$ 8,918
Buildings	3,597	4,492	2,993,408	433,496	-	368,778
Improvements other than buildings	4,598	1,359	246,401	25,842	-	55,270
Machinery and equipment	68,217	66,248	547,619	197,961	14,894	352,794
Turnpike infrastructure.....	-	-	-	2,460,381	-	-
Construction in progress	-	-	373,014	261,705	-	40,399
Total.....	<u>\$ 76,735</u>	<u>\$ 72,105</u>	<u>\$ 4,409,177</u>	<u>\$ 3,468,364</u>	<u>\$ 14,894</u>	<u>\$ 826,159</u>

Changes in general fixed assets for the fiscal year ended June 30, 1997 are as follows (expressed in thousands):

	Balance June 30, 1996	Additions	Retirements	Balance June 30, 1997
Land.....	\$ 244,738	\$ 4,349	\$ 352	\$ 248,735
Buildings.....	2,907,733	88,435	2,760	2,993,408
Improvements other than buildings.....	229,565	17,246	410	246,401
Machinery and equipment.....	576,901	38,350	67,632	547,619
	3,958,937	148,380	71,154	4,036,163
Construction in progress	363,809	115,069	105,864	373,014
Total General Fixed Assets.....	<u>\$ 4,322,746</u>	<u>\$ 263,449</u>	<u>\$ 177,018</u>	<u>\$ 4,409,177</u>

Interest costs of \$12.9 million were capitalized for the Pennsylvania Turnpike Commission, a discretely presented component unit Proprietary Fund, for their fiscal year ended May 31, 1997.

The Commonwealth's initial valuation of general fixed assets was made as of June 30, 1986 including appraisal and historical cost reconstruction techniques. Subsequent to June 30, 1986 general fixed asset acquisitions are reported at cost, or for donations or confiscations at fair market value. At June 30, 1997 the amount of general fixed assets related to the initial valuation amounts to \$1,953 million.

Construction in progress included in the General Fixed Assets Account Group at June 30, 1997 is composed of the following (expressed in thousands):

	Project Authorization	Expended Through June 30, 1997		Authorization Available
		Amounts Previously Capitalized	Amounts Not Capitalized To Date	
Capital Complex Projects	\$ 588,997	\$ 191,778	\$ 55,778	\$ 341,441
Department of Corrections Institutions.....	557,733	41,921	239,621	276,191
Colleges and Universities	142,062	-	26,723	115,339
Veteran Homes and Military Armories.....	61,227	-	31,833	29,394
Department of Public Welfare Institutions	43,711	-	5,403	38,308
Other.....	41,808	-	13,656	28,152
Total.....	<u>\$1,435,538</u>	<u>\$ 233,699</u>	<u>\$ 373,014</u>	<u>\$ 828,825</u>

NOTES TO FINANCIAL STATEMENTS

NOTE F— INSURANCE LOSS LIABILITY

The reported insurance loss liability of the State Workmen's Insurance Fund (SWIF), an Enterprise Fund, is primarily based on historical claims experience. Several assumptions were used to determine the liability amount, including; 1) a 5.5 percent discount rate; 2) extensive changes in statutory benefits resulting from Act 44 in 1993 and Act 57 in 1996; and 3) changes in claims management practices. SWIF management expects that, over time, the legislative and operational changes will substantially reduce claim duration, and the utilization and cost of medical services. SWIF management does not have significant empirical data to conclusively determine the amount by which these changes will reduce the reported liability. The estimated effects of these changes were included in the annual actuarial reserve analysis through adjustments to the historic data. The uncertainty regarding whether the adjusted historic data will be supported by future claim experience, including payments, must be considered when evaluating the reported insurance loss liability.

For the two calendar years ended December 31, 1996, the following summary provides information on prior year reported insurance loss liability, incurred claims and payments, and current year reported insurance loss liability (expressed in thousands):

Year Ended December 31	Prior Year Liability	Incurred Claims		Payments		Current Year Liability
		Current	Prior	Current	Prior	
1996.....	\$1,463,301	\$ 270,942	\$ 4,807	\$ 32,656	\$ 231,637	\$1,474,757
1995.....	1,250,130	355,723	142,577	51,056	234,073	1,463,301

NOTES TO FINANCIAL STATEMENTS

NOTE G— TAXES, LOANS AND LEASE RENTAL RECEIVABLES

Taxes Receivable: Taxes receivable at June 30, 1997 consisted of the following (expressed in thousands):

	General Fund	Special Revenue Funds	Trust and Agency Funds	Total
Sales and use.....	\$ 565,954	\$ 23,370	\$	\$ 589,324
Unemployment compensation .....	.....	.....	301,234	301,234
Personal income.....	196,658	.....	.....	196,658
Corporation.....	62,175	.....	.....	62,175
Liquid fuels.....	.....	60,989	2,763	63,752
Other.....	20,694	75,673	.....	96,367
	<u>\$ 845,481</u>	<u>\$ 160,032</u>	<u>\$ 303,997</u>	<u>\$ 1,309,510</u>

Notes and Loans Receivable: Loans receivable at June 30, 1997 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.....	\$	\$	\$ 2,623,510	\$
Student loans .....	.....	.....	1,604,085	33,570
Business development loans.....	62,958	105,606	692,621	.....
Water and sewer system loans.....	21,327	.....	1,039,331	.....
Volunteer fire company loans.....	.....	71,765	.....	.....
Other notes and loans	7,353	10,094	.....	.....
	<u>91,638</u>	<u>187,465</u>	<u>5,959,547</u>	<u>33,570</u>
Less: Allowance for uncollectible accounts.....	<u>13,682</u>	<u>27,749</u>	<u>211,655</u>	<u>4,798</u>
Notes and loans receivable, net.....	<u>\$ 77,956</u>	<u>\$ 159,716</u>	<u>\$ 5,747,892</u>	<u>\$ 28,772</u>

Discretely presented component unit governmental funds reported \$3,992 thousand of loans to school districts at June 30, 1997.

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 \$3.1 million and the present value of the lease payments was \$2.4 million at June 30, 1997, the difference representing interest of \$.7 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 \$4.8 billion, the present value was \$2.9 billion and interest was \$1.9 billion at June 30, 1997. 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 \$15 million and interest of \$17 million at June 30, 1997. Minimum lease payments for the five fiscal years succeeding June 30, 1997 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
1998	\$ 748	\$ 228,345	\$ 634
1999	269	232,475	634
2000	268	234,338	634
2001	243	232,428	634
2002	243	232,480	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, 1997 is as follows (expressed in thousands):

FUND TYPE/FUND PRIMARY GOVERNMENT	DUE FROM		DUE TO	
	OTHER FUNDS	COMPONENT UNITS	OTHER FUNDS	COMPONENT UNITS
General	\$ 46.732	\$ 3.907	\$ 84.209	\$ 461
<u>Special Revenue:</u>				
State Lottery Fund	-	-	21,152	-
State Racing Fund	-	-	11,554	-
Hazardous Sites Clean-up Fund	20,643	-	226	-
Motor License Fund	4,883	57	13,796	4,391
Surface Mining Conservation and Reclamation Fund	-	-	2,562	-
Vocational Rehabilitation Fund	7	-	4,081	-
Pharmaceutical Assistance Fund	20,265	-	4	-
Agricultural Conservation Easement Fund	10,455	-	-	-
Public Transportation Assistance Fund	2,981	-	396	-
Other Funds	3,688	1	4,677	-
	<u>62.922</u>	<u>58</u>	<u>58.448</u>	<u>4.391</u>
<u>Debt Service:</u>				
Pennsylvania Infrastructure Investment Authority Redemption Fund	-	31,780	-	-
Tax Note Sinking Fund	-	-	1,057	-
Other Funds	95	-	-	-
	<u>95</u>	<u>31.780</u>	<u>1.057</u>	<u>-</u>
<u>Capital Projects:</u>				
Keystone Recreation, Park and Conservation Fund ..	3,314	-	2	-
Other Funds	726	-	16	-
	<u>4.040</u>	<u>-</u>	<u>18</u>	<u>-</u>
<u>Enterprise:</u>				
State Stores Fund	417	-	16,181	-
State Workmen's Insurance Fund	1,129	-	5,522	-
Rehabilitation Center Fund	3,798	-	32	-
Other Funds	-	-	70	-
	<u>5.344</u>	<u>-</u>	<u>21.805</u>	<u>-</u>
<u>Internal Service:</u>				
Purchasing Fund	7,615	661	613	-
Manufacturing Fund	2,981	-	81	-
	<u>10.596</u>	<u>661</u>	<u>694</u>	<u>-</u>
<u>Expendable Trust:</u>				
Unemployment Compensation Fund	2,272	222	-	-
Other Funds	-	-	63	-
	<u>2.272</u>	<u>222</u>	<u>63</u>	<u>-</u>
<u>Pension Trust:</u>				
State Employees' Retirement System	2,652	7,033	194	-
<u>Agency:</u>				
Local Sales and Use Tax Fund	6,519	-	17	-
Allegheny Regional Asset District Sales and Use Tax Fund	8,909	-	18	-
Other Funds	586	-	814	-
	<u>16.014</u>	<u>-</u>	<u>849</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	\$ 150.667	\$ 43.661	\$ 167.337	\$ 4.852

NOTES TO FINANCIAL STATEMENTS

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

DISCRETELY PRESENTED COMPONENT UNITS	DUE FROM			DUE TO		
	Other Funds	Component Units	Primary Government	Other Funds	Component Units	Primary Government
Governmental	\$ -	\$ -	\$ 338	\$ -	\$ -	\$ -
Proprietary:						
Pennsylvania Infrastructure Investment Authority	-	38	-	-	100	31,787
Pennsylvania Turnpike Commission	-	-	4,054	-	-	3,330
Other Funds	-	100	-	-	38	186
	-	138	4,054	-	138	35,303
Fiduciary:						
Public School Employees' Retirement System...	-	-	1,056	-	-	6,149
College and University	158,952	-	-	158,952	-	5,877
TOTAL DISCRETELY PRESENTED COMPONENT UNITS.....	\$ 158,952	\$ 138	\$ 5,448	\$ 158,952	\$ 138	\$ 47,329

The amount of total interfund receivables of \$358,866 thousand does not agree with total interfund payables of \$378,608 thousand at June 30, 1997 due to different fiscal year ends for certain funds included in the combined balance sheet at June 30, 1997. The amount shown for the Pennsylvania Turnpike Commission, a discretely presented proprietary fund component unit, is as of its fiscal year end of May 31, 1997. 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, 1996. The amount shown for the State Workmen's Insurance Fund, an Enterprise Fund, is as of its fiscal year end of December 31, 1996. The following presents a reconciliation of interfund accounts reported at June 30, 1997 and those amounts which would have been reported if all funds used the same fiscal year end (expressed in thousands):

Due from other funds - Combined Balance Sheet at June 30, 1997	\$ 309,619
Due from primary government - Combined Balance Sheet at June 30, 1997	5,448
Due from component units - Combined Balance Sheet at June 30, 1997	43,799
Interfund receivables — Combined Balance Sheet	358,866
Pennsylvania Turnpike Commission increase in receivables from June 1, 1997 to June 30, 1997.....	337
State Workmen's Insurance Fund decrease in receivables from January 1, 1997 through June 30, 1997	(174)
State Employees' Retirement System increase in receivables from January 1, 1997 through June 30, 1997	16,735
TOTAL INTERFUND RECEIVABLES	\$ 375,764
Due to other funds - Combined Balance Sheet at June 30, 1997	\$ 326,289
Due to primary government - Combined Balance Sheet at June 30, 1997	47,329
Due to component units - Combined Balance Sheet at June 30, 1997	4,990
Interfund payables — Combined Balance Sheet	378,608
Pennsylvania Turnpike Commission increase in payables from June 1, 1997 to June 30, 1997.....	1,559
Deferred Compensation Fund decrease in payables from January 1, 1997 through June 30, 1997	(56)
State Employees' Retirement System increase in payables from January 1, 1997 through June 30, 1997	993
State Workmen's Insurance Fund decrease in payables from January 1, 1997 through June 30, 1997	(5,340)
TOTAL INTERFUND PAYABLES	\$ 375,764

NOTES TO FINANCIAL STATEMENTS

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

At June 30, 1997 the General Fund has reported Advances to Other Funds of \$74,808. Specifically, this amount has been advanced as follows: \$66,000 to the State Stores Fund, \$2,300 to the State Workmen's Insurance Fund, both Enterprise Funds, \$2,175 to the Motor License Fund, and \$4,333 to the Pharmaceutical Assistance Fund, both Special Revenue Funds. These amounts have been reported by the respective owing Funds as Advances from Other Funds, except for the State Workmen's Insurance Fund, which has reported an advance of \$2,000 for its fiscal year ended December 31, 1996 (amounts in thousands).

At June 30, 1997 the Hazardous Sites Cleanup Fund, a Special Revenue Fund, has reported an advance to other funds of \$3,000 (in thousands). This amount was advanced to the Small Business First Fund, an Enterprise Fund, which has reported an advance from other funds of \$3,000 (in thousands).

A summary of operating transfers reported for the fiscal year ended June 30, 1997 is as follows (expressed in thousands):

PRIMARY GOVERNMENT	OPERATING TRANSFERS			
	IN	FROM COMPONENT UNITS	OUT	To COMPONENT UNITS
General.....	\$ 121,494	\$ -	\$ 664,252	\$ 717,517
Special Revenue:				
State Lottery Fund.....	82	-	249,074	-
State Racing Fund.....	-	-	11,475	-
Hazardous Sites Clean-up Fund.....	-	-	12,000	-
Motor License Fund.....	-	-	151,484	-
Fish and Game Fund.....	1,710	-	1	-
Vocational Rehabilitation Fund.....	24,458	-	-	-
Pharmaceutical Assistance Fund.....	225,000	-	-	-
Industrial Sites Clean-up Fund.....	10,000	-	-	-
Other Funds.....	5,141	-	11,825	-
	<u>266,391</u>	<u>-</u>	<u>435,859</u>	<u>-</u>
Debt Service:				
Land and Water Development Sinking Fund.....	19,025	-	-	-
Water Facilities Loan Redemption Fund.....	18,295	-	-	-
Capital Debt Fund.....	657,815	-	-	-
Pennsylvania Infrastructure Investment Authority Redemption Fund.....	26,604	-	-	-
Local Criminal Justice Sinking Fund.....	15,152	-	-	-
Nursing Home Loan Sinking Fund.....	9,414	-	-	-
Other Funds.....	35,540	-	1,129	-
	<u>781,845</u>	<u>-</u>	<u>1,129</u>	<u>-</u>
Capital Projects:				
Land and Water Development Fund.....	-	-	149	-
Enterprise:				
State Stores Fund.....	-	-	56,324	-
Small Business First Fund.....	4,122	-	868	-
	<u>4,122</u>	<u>-</u>	<u>57,192</u>	<u>-</u>
Expendable Trust:				
Catastrophic Loss Benefits Fund.....	-	-	15,271	-
TOTAL PRIMARY GOVERNMENT.....	<u>\$ 1,173,852</u>	<u>\$ -</u>	<u>\$ 1,173,852</u>	<u>\$ 717,517</u>

NOTES TO FINANCIAL STATEMENTS

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

DISCRETELY PRESENTED COMPONENT UNITS	OPERATING TRANSFERS			
	IN	FROM	OUT	TO
		PRIMARY GOVERNMENT		PRIMARY GOVERNMENT
Governmental Funds	\$ 197,551	\$ 35,200	\$ 197,551	\$ -
Proprietary:				
Pennsylvania Higher Education Assistance Agency	-	280,830	-	-
Pennsylvania Housing Finance Agency	-	3,000	-	-
	-	283,830	-	-
College and University Funds	-	398,487	-	-
TOTAL DISCRETELY PRESENTED COMPONENT UNITS	\$ 197,551	\$ 717,517	\$ 197,551	\$ -

Increases and decreases in contributed capital for proprietary fund types—primary government and discretely presented component units—during the fiscal year ended June 30, 1997 are summarized as follows (amounts in thousands):

Cash flows from noncapital financing activities:

Increases in contributed capital—primary government \$ 3,973

Cash flows from capital and related financing activities:

Increases in contributed capital—primary government 56,568
 Decrease in contributed capital—primary government (176,879)
 Increases in contributed capital—discretely presented component units 233,967
 Decreases in contributed capital—discretely presented component units (113,401)
 Net increase in contributed capital for proprietary fund types—primary
 government and discretely presented component units \$ 4,228

The following summary reconciles the above-listed net change in contributed capital to net governmental residual equity transfers in of \$92,570 and net enterprise residual equity transfers out of \$42,710 (amounts in thousands):

Net residual equity transfers	\$ (49,860)
add: general obligation bond proceeds received directly by the Volunteer Companies Loan Fund	3,928
add: other increase to the Rehabilitation Center Fund	45
less: other decrease for the Purchasing Fund	(32)
add: federal funds received by the Pennsylvania Infrastructure Investment Authority	42,394
less: program grants disbursed by the Pennsylvania Infrastructure Investment Authority	(1,719)
add: federal funds received by the Pennsylvania Turnpike Commission	9,472
Net increase in contributed capital for proprietary fund types—primary government and discretely presented component units	\$ 4,228

NOTES TO FINANCIAL STATEMENTS

NOTE I—RETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS

PENSION SYSTEMS

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

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

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

STATE EMPLOYES' RETIREMENT SYSTEM

Plan Description: The SERS is the administrator of a cost-sharing multiple-employer defined benefit retirement system established to provide pension benefits for employes of state government and certain other organizations. At December 31, 1996 there were 108 employer state agencies and other organizations participating in the SERS. The SERS provides retirement, death, and disability benefits. Retirement benefits vest after 10 years of credited service. Employes who retire at age 60 or with 35 years of service, if under age 60, are entitled to a normal (unreduced) annual retirement benefit. Members of the General Assembly and certain employes classified in hazardous duty positions can retire with full benefits at age 50.

The general annual benefit for full retirement is 2 percent of the member's high-three year average salary times years of service. Members of the legislature who were members of the SERS before March 1, 1974 are entitled to a benefit of 7.5 percent of average salary for each year of legislative service. State police troopers are entitled to an annual benefit equal to a percentage of their highest annual salary (excluding the year of retirement). The annual benefit is 75 percent of salary for 25 or more years of service and 50 percent of salary for 20-24 years of service. The Commonwealth has the authority to establish or amend benefit provisions.

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

<u>Year ended December 31</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1996	\$ 373,902	100.0
1995	376,692	102.1
1994	342,158	100.2

At December 31, 1996, there were no long-term contracts for contributions to the plan.

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

Investment Valuation: Investments are reported at fair value. United States government obligations, corporate and foreign bonds and notes, and common and preferred stocks, including collective trust fund, are generally valued based on published market prices and quotations from national security exchange are valued by the asset manager or third parties based on similar sales. Mortgage loans are valued by the asset manager using the present value of future cash flows. Real estate is primarily valued based on appraisals performed by independent appraisers or, for

NOTES TO FINANCIAL STATEMENTS

NOTE I— Retirement and Other Postemployment Benefits (continued)

properties not appraised, at the present value of the projected future net income stream. Venture capital and alternative investments are valued based on amounts established by valuation committees. Futures contracts and foreign exchange contracts, which are not reported in the statement of plan net assets, are marked-to-market daily with changes in fair value recognized as part of investment income. The investment in the Commonwealth Treasury short-term investment pool is reported at cost plus allocated interest, which approximates fair value. Collateral received under the Commonwealth Treasury securities lending program is reported at fair value.

Investment Concentration: The fair value of individual investments at December 31, 1996 that represent 5 percent or more of plan net assets are as follows (expressed in thousands):

Barclays Global Investors N.A:	
Equity Index Fund P—113,172,080 units.....	\$ 3,003,175
70/30 Enhanced U.S. Tactical Asset Allocation Fund—41,889,414 units ..	945,313

Transition Liability (Asset): There was no pension liability (asset) at or before the date of Commonwealth transition to GASB Statement 27.

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Plan Description: The PSERS is a cost-sharing multiple-employer defined benefit retirement system established to provide pension benefits for public school employees. At June 30, 1997 there were 635 participating employers, generally school districts. The PSERS provides retirement, death, disability and health care benefits. Retirement benefits vest after 10 years of credited service. Members are eligible for full monthly retirement benefits upon reaching (a) age 62 with at least one year of service, (b) age 60 with 30 or more years of service, or (c) 35 or more years of service regardless of age. Act 29 of 1994 permitted school employees with at least 30 years of credited service to retire without a reduction in benefits until June 30, 1997.

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

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

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

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

<u>Fiscal year</u> <u>Ended June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
1997	\$796,205	100.00
1996	\$860,898	100.00
1995	\$791,802	100.00

At June 30, 1997 there were no long-term contracts for contributions to the plan.

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

NOTES TO FINANCIAL STATEMENTS

NOTE I— Retirement and Other Postemployment Benefits (continued)

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

Investment Concentration: At June 30, 1997 there were no investments in any one organization that represented 5 percent or more of plan net assets.

OTHER POSTEMPLOYMENT BENEFITS

The Commonwealth funds certain health care benefits for retired employees (that meet specified length-of-service and age requirements) and their eligible dependents. These benefits are provided as a result of negotiated union contracts and through administrative policy. The Commonwealth recognizes the cost of providing these benefits as paid, which totaled \$152 million for the fiscal year ended June 30, 1997. Approximately 82,000 individuals were covered by these benefits during the fiscal year.

The Commonwealth provides several other postemployment benefits, including disability life insurance and certain benefits to beneficiaries of state police officers killed in the line of duty. The amount expended for these benefits was not material during the fiscal year ended June 30, 1997.

NOTES TO FINANCIAL STATEMENTS

NOTE J—NOTES AND DEMAND REVENUE BONDS PAYABLE

Primary Government

During the fiscal year ended June 30, 1997 the Commonwealth issued \$550 million of tax anticipation notes which matured on June 30, 1997. The \$17.8 million of interest related to the notes is shown as a debt service expenditure in the General Fund.

During the fiscal year ended June 30, 1997, the Commonwealth issued General Obligation Bond Anticipation Notes, Series 1997 A (notes), pursuant to a resolution adopted on February 18, 1997, in anticipation of the issuance of general obligation bonds of the Commonwealth. No general obligation bonds to retire the notes were issued during the 1996-97 fiscal year. The notes bear interest at varying rates, not to exceed 9 percent per annum. Bond anticipation notes outstanding at June 30, 1997 reported by the Capital Facilities Fund, a capital projects Fund, and the Disaster Relief Fund, a special revenue fund, are \$22.5 million and \$15.4 million, respectively.

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 15, 1998. 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, 1997 was 5.62 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, 1997 was \$34.8 million.

The Pennsylvania Higher Education Assistance Agency (PHEAA), a proprietary fund component unit, has reported \$696.0 million of demand revenue bonds outstanding and \$380.1 million of notes payable consisting of student loan financing of \$352.4 million, other notes and bonds payable of \$13.9 million and other lines of credit of \$13.8 million at June 30, 1997 as follows (expressed in thousands):

Demand student loan revenue bonds payable, due 2018-2027, at a weighted average interest rate of 3.83 percent at June 30, 1997.	\$ 696,000
Student loan financing notes payable, due in 1997-1998, at a weighted average rate of 5.85 percent at June 30, 1997	352,384
Other notes and bonds payable, due 1997-2009, at a weighted average interest rate of 5.78 percent at June 30, 1997	13,883
Other lines of credit, due 1997-1999, at a weighted average interest rate of 6.39 percent at June 30, 1997	<u>13,848</u>
Total	<u>\$1,076,115</u>

The note and bond indentures among other things require PHEAA to comply with various covenants including minimum parity levels as defined, student loan and investment yields, and program expenses. The demand bonds payable are subject to purchase, at par plus accrued interest, by PHEAA on demand of the bondholders upon seven days prior irrevocable written notice. Under the irrevocable letters of credit issued by the Student Loan Marketing Association, the trustee is entitled to draw an amount sufficient to pay the purchase price of the bonds delivered to it. The letters of credit are valid through May 1, 2007 and carry variable interest rates equal to the most recent 91 day Treasury bill rate plus 1.5 percent. The PHEAA is required to pay the Student Loan Marketing Association annual commitment fees ranging from 40 to 50 basis points on the stated amount of the letter of credit coverage. At June 30, 1997 total letter of credit coverage was \$726.6 million.

All student loan financing notes payable, demand student loan revenue bonds payable and student loan revenue

NOTES TO FINANCIAL STATEMENTS

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

bonds payable are collateralized by student loans and investments. At June 30, 1997, \$1.9 billion of debt is collateralized by \$1.6 billion of student loan principal and related interest receivable, and \$364.0 million of investments. The other notes and bonds payable are collateralized with operational assets. Amounts due under the lines of credit are collateralized with accounts receivable and student loans. As of June 30, 1997 the PHEAA has \$277.6 million of available credit under student loan financing arrangements and \$12.2 million available under other lines of credit.

Stated maturities of notes and bonds payable for each of the five years subsequent to June 30, 1997 and through maturity are as follows (expressed in thousands):

<u>Year of Maturity</u>	<u>Demand Student Loan Revenue Bonds Payable</u>	<u>Student Loan Financing Notes Payable</u>	<u>Other Notes and Bonds Payable</u>
1998	\$ -	\$ 352,384	\$ 6,523
1999	-	-	3,650
2000	-	-	762
2001	-	-	806
2002	-	-	537
2003-27	<u>696,000</u>	<u>-</u>	<u>1,605</u>
Total	<u>\$ 696,000</u>	<u>\$ 352,384</u>	<u>\$ 13,883</u>

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

The Pennsylvania Housing Finance Agency (PHFA), a proprietary fund component unit, maintains 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, 1997, \$4 million is owed at a range of 4.47 to 6.98 percent against the \$15 million line of credit. Total reported notes payable at June 30, 1997 for the PHFA is \$13.1 million.

NOTES TO FINANCIAL STATEMENTS

NOTE K— LONG-TERM OBLIGATIONS

Long-term obligations of the Commonwealth's primary government at June 30, 1997 and changes for the fiscal year 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, 1996	Additions	Reductions	Balance June 30, 1997
General Obligation Bonds Payable From								
Tax Revenues:								
Capital Facilities.....	1968-97	4.15-10.16%	2017	\$ 17,068,153	\$ 2,718,770	\$ 189,000	\$ 550,555	\$ 2,357,215
Disaster Relief.....	1973-89	4.91- 6.60%	2003	131,908	40,240	-	4,980	35,260
Land and Water Development.....	1969-94	4.89- 7.30%	2014	300	85,640	-	16,070	69,570
Nursing Home Loan Development.....	1979-83	6.75- 8.26%	2002	31,000	8,320	-	2,935	5,385
Project 70 Land Acquisition.....	1970	6.26%	2000	-	2,790	-	630	2,160
Volunteer Companies Loan.....	1982-97	4.89-10.75%	2017	6,000	19,790	4,000	2,185	21,605
Vietnam Conflict Veterans								
Compensation.....	1970-74	5.36- 6.11%	2003	3,000	10,715	-	2,020	8,695
Water Facilities Loan.....	1983-97	4.89- 8.26%	2017	11,500	138,410	4,000	16,100	126,310
Pennsylvania Economic Revitalization	1991-95	5.04- 6.70%	2015	14,000	79,310	-	37,410	41,900
Pennsylvania Infrastructure								
Investment Authority.....	1988-96	4.89- 6.90%	2016	297,000	285,115	-	25,560	259,555
Agricultural Conservation Easement								
Purchase.....	1991-94	5.04- 6.70%	2014	19,000	70,235	-	7,985	62,250
Local Criminal Justice.....	1992-96	5.04- 6.60%	2016	19,000	169,915	-	5,820	164,095
Keystone Recreation, Park and								
Conservation.....	1994-96	5.53- 6.60%	2016	14,000	35,670	-	1,080	34,590
Refunding Bonds.....	1988-97	5.12- 6.76%	2011	-	1,396,610	357,204	100,675	1,653,139
				<u>17,614,861</u>	<u>5,061,530</u>	<u>554,204</u>	<u>774,005</u>	<u>4,841,729</u>
Other General Long-Term Obligations								
Payable From Tax Revenues:								
Installment Purchase Obligations.....	-	-	-	-	27,170	4,533	9,678	22,025
Capital Lease Obligations.....	-	-	-	-	58,429	750	1,839	57,340
Obligations Under Master Lease								
Agreement—Equipment.....	-	-	-	-	70,515	-	25,995	44,520
Obligations Under Master Lease—								
Prison Facilities.....	-	-	-	-	733,515	-	25,960	707,555
Self-Insurance—Note O.....	-	-	-	-	1,117,904	29,509	602,665	544,748
Compensated Absences.....	-	-	-	-	540,567	275,626	238,224	577,969
Catastrophic Motor Vehicle Losses.....	-	-	-	-	171,439	39,527	44,502	166,464
Other.....	-	-	-	-	909,695	300,478	485,949	724,224
				-	<u>3,629,234</u>	<u>650,423</u>	<u>1,434,812</u>	<u>2,844,845</u>
TOTAL GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP ..				\$ 17,614,861	\$ 8,690,764	\$ 1,204,627	\$ 2,208,817	\$ 7,686,574
Long-term obligations of the discretely presented component unit organizations at June 30, 1997 (May 31, 1997 for the Pennsylvania Turnpike Commission) and changes for the fiscal year then ended are as follows (expressed in thousands):								
GOVERNMENTAL FUNDS								
Bonds Payable From Lease Rentals:								
Pennsylvania Higher Educational								
Facilities Authority.....	1969-96	2.70- 9.63%	2031		\$ 2,640,759	\$ 229,319	\$ 96,375	\$ 2,773,703
State Public School Building Authority..	1986-97	2.60- 7.88%	2017		329,965	15,977	29,939	316,003
TOTAL GOVERNMENTAL FUNDS					<u>2,970,724</u>	<u>245,296</u>	<u>126,314</u>	<u>3,089,706</u>
PROPRIETARY FUNDS								
Revenue Bonds Payable From User								
Charges:								
Pennsylvania Higher Education								
Assistance Agency.....	1984-92	3.51-11.033%	2026		837,785	-	-	837,785
Pennsylvania Housing Finance Agency..	1982-97	2.88-11.00%	2029		2,309,105	344,385	179,840	2,473,650
Pennsylvania Industrial Development								
Authority.....	1994-96	4.50- 7.00%	2014		339,300	83,175	12,955	409,520
Pennsylvania Turnpike Commission.....	1986-94	2.50-7.875%	2019		1,228,660	-	22,845	1,205,815
Pennsylvania Infrastructure Investment								
Authority.....	1990-94	3.10- 7.15%	2014		213,100	-	7,205	205,895
					<u>4,927,950</u>	<u>427,560</u>	<u>222,845</u>	<u>5,132,665</u>
Less: Bond discounts.....	-	-	-		61,218	3,113	7,494	56,837
Deferred costs of refunding.....	-	-	-		3,460	2,277	226	5,511
TOTAL PROPRIETARY FUNDS					<u>4,863,272</u>	<u>422,170</u>	<u>215,125</u>	<u>5,070,317</u>
TOTAL COMPONENT UNIT LONG-TERM OBLIGATIONS					<u>\$ 7,833,996</u>	<u>\$ 667,466</u>	<u>\$ 341,439</u>	<u>\$ 8,160,023</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.

During the fiscal year ended June 30, 1997 the Volunteer Companies Loan Fund, an Enterprise Fund, received Commonwealth general obligation bond proceeds of \$3.9 million. This amount has been reported as an addition to general long-term obligations and as an increase in contributed capital in the Volunteer Companies Loan Fund. Bond proceeds have not been reported as an "other financing source" in governmental fund types for this amount.

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, 1997 in the General Long-Term Obligations Account Group for Refunding Bonds includes \$10.4 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	\$ 422,297
Public Utility Realty Tax Act (PURTA)	157,644
Litigation—Note P	74,628
Tuition Account Program Liability	68,206
Medical Assistance Cost Settlement	1,449
	<u>\$ 724,224</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 Tuition Account Program provides for the advance purchase of tuition credits for a beneficiary attending a participating institution. 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, 1997 relating to Workmen's Compensation Claims, PURTA, Litigation, the Tuition Account Program, and Medical Assistance, 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, 1997 the Commonwealth has reported \$707.6 million as a liability under prison master lease arrangements and has reported general fixed assets for the related prison facilities.

The Commonwealth's constitutional debt limit, which allows for the incurrence of debt to be used for capital projects without electorate approval as specifically itemized in a capital budget, was \$34.3 billion as of August 31, 1997, with net debt outstanding of \$3.7 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, 1997 (May 31, 1997 for the PTC) include bond discounts of \$56.8 million.

NOTES TO FINANCIAL STATEMENTS

NOTE K— Long-Term Obligations (continued)

The Pennsylvania Higher Educational Facilities Authority and the State Public School Building Authority (SPSBA), discretely presented governmental fund component units, have bonds outstanding as of June 30, 1997 which are payable from the lease rentals of the projects financed. The lease rentals are pledged as collateral for the bonds outstanding.

At June 30, 1997 the SPSBA reported \$234 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, 1997 (May 31, 1997 for the Pennsylvania Turnpike Commission) (expressed in thousands):

	1998	1999	2000	2001	2002	2003 Through Maturity	Total
PRIMARY GOVERNMENT							
GENERAL OBLIGATION BONDS:							
Capital Facilities.....	\$ 385,071	\$ 350,679	\$ 318,367	\$ 276,781	\$ 231,195	\$ 1,792,463	\$ 3,354,556
Disaster Relief.....	6,981	6,961	6,820	6,833	6,869	6,903	41,367
Land and Water Development.....	16,447	14,696	14,506	13,565	7,926	16,151	83,291
Nursing Home Loan Development.....	1,920	1,868	643	596	549	550	6,126
Project 70 Land Acquisition.....	778	783	786	-	-	-	2,347
Volunteer Companies Loan.....	2,685	2,595	2,515	2,423	2,356	19,227	31,801
Vietnam Conflict Veterans Compensation.....	2,581	2,592	2,601	478	482	978	9,712
Water Facilities Loan	13,769	12,982	12,855	12,630	12,200	125,205	189,641
Pennsylvania Economic Revitalization..	6,822	6,654	6,494	6,323	5,393	26,485	58,171
Pennsylvania Infrastructure Investment Authority.....	28,072	27,654	26,054	24,531	23,924	260,812	391,047
Agricultural Conservation Easement Purchase	6,528	6,470	6,409	6,354	6,035	62,181	93,977
Local Criminal Justice.....	15,172	15,182	15,187	15,193	15,194	182,274	258,202
Keystone Recreation, Park and Conservation.....	3,061	3,050	3,047	3,041	3,036	41,367	56,602
Refunding Bonds.....	197,214	197,071	204,011	199,749	199,881	1,252,387	2,250,313
Total Principal and Interest.....	687,101	649,237	620,295	568,497	515,040	3,786,983	6,827,153
Less: Interest Payments.....	252,011	227,502	206,010	186,218	167,070	946,613	1,985,424
	435,090	421,735	414,285	382,279	347,970	2,840,370	4,841,729
Other General Long-Term Obligations...	304,372	172,431	122,175	116,157	114,780	2,014,930	2,844,845
TOTAL GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP	\$ 739,462	\$ 594,166	\$ 536,460	\$ 498,436	\$ 462,750	\$ 4,855,300	\$ 7,686,574
DISCRETELY PRESENTED COMPONENT UNITS							
GOVERNMENTAL FUNDS:							
Other Bonds:							
Pennsylvania Higher Educational Facilities Authority.....	\$ 197,369	\$ 201,521	\$ 203,247	\$ 201,250	\$ 200,733	\$ 3,489,171	\$ 4,493,291
State Public School Building Authority..	34,945	35,007	35,176	35,225	35,784	289,625	465,762
Total Principal and Interest.....	232,314	236,528	238,423	236,475	236,517	3,778,796	4,959,053
Less: Interest Payments	141,904	137,213	130,763	128,758	123,635	1,207,074	1,869,347
TOTAL GOVERNMENTAL FUNDS	\$ 90,410	\$ 99,315	\$ 107,660	\$ 107,717	\$ 112,882	\$ 2,571,722	\$ 3,089,706
PROPRIETARY FUNDS:							
Revenue Bonds:							
Pennsylvania Higher Education Assistance Agency	\$ 54,347	\$ 54,348	\$ 54,347	\$ 336,787	\$ 36,613	\$ 1,136,285	\$ 1,672,727
Pennsylvania Housing Finance Agency..	285,703	203,302	199,087	197,602	194,736	3,955,011	5,035,441
Pennsylvania Industrial Development Authority	38,208	42,994	43,749	43,006	42,525	412,494	622,976
Pennsylvania Turnpike Commission.....	97,503	96,894	96,965	97,371	97,416	1,645,463	2,131,612
Pennsylvania Infrastructure Investment Authority	20,994	21,739	22,418	22,797	22,778	190,640	301,366
Total Principal and Interest.....	496,755	419,277	416,566	697,563	394,068	7,339,893	9,764,122
Less: Interest Payments.....	312,727	305,814	298,975	282,299	267,578	3,164,064	4,631,457
TOTAL PROPRIETARY FUNDS	184,028	113,463	117,591	415,264	126,490	4,175,829	5,132,665
TOTAL COMPONENT UNITS	\$ 274,438	\$ 212,778	\$ 225,251	\$ 522,981	\$ 239,372	\$ 6,747,551	\$ 8,222,371

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, 1997 (expressed in thousands):

Fiscal year ending June 30	Primary Government	Discretely Presented Component Units	
	General Long-Term Obligations	Pennsylvania Higher Education Assistance Agency	College and University Funds
1998	\$ 7,137	\$ 5,583	\$ 31,575
1999	7,047	5,415	30,470
2000	6,939	5,107	29,275
2001	6,851	4,999	28,678
2002	6,743	4,885	27,960
Later years.....	87,170	58,353	487,458
Total minimum lease payments.....	121,887	84,342	635,416
Less: amount representing estimated executory costs included in total minimum lease payments.....	15,392	-	-
Net minimum lease payments	106,495	84,342	635,416
Less: amount representing interest.....	49,155	29,605	288,741
TOTAL CAPITAL LEASE OBLIGATIONS	\$ 57,340	\$ 54,737	\$ 346,675
INSTALLMENT PURCHASE OBLIGATIONS.....	\$ 22,025		

At June 30, 1997 general fixed assets included \$ 95.8 million of buildings and \$2.5 million of equipment being procured by capital leases. A total of \$38.9 million in general fixed assets is being procured by vendor-financed installment purchase arrangements.

Capital lease obligations outstanding as of June 30, 1997 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 \$40.4 million of construction in progress related to capital leases at June 30, 1997.

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, 1997, \$79.0 million in general fixed assets is being procured by these master lease arrangements.

Conduit Debt

The Pennsylvania Economic Development Financing Authority (PEDFA) finances projects on behalf of local industrial and commercial development authorities to promote economic growth within the Commonwealth. Revenue bonds issued by the PEDFA represent limited obligations payable solely from Authority financed project revenues. At June 30, 1997 the PEDFA has \$1,070.8 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.

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 \$118 million in revenue bonds outstanding at June 30, 1997. The Commonwealth has no obligation for this debt. Accordingly, neither the financed assets nor the bonds are included in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE L—REFUNDED DEBT

Primary Government

During the fiscal year ended June 30, 1997, the Commonwealth issued \$354.5 million in general obligation bonds, Refunding Series of 1997, with an average interest rate of 5.1 percent to advance refund \$336.1 million of previously issued general obligation bonds with an average interest rate of 6.45 percent. The net refunding bond proceeds of \$364.8 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 \$19.6 million and to obtain an economic gain of \$13.9 million.

At June 30, 1997, \$936 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, 1997, the State Public School Building Authority (SPSBA) and the Pennsylvania Higher Educational Facilities Authority (PHEFA), governmental fund component units, issued revenue bonds to advance and current refund \$43.1 million and \$26.5 million, respectively, of previously issued revenue bonds as follows (expressed in thousands):

Category	School Revenue Bonds Series F of 1996 Taxable School Revenue Bonds-Series G of 1996	Variable Rate Demand College Revenue Bonds Series of 1996	Adjustable Rate Tender Option Revenue Bonds Series of 1996
Issuing Authority	SPSBA	PHEFA	PHEFA
Bond Type	Revenue	Revenue	Revenue
Date Issued	9-11-96	7-1-96	7-18-96
Refunding Bonds Principal	\$9,730	\$13,990	\$16,000
Interest Rate (Refunding)	5.31%	Variable	Variable
Refunded Series	General Obligation Bonds Series A & B 1992	College Revenue Bonds PA College of Optometry Series of 1988 College Revenue Bonds 14th Series*	Revenue Bonds - Series H*
Refunded Bonds Principal	\$9,295	\$2,295 / \$540*	\$1,053*
Interest Rate (Refunded)	6.05%	8.85% / 6.79%*	6.09%*
Payment to Escrow Agent	\$9,516	\$2,479	\$3,568
Debt Service Savings (Loss)	\$330	-	-
Economic Gain (Loss)	\$316	-	\$21
Category	College Revenue Bonds Series of 1997	Bryn Mawr College Revenue Bonds Series of 1997	Drexel University Revenue Bonds Series of 1997
Issuing Authority	PHEFA	PHEFA	PHEFA
Bond Type	Revenue	Revenue	Revenue
Date Issued	2-19-97	4-29-97	5-6-97
Refunding Bonds Principal	\$15,925	\$44,335	\$44,285
Interest Rate (Refunding)	6.01%	5.62%	5.56%
Refunded Series	Revenue Bonds - Series E*	College Revenue Bonds Refunding Series of 1988* Bryn Mawr College Revenue Bonds - Series of 1989	Drexel University Revenue Bonds First Series of 1987* Drexel University Revenue Bonds Series of 1990
Refunded Bonds Principal	\$3,540*	\$6,075* / \$15,355	\$15,325* / \$16,135
Interest Rate (Refunded)	6.60%*	6.53%* / 6.69%	7.65%* / 7.28%
Payment to Escrow Agent	\$3,638	\$22,575	\$32,348
Debt Service Savings (Loss)	-	\$1,020	\$1,257
Economic Gain	-	\$877	\$1,816

* Current refunding.

NOTES TO FINANCIAL STATEMENTS

NOTE L— Refunded Debt (continued)

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

The SPSBA reported advance and current refundings in its component unit financial statements for the Beaver Area School District, which is 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 did not issue any new debt, this was not an advance refunding transaction of the SPSBA. Furthermore, there were no debt service savings nor any economic gain or loss to the SPSBA.

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, either because of the variable rate nature of the bonds, or for the College Revenue Bonds, Series of 1997, because the refunding was completed to eliminate a balloon maturity, due December 1, 1997.

At June 30, 1997, \$604.6 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 \$527.9 million for the PHEFA and \$76.7 million for the SPSBA.

During the fiscal year ended June 30, 1997, the Pennsylvania Housing Finance Agency (PHFA), a proprietary fund component unit, redeemed prior to maturity \$48.3 million of Single Family Mortgage Revenue Bonds, Series N, O, Y, Z, 1990-28, 1990-29, 1991-30, 1991-32, 1992-33, 1994-38 and 1995-45 using mortgage prepayments. In addition, the PHFA redeemed prior to maturity \$88 thousand of Single Family Mortgage Revenue Bonds, Series L, O, R and X 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 \$69.8 million and to obtain an economic gain of \$29.4 million.

At June 30, 1997, \$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, 1997, \$649 million of bonds outstanding, that were previously accounted for in the financial statements of the Pennsylvania Turnpike Commission, a proprietary fund component unit, have been defeased through refundings.

At June 30, 1997, \$173.7 million of bonds outstanding, that were previously accounted for in the financial statements of the Pennsylvania Industrial Development Authority, a proprietary fund component unit, have been defeased through refundings.

At June 30, 1997, \$86.4 million of bonds outstanding, that were previously accounted for in the financial statements of the State System of Higher Education, a college and university fund component unit, have been defeased through refundings.

NOTES TO FINANCIAL STATEMENTS

NOTE M—RECONCILIATION OF BUDGETARY AND GAAP BASIS AMOUNTS

The Commonwealth adopts formal annual budgets for the General and 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 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>
BUDGETARY BASIS:		
Budgetary basis — revenues and other sources over (under) expenditures and other uses.....	\$ 244,175	\$ 63,997
Adjustments:		
To adjust revenues, other financing sources and related receivables and deferred revenue.....	489,273	1,333,625
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	(1,998,063)	(1,545,521)
To adjust encumbrances	1,897,651	361,453
Net adjustments	<u>388,861</u>	<u>149,557</u>
NONBUDGETED FUNDS:		
GAAP basis — revenues and other sources under expenditures and other uses.....	-	37,595
TOTAL ALL FUNDS:		
GAAP basis — revenues and other sources over (under) expenditures and other uses.....	<u>\$ 633,036</u>	<u>\$ 251,149</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):

	Coal and Clay Mine Subsidence Insurance	Small Business First	State Workmen's Insurance (Dec. 31, 1996)	State Stores (June 24, 1997)	Volunteer Company Loan	Minority Business Development	Machinery and Equipment Loan	Other Enterprise Funds	Total Enterprise Funds
Operating revenues	\$ 3,448	\$ 3,126	\$ 370,085	\$ 744,466	\$ 1,697	\$ 745	\$ 1,765	\$ 15,125	\$ 1,140,457
Depreciation.....	19	-	797	4,472	-	-	-	765	6,053
Operating income (loss).....	890	101	(2,973)	61,756	1,652	(597)	647	(1,837)	59,639
Operating transfers in.....	-	4,122	-	-	-	-	-	-	4,122
Operating transfers out.....	-	868	-	56,324	-	-	-	-	57,192
Net income (loss).....	1,969	3,355	(2,973)	9,314	1,652	(597)	647	(1,038)	12,329
Increase in contributed capital.....	-	56,568	-	-	-	-	-	-	56,568
Decrease in contributed capital	-	-	-	-	-	-	-	176,847	176,847
Acquisition and construction of capital assets	52	-	330	2,680	-	-	-	1,506	4,568
Net increase (decrease) in cash	(8)	416	(347)	37	-	24	126	(971)	(723)
Total assets	20,944	63,024	1,873,654	200,957	77,269	9,728	46,661	18,338	2,310,575
Bonds and other long-term liabilities payable from operating revenues	-	-	1,474,757	-	-	-	-	-	1,474,757
Total fund equity.....	17,924	59,923	62,647	36,994	77,227	9,287	46,583	14,613	325,198
Net working capital.....	17,839	19,086	1,529,302	89,031	5,767	6,041	15,485	9,477	1,692,028

NOTES TO FINANCIAL STATEMENTS

NOTE O—SELF-INSURANCE

The Commonwealth is self-insured for statutory workers' compensation and medical payments (employee disability) for its employees injured on the job. The Commonwealth is also self-insured for annuitant medical/hospital claims and for tort liability claims. Major tort risks include automobile, employee and general torts. For property losses, the Commonwealth has 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, 1997. No settlements exceeded commercial insurance coverage during each of the past three fiscal years.

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

At June 30, 1997 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, 1997 are reported in the General Long-Term Obligations Account Group (GLTOAG). All accrued self-insurance liabilities at June 30, 1997 are summarized as follows (expressed in thousands):

	General Fund	Motor License Fund	GLTOAG	Total
Employee disability.....	\$ 79,772	\$ -	\$ 288,854	\$ 368,626
Annuitant medical/hospital.....	33,169	-	-	33,169
Automobile tort.....	3,125	-	10,506	13,631
Employee tort.....	2,533	-	18,597	21,130
General tort.....	1,336	-	33,931	35,267
Transportation.....	-	24,557	192,860	217,417
Totals.....	<u>\$ 119,935</u>	<u>\$ 24,557</u>	<u>\$ 544,748</u>	<u>\$ 689,240</u>

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

	June 30, 1996 Liability	Incurred Claims		Payments		June 30, 1997 Liability
		Current	Prior	Current	Prior	
Employee disability.....	\$ 972,551	\$ 39,406	\$(571,164)	\$ 7,393	\$ 64,774	\$ 368,626
Annuitant medical/hospital..	32,865	152,721	-	119,552	32,865	33,169
Automobile tort.....	14,475	1,711	946	830	2,671	13,631
Employee tort.....	18,435	411	3,606	-	1,322	21,130
General tort.....	35,597	409	(108)	44	587	35,267
Transportation.....	235,223	6,757	(6,829)	389	17,345	217,417
Totals.....	<u>\$ 1,309,146</u>	<u>\$ 201,415</u>	<u>\$(573,549)</u>	<u>\$ 128,208</u>	<u>\$ 119,564</u>	<u>\$ 689,240</u>

During the fiscal year ended June 30, 1997, the reported prior year liability for employee disability claims decreased by \$571,164 (in thousands) due to changes in assumptions about the number, duration and other attributes of claims incurred but not reported.

NOTES TO FINANCIAL STATEMENTS

NOTE O—Self-Insurance (continued)

The following summary provides aggregated information on June 30, 1995 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	
Employee 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
Employee tort	20,236	881	(150)	-	2,532	18,435
General tort	37,222	422	(321)	21	1,705	35,597
Transportation.....	<u>236,973</u>	<u>9,270</u>	<u>2,872</u>	<u>1,481</u>	<u>12,411</u>	<u>235,223</u>
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>

NOTE P—COMMITMENTS AND CONTINGENCIES

Construction and Other Commitments: At June 30, 1997 the Department of Transportation and at May 31, 1997 the Pennsylvania Turnpike Commission, a discretely presented component unit, have contractual commitments of approximately \$921 million and \$135.1 million, respectively, for various highway construction and mass transit projects. Financing for these future expenditures will be primarily from approved federal grants and general obligation bond proceeds. In addition, the Commonwealth has a variety of contractual and other commitments for future subsidies and purchases of goods and services for approximately \$9.7 billion at June 30, 1997. Actual expenditures are contingent upon approved spending authority and/or availability of financial resources.

Loan Commitments: At June 30, 1997 the following discretely presented component units had approved loans that had not been disbursed (amounts in millions):

Pennsylvania Housing Finance Agency	\$ 211
Pennsylvania Industrial Development Authority.....	188
Pennsylvania Infrastructure Investment Authority.....	159

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, 1997 were as follows (expressed in thousands):

Fiscal year ending June 30:

	Primary Government	Discretely Presented Component Units
1998.....	\$ 201,749	\$ 1,675
1999.....	129,032	1,663
2000.....	96,360	1,251
2001.....	58,953	1,031
2002.....	45,723	938
Later years	<u>177,445</u>	<u>1,985</u>
Total Minimum Lease Payments	<u>\$ 709,262</u>	<u>\$ 8,543</u>

Rental expenditures/expenses for all operating leases for the fiscal year ended June 30, 1997 amounted to \$444.4 million (\$441.7 million for primary government, \$2.7 million for discretely presented component units).

Litigation: The Commonwealth is a defendant in numerous legal proceedings pertaining to matters normally incidental to routine operations. Such litigation includes, but is not limited to, claims asserted against the Commonwealth arising from alleged torts, alleged breaches of contracts, condemnation proceedings and other alleged violations of Commonwealth and Federal laws. The Commonwealth has recorded accrued liabilities at June 30, 1997 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 \$74,628 thousand for which the likelihood of an unfavorable outcome is probable.

NOTES TO FINANCIAL STATEMENTS

NOTE P—Commitments and Contingencies (continued)

Additionally, the Commonwealth is currently involved over in certain legal proceedings relative to a funding equity case with a school district in the approximate amount of \$999.8 million. Other cases that the Commonwealth is currently vigorously contesting could range from approximately \$48 to \$608 million, zero to \$188 million, \$1 to \$28 million, and zero to \$1.1 billion of additional liabilities for the General Fund, Special Revenue Funds, Capital Projects Funds and the Pension Trust Fund, respectively.

Discretely presented component units of the Commonwealth are vigorously contesting cases which could range from \$710 thousand to approximately \$6 million, \$3 to \$6 million and \$6 million to \$18 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 \$17 to \$189 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 \$13.3 billion at June 30, 1997. 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, 1997, PHEAA's default rate was in a range that permitted the maximum reinsurance reimbursement from the Department.

Lottery Prizes: The State Lottery Fund, a Special Revenue Fund, awards a variety of prizes, including immediate, lump-sum cash prizes and certain large prizes which provide for periodic payments to winners for specific periods of time (in some cases throughout the winners lifetimes, and to designated beneficiaries). At June 30, 1997, the amount of future payments owed to prizewinners is \$2.4 billion. To satisfy its financial obligation to these prize-winners, the Fund purchases annuity contracts from insurance companies whereby the insurance companies make periodic payments to prizewinners. Generally, in the event of insurance company default, the Fund is liable for the related annuity payments. However, certain prizewinners voluntarily assign their annuity rights to other parties and receive lump-sum payments in return. In the event of insurance company default where annuity rights have been voluntarily assigned by prizewinners, the Fund is not liable for the related annuity payments. At June 30, 1997, the future payments of \$87.1 million have been voluntarily assigned by prizewinners.

NOTES TO FINANCIAL STATEMENTS

NOTE Q—CERTAIN AGENCY FUND CLAIMS LIABILITIES

The Medical Professional Liability Catastrophe Loss Fund, an Agency Fund, acts as a service agent to facilitate the payment of medical malpractice claims exceeding basic liability coverage carried by healthcare providers practicing in the Commonwealth. The Fund levies healthcare provider surcharges, as a percentage of insurance premiums for basic coverage, to pay claims and administrative expenses paid on behalf of healthcare providers during the prior year. The actuarially computed liability to the healthcare providers for claims outstanding at June 30, 1997 totals \$2,164.5 million (\$1,627.5 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, 1997 is \$46.9 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 \$813 million at June 30, 1997. 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 \$311 million at June 30, 1997; the Fund is not obligated beyond that amount. Owners and operators will be assessed for any claims exceeding \$311 million and no financial liability is reported for those claims.

NOTE R—DEFERRED COMPENSATION

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

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 \$401 million in assets (at market value) reported in the Deferred Compensation Fund, an Agency Fund, at December 31, 1996, \$387 million relates to primary government employees and \$12 million relates to employees of discretely presented component units. The remaining balance of \$2 million relates to organizations not included in the Commonwealth's financial reporting entity.

NOTES TO FINANCIAL STATEMENTS

NOTE S—JOINT VENTURE

The Commonwealth and various labor unions representing Commonwealth employees participate in a joint venture, the Pennsylvania Employees Benefit Trust Fund (PEBTF). The PEBTF establishes and provides health and welfare benefits for active Commonwealth employees; the PEBTF is a third party administrator for Commonwealth annuitant medical/hospital benefits. The Commonwealth is required to fund all necessary contributions to pay for the cost of providing benefits; the unions are not required to make contributions. Contribution rates and/or amounts are established by collective bargaining agreements and administrative policies. During the fiscal year ended June 30, 1997, the Commonwealth paid PEBTF over \$441 million in contributions to fund benefits. Neither the Commonwealth nor the unions have an equity interest in the PEBTF. At June 30, 1997, the PEBTF reported total assets of \$305 million, total liabilities and benefit obligations of \$87 million, and net assets available for benefits of \$218 million. During the fiscal year, net assets available for benefits decreased by \$56 million. The financial status of the PEBTF is monitored on an ongoing basis; financial stress is not evident.

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE T—SUBSEQUENT EVENTS

Primary Government

On October 15, 1997, the Commonwealth issued \$190.8 million of General Obligation Bonds, Second Series of 1997 with an interest rate of 5 percent. Bond proceeds will be used for the construction and acquisition of capital facilities projects, loans to construct, rehabilitate and improve water supply, storm water control and sewage treatment systems, the expansion and construction of county and multicounty regional prison facility projects, the planning, acquisition, development rehabilitation and improvement of recreation projects, and for loans to volunteer fire companies.

On November 13, 1997, the Commonwealth issued \$225 million in Tax Anticipation Notes, Series of 1997-1998. 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, 1998. These obligations are due and payable no later than June 30, 1998.

Discretely Presented Component Units

On July 9, 1997, the Pennsylvania Housing Finance Agency (PHFA) issued \$75 million of Single Family Mortgage Revenue Bonds, Series 1997-58. The proceeds of the bonds will be used to partially redeem the PHFA's Single Family Mortgage Revenue Bonds, Series R and 1990-27, and to fund the purchase of new Single Family Mortgage Loans, and provide funds for deposit in the Capital Reserve Fund.

On July 10, 1997, the PHFA redeemed prior to maturity \$16.5 million of Single Family Mortgage Revenue Bonds, Series R and 1990-27, using bond proceeds from Single Family Mortgage Revenue Bonds, Series 1997-58A. A deferred loss of \$179 thousand resulted from the redemption.

On August 4, 1997, the Pennsylvania Higher Education Assistance Agency (PHEAA) issued \$50 million of student loan revenue bonds. The bonds were issued as taxable auction rate certificates and mature August 1, 2027.

On August 13, 1997, the PHFA issued \$75 million of Single Family Mortgage Revenue Bonds, Series 1997-59. The proceeds of these bonds will be used to redeem the PHFA's Single Family Mortgage Revenue Bonds, Series J and 1990-27, and to fund the purchase of new single family mortgage revenue loans, and provide funds for deposit in the Capital Reserve Fund.

On August 15, 1997, the PHFA redeemed prior to maturity \$7.9 million of Single Family Mortgage Revenue Bonds, Series J and 1990-27, using bond proceeds from Single Family Mortgage Revenue Bonds, Series 1997-59A and 59B. A deferred loss of \$46 thousand resulted from the redemption.

On September 8, 1997, the PHFA's Board of Directors approved the issuance of Single Family Mortgage Revenue Bonds, Series 1997-60, in an amount not to exceed \$75 million. The proceeds of these bonds will be used to fund the purchase of new single family mortgage loans, and to partially redeem the PHFA's Single Family Mortgage Revenue Bonds, Series R and Q.

On October 1, 1997, the PHFA redeemed prior to maturity \$45 million of Single Family Mortgage Revenue Bonds, Series N, O and P, using bond proceeds from Single Family Mortgage Revenue Bonds, Series 1996-56B and 56C. A deferred loss of \$621 thousand resulted from the redemption.

On October 1, 1997, the PHFA redeemed prior to maturity \$1.3 million of Single Family Mortgage Revenue Bonds, Series N and O, using mortgage prepayments. An extraordinary gain of \$237 thousand resulted from the redemption.

On October 1, 1997, pursuant to the resolutions for several bond issues, the PHFA redeemed prior to maturity \$7.7 million of Single Family Mortgage Revenue Bonds, Series Y, Z, 1990-28, 1990-29, 1991-30, 1991-31, 1992-33, 1994-45A, 1996-53B, 1996-52C, 1996-50A, and 1997-54A. An extraordinary gain of \$141 thousand resulted from these redemptions.

NOTES TO FINANCIAL STATEMENTS

NOTE T—Subsequent Events (continued)

The Federal Balanced Budget Act of 1997 required the U.S. Secretary of Education to recall \$1 billion in reserve funds held by student loan guaranty agencies. On October 23, 1997, the U.S. Department of Education issued a letter clarifying the method of determining each guaranty agency's share of the recall and allowing each guaranty an opportunity for appeal the base upon which the share will be calculated. Based upon publicly available information, PHEAA management anticipates that PHEAA's share of the recall will be at least \$106 million. Under the Act, depending on the extent of appeals, PHEAA management estimates that PHEAA's share would not exceed \$141 million.

Combining Financial Statements and Schedules



Commonwealth of Pennsylvania

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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-five individual special revenue funds.

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

COMBINING BALANCE SHEET
Special Revenue Funds

June 30, 1997

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
ASSETS:												
Cash.....	\$ 17	\$ 25,380	\$ 68	\$ 21	\$ 1,523	\$ 356	\$ 268	\$ 21	\$ 617	\$ -	\$ 1,098	\$ 29,369
Temporary investments.....	270,679	467,868	46,175	7,511	5,745	-	2,640	117,992	63,977	146,761	228,191	1,349,539
Long-term investments.....	6,201	131,992	-	-	-	-	-	-	-	-	-	138,193
Receivables, net:												
Taxes.....	-	136,662	-	23,370	-	-	-	-	-	-	-	160,032
Accounts.....	26,839	-	32	-	5,101	-	-	-	-	-	4,171	36,143
Accrued interest.....	1,194	2,538	215	79	68	596	767	545	295	632	1,041	7,970
Notes and loans.....	-	-	-	-	-	20,474	50,135	2,383	-	-	4,964	77,956
Other.....	8	8,317	-	-	-	-	-	-	-	-	21	8,346
Due from other funds.....	-	4,883	35	2,981	20,265	-	1	-	1,082	20,643	13,032	62,922
Due from component units.....	-	57	-	-	-	-	-	-	-	-	1	58
Due from other governments.....	7,065	105,567	-	-	-	-	-	-	6,849	-	11,749	131,230
Advances to other funds.....	-	-	-	-	-	-	-	-	-	3,000	-	3,000
TOTAL ASSETS.....	\$ 312,003	\$ 883,264	\$ 46,525	\$ 33,962	\$ 32,702	\$ 21,426	\$ 53,811	\$ 120,941	\$ 72,820	\$ 171,036	\$ 256,268	\$ 2,004,758
LIABILITIES AND FUND BALANCES												
Liabilities:												
Accounts payable and accrued liabilities.....	\$ 153,655	\$ 309,937	\$ 2,571	\$ 7,117	\$ 14,933	\$ -	\$ -	\$ 824	\$ 5,749	\$ 4,933	\$ 27,718	\$ 527,437
Tax refunds payable.....	-	801	-	-	-	-	-	-	-	-	-	801
Due to other funds.....	21,152	13,796	455	396	4	952	316	163	411	226	20,577	58,448
Due to component units.....	-	4,391	-	-	-	-	-	-	-	-	-	4,391
Due to other governments.....	2,091	16,449	95	-	2	-	120	2,998	212	40	612	22,619
Deferred revenue.....	3,978	175	-	-	-	-	46	-	2,269	-	20,045	26,513
Advances from other funds.....	-	2,175	-	-	4,333	-	-	-	-	-	-	6,508
Bond anticipation notes payable.....	-	-	-	-	-	-	-	-	-	-	15,400	15,400
TOTAL LIABILITIES.....	180,876	347,724	3,121	7,513	19,272	952	482	3,985	8,641	5,199	84,352	662,117
Fund Balance:												
Reserved for:												
Encumbrances.....	2,951	187,146	456	-	-	-	2,063	1,397	2,661	26,653	13,349	236,679
Advances.....	-	-	-	-	-	20,474	50,135	2,383	-	3,000	4,964	3,000
Loans receivable.....	-	-	-	-	-	-	-	-	-	-	-	77,956
Long-term investments.....	6,201	131,992	-	-	-	-	-	-	-	-	-	138,193
Other.....	8	-	-	-	-	-	-	-	-	-	2	10
Unreserved:												
Designated for:												
Highways.....	-	169,444	-	-	-	-	-	-	-	-	-	169,444
Other.....	264	-	282	-	-	-	-	2,354	1,780	-	24,384	29,064
Undesignated.....	121,700	46,958	42,666	26,449	13,430	-	1,131	110,822	59,738	136,184	129,217	688,295
TOTAL FUND BALANCE.....	131,127	535,540	43,404	26,449	13,430	20,474	53,329	116,956	64,179	165,837	171,916	1,342,641
TOTAL LIABILITIES AND FUND BALANCE.....	\$ 312,003	\$ 883,264	\$ 46,525	\$ 33,962	\$ 32,702	\$ 21,426	\$ 53,811	\$ 120,941	\$ 72,820	\$ 171,036	\$ 256,268	\$ 2,004,758

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

For Fiscal Year Ended June 30, 1997

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
REVENUES:												
Taxes.....	\$ -	\$ 1,378,134	\$ -	\$ 177,405	\$ -	\$ -	\$ -	\$ 15	\$ 197	\$ 38,009	\$ 36,514	\$ 1,630,274
Licenses and fees.....	35	515,309	-	-	-	-	-	39,155	49,612	2,556	33,573	640,240
Intergovernmental.....	55,578	841,224	-	-	-	-	-	-	14,860	6	111,582	1,023,230
Charges for sales and service.....	3,235	74,710	49,390	-	2,976	1,591	-	-	17,193	-	51,942	202,544
Investment income.....	9,609	20,577	2,267	829	1,068	30	-	6,209	3,514	7,149	12,908	64,304
Lottery revenues.....	1,722,558	-	-	-	-	-	-	-	-	-	-	1,722,558
Other.....	6,301	50,139	320	-	-	-	118	11	2,463	7,928	17,723	85,003
TOTAL REVENUES.....	1,797,316	2,880,093	51,977	178,234	4,044	1,621	1,769	45,390	87,839	55,648	264,242	5,368,173
EXPENDITURES:												
Current:												
General government.....	1,039,705	364,669	44,665	-	-	-	-	-	-	-	48,828	1,497,867
Protection of persons and property.....	-	-	-	-	-	-	554	-	-	-	25,815	26,369
Public health and welfare.....	300,392	-	-	-	222,091	-	-	-	-	-	139,093	661,576
Public education.....	-	-	-	-	-	-	-	-	-	-	194	194
Conservation of natural resources.....	-	-	-	-	-	(434)	-	28,086	87,625	29,934	64,017	209,228
Economic development and assistance.....	-	-	-	-	-	-	8,376	-	-	-	11,644	20,020
Transportation.....	110,959	2,226,024	-	170,235	-	-	-	-	-	-	70	2,507,288
Capital outlay.....	-	33,285	-	-	-	-	-	-	-	-	-	33,285
TOTAL EXPENDITURES.....	1,451,056	2,623,978	44,665	170,235	222,091	(434)	8,930	28,086	87,625	29,934	289,661	4,955,827
REVENUES OVER (UNDER) EXPENDITURES.....	346,260	256,115	7,312	7,999	(218,047)	2,055	(7,161)	17,304	214	25,714	(25,419)	412,346
OTHER FINANCING SOURCES (USES):												
Bond proceeds.....	-	-	-	-	-	3,928	-	-	-	-	-	3,928
Operating transfers in.....	82	-	-	-	225,000	-	15	868	1,710	-	38,716	266,391
Operating transfers out.....	(249,074)	(151,484)	-	(4,737)	-	(5,080)	(1,562)	(177)	(1)	(12,000)	(11,744)	(435,859)
Capital lease and installment purchase obligations.....	-	4,343	-	-	-	-	-	-	-	-	-	4,343
NET OTHER FINANCING SOURCES (USES).....	(248,992)	(147,141)	-	(4,737)	225,000	(1,152)	(1,547)	691	1,709	(12,000)	26,972	(161,197)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES.....	97,268	108,974	7,312	3,262	6,953	903	(8,708)	17,995	1,923	13,714	1,553	251,149
FUND BALANCES, JULY 1, 1996.....	33,859	426,566	36,092	23,187	6,477	23,499	62,037	98,961	62,256	152,123	170,547	1,095,604
RESIDUAL EQUITY TRANSFERS.....	-	-	-	-	-	(3,928)	-	-	-	-	(184)	(4,112)
FUND BALANCES, JUNE 30, 1997.....	\$ 131,127	\$ 535,540	\$ 43,404	\$ 26,449	\$ 13,430	\$ 20,474	\$ 53,329	\$ 116,956	\$ 64,179	\$ 165,837	\$ 171,916	\$ 1,342,641

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, 1997

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	Disaster Relief Redemption	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Land and Water Development Sinking	Other	Total
ASSETS:								
Cash.....	\$ -	\$ -	\$ -	\$ 1	\$ 1	\$ 1	\$ -	\$ 3
Cash with fiscal agents.....	246	-	8,467	44	46	632	286	9,721
Temporary investments.....	9	-	69,291	152	4,007	35	11,307	84,801
Receivables, net:								
Accounts.....	-	-	9,688	-	-	-	-	9,688
Accrued interest.....	-	-	424	1	-	1	798	1,224
Lease rental.....	-	-	2,352	-	-	-	-	2,352
Due from other funds.....	-	-	-	49	18	28	-	95
Due from component unit.....	-	31,780	-	-	-	-	-	31,780
TOTAL ASSETS	\$ 255	\$ 31,780	\$ 90,222	\$ 247	\$ 4,072	\$ 697	\$ 12,391	\$ 139,664
LIABILITIES AND FUND BALANCES:								
Liabilities:								
Accounts payable and accrued liabilities.....	\$ -	\$ -	\$ 34	\$ -	\$ -	\$ -	\$ -	\$ 34
Matured debt principal and interest payable.....	246	-	8,467	44	46	632	286	9,721
Due to other funds.....	-	-	-	-	-	-	1,057	1,057
Deferred revenue.....	-	-	12,040	-	-	-	-	12,040
Other liabilities.....	-	-	773	-	6	-	5	784
TOTAL LIABILITIES	246	-	21,314	44	52	632	1,348	23,636
Fund balance:								
Unreserved:								
Designated for:								
Debt service:								
Retirement of general obligation bonds.....	9	31,780	68,908	203	4,020	65	11,043	116,028
TOTAL FUND BALANCES	9	31,780	68,908	203	4,020	65	11,043	116,028
TOTAL LIABILITIES AND FUND BALANCES	\$ 255	\$ 31,780	\$ 90,222	\$ 247	\$ 4,072	\$ 697	\$ 12,391	\$ 139,664

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

Debt Service Funds

For the Fiscal Year Ended June 30, 1997

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)								
	Disaster Relief Redemption	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Land and Water Development Sinking	Other	Total
REVENUES:								
Investment income.....	\$ 8	\$ 5	\$ 1,182	\$ 3	\$ -	\$ 77	\$ 1,179	\$ 2,454
Lease rental principal and interest.....	-	-	2,159	-	-	-	-	2,159
Other.....	571	-	158	-	-	-	(1)	728
TOTAL REVENUES	579	5	3,499	3	-	77	1,178	5,341
EXPENDITURES:								
Debt service:								
Principal retirement.....	4,980	14,035	374,770	4,365	7,075	14,920	17,735	437,880
Interest and fiscal charges.....	2,120	14,561	220,989	3,687	7,216	4,185	17,266	270,024
TOTAL EXPENDITURES	7,100	28,596	595,759	8,052	14,291	19,105	35,001	707,904
REVENUES UNDER EXPENDITURES	(6,521)	(28,591)	(592,260)	(8,049)	(14,291)	(19,028)	(33,823)	(702,563)
OTHER FINANCING SOURCES (USES):								
Refunding bond proceeds.....	-	-	364,785	-	-	-	-	364,785
Operating transfers in.....	6,508	26,604	657,815	7,607	18,295	19,025	45,991	781,845
Operating transfers out.....	-	-	-	-	-	-	(1,129)	(1,129)
Payment to refunded bond escrow agent.....	-	-	(364,785)	-	-	-	-	(364,785)
NET OTHER FINANCING SOURCES	6,508	26,604	657,815	7,607	18,295	19,025	44,862	780,716
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(13)	(1,987)	65,555	(442)	4,004	(3)	11,039	78,153
FUND BALANCES, JULY 1, 1996	22	33,767	3,353	645	16	68	4	37,875
FUND BALANCES, JUNE 30, 1997	\$ 9	\$ 31,780	\$ 68,908	\$ 203	\$ 4,020	\$ 65	\$ 11,043	\$ 116,028

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, 1997

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	<u>Capital Facilities</u>	<u>Local Criminal Justice</u>	<u>Keystone Recreation, Park and Conservation</u>	<u>Land and Water Development</u>	<u>Total</u>
ASSETS					
Cash.....	\$ 3	\$ -	\$ 1	\$ -	\$ 4
Temporary investments.....	81,690	2,921	70,898	1,913	157,422
Receivables, net:					
Accrued interest.....	489	13	334	9	845
Due from other funds.....	726	-	3,314	-	4,040
TOTAL ASSETS	<u>\$ 82,908</u>	<u>\$ 2,934</u>	<u>\$ 74,547</u>	<u>\$ 1,922</u>	<u>\$ 162,311</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities.....	\$ 53,091	\$ 378	\$ 8,206	\$ -	\$ 61,675
Due to other funds.....	7	-	2	9	18
Due to other governments.....	754	-	-	-	754
Bond anticipation notes payable.....	22,500	-	-	-	22,500
TOTAL LIABILITIES	<u>76,352</u>	<u>378</u>	<u>8,208</u>	<u>9</u>	<u>84,947</u>
Fund Balance:					
Reserved for:					
Encumbrances.....	371,635	944	2,018	-	374,597
Unreserved:					
Designated for:					
Capital projects.....	-	1,612	64,321	1,913	67,846
Undesignated deficit.....	(365,079)	-	-	-	(365,079)
TOTAL FUND BALANCES	<u>6,556</u>	<u>2,556</u>	<u>66,339</u>	<u>1,913</u>	<u>77,364</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 82,908</u>	<u>\$ 2,934</u>	<u>\$ 74,547</u>	<u>\$ 1,922</u>	<u>\$ 162,311</u>

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

Capital Projects Funds

For the Fiscal Year Ended June 30, 1997

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Capital Facilities	Local Criminal Justice	Keystone Recreation, Park and Conservation	Land and Water Development	Total
REVENUES:					
Taxes.....	\$ -	\$ -	\$ 35,535	\$ -	\$ 35,535
Intergovernmental.....	6,445	-	-	30	6,475
Charges for sales and services.....	11,868	-	-	-	11,868
Investment income.....	6,012	283	4,079	149	10,523
TOTAL REVENUES.....	24,325	283	39,614	179	64,401
EXPENDITURES:					
General government.....	1,070	-	-	-	1,070
Protection of persons and property.....	-	4,388	-	1,000	5,388
Conservation of natural resources.....	179	-	43,105	-	43,284
Economic development and assistance.....	36,192	-	-	-	36,192
Transportation.....	93,647	-	-	-	93,647
Capital outlay.....	210,382	-	-	287	210,669
Debt service:					
Interest and fiscal charges.....	-	-	8	-	8
TOTAL EXPENDITURES.....	341,470	4,388	43,113	1,287	390,258
REVENUES UNDER EXPENDITURES.....	(317,145)	(4,105)	(3,499)	(1,108)	(325,857)
OTHER FINANCING SOURCES (USES):					
Bond proceeds.....	185,701	-	-	-	185,701
Operating transfers out.....	-	-	-	(149)	(149)
NET OTHER FINANCING SOURCES (USES).....	185,701	-	-	(149)	185,552
REVENUES AND OTHER SOURCES UNDER EXPENDITURES AND OTHER USES.....					
	(131,444)	(4,105)	(3,499)	(1,257)	(140,305)
FUND BALANCES, JULY 1, 1996.....	138,000	6,661	69,838	3,170	217,669
FUND BALANCES, JUNE 30, 1997	\$ 6,556	\$ 2,556	\$ 66,339	\$ 1,913	\$ 77,364

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.

Coal & Clay Mine Subsidence Insurance Fund — to account for and provide insurance to home owners in mining areas against damages resulting from mine subsidence. Revenue is derived from premiums paid by policy holders for subsidence insurance.

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

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 seven individual enterprise funds.

There are a total of fourteen individual enterprise funds.

COMBINING BALANCE SHEET
Enterprise Funds

June 30, 1997

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	Coal & Clay Mine Subsidence Insurance	Small Business First	State Workmen's Insurance (Dec. 31, 1996)	State Stores (June 24, 1997)	Volunteer Companies Loan	Minority Business Development	Machinery and Equipment Loan	Other	Total
ASSETS:									
Cash.....	\$ -	\$ 416	\$ 2,576	\$ 3,792	\$ 1	\$ 47	\$ 292	\$ 90	\$ 7,214
Temporary investments.....	20,763	18,539	503,371	66,317	5,607	6,359	15,151	8,899	645,006
Long-term investments.....	-	-	1,303,941	-	-	-	-	-	1,303,941
Receivables, net:									
Accounts.....	-	-	30,950	1,163	-	-	-	97	32,210
Accrued interest.....	96	232	20,914	296	201	76	120	51	21,986
Notes and loans.....	-	43,837	8,169	-	71,460	3,246	31,098	1,906	159,716
Due from other funds.....	-	-	1,129	417	-	-	-	3,798	5,344
Due from other governments.....	-	-	-	-	-	-	-	38	38
Inventory.....	-	-	-	114,654	-	-	-	229	114,883
Fixed assets.....	124	-	12,024	52,077	-	-	-	12,510	76,735
Less: accumulated depreciation.....	(39)	-	(10,091)	(38,114)	-	-	-	(9,280)	(57,524)
Other assets.....	-	-	671	355	-	-	-	-	1,026
TOTAL ASSETS	\$ 20,944	\$ 63,024	\$ 1,873,654	\$ 200,957	\$ 77,269	\$ 9,728	\$ 46,661	\$ 18,338	\$ 2,310,575
LIABILITIES AND FUND EQUITY									
Liabilities:									
Accounts payable and accrued liabilities.....	\$ 1,237	\$ 32	\$ 7,183	\$ 81,351	\$ -	\$ 395	\$ 12	\$ 1,967	\$ 92,177
Obligations under securities lending.....	-	-	253,574	-	-	-	-	-	253,574
Due to other funds.....	57	-	5,522	16,181	-	-	12	33	21,805
Due to other governments.....	6	-	-	431	-	-	-	105	542
Deferred revenue.....	1,720	69	39,200	-	42	46	-	1,613	42,690
Notes payable.....	-	-	-	-	-	-	-	-	-
Advances from other funds.....	-	3,000	2,000	66,000	-	-	-	-	71,000
Other liabilities.....	-	-	28,771	-	-	-	54	7	28,832
Insurance loss liability.....	-	-	1,474,757	-	-	-	-	-	1,474,757
TOTAL LIABILITIES	3,020	3,101	1,811,007	163,963	42	441	78	3,725	1,985,377
Fund Equity:									
Contributed capital.....	1,000	56,568	-	2,294	54,353	40,660	45,200	2,839	202,914
Retained earnings (deficit):									
Reserved.....	1,932	-	62,647	-	-	-	-	3,474	68,053
Unreserved.....	14,992	3,355	-	34,700	22,874	(31,375)	1,383	8,300	54,231
TOTAL FUND EQUITY	17,924	59,923	62,647	36,994	77,227	9,287	46,583	14,613	325,198
TOTAL LIABILITIES AND FUND EQUITY	\$ 20,944	\$ 63,024	\$ 1,873,654	\$ 200,957	\$ 77,269	\$ 9,728	\$ 46,661	\$ 18,338	\$ 2,310,575

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

Enterprise Funds

For the Fiscal Year Ended June 30, 1997

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Coal & Clay Mine Subsidence Insurance	Small Business First	State Workmen's Insurance (Dec. 31, 1996)	State Stores (June 24, 1997)	Volunteer Companies Loan	Minority Business Development	Machinery and Equipment Loan	Other	Total
OPERATING REVENUES:									
Sales and services.....	\$ 3,415	\$ -	\$ 251,998	\$ 744,466	\$ -	\$ -	\$ -	\$ 15,022	\$ 1,014,901
Investment income.....	-	1,167	118,042	-	181	327	807	63	120,587
Interest on notes and loans.....	-	1,952	-	-	1,516	412	864	39	4,783
Other.....	33	7	45	-	-	6	94	1	186
TOTAL OPERATING REVENUES.....	3,448	3,126	370,085	744,466	1,697	745	1,765	15,125	1,140,457
OPERATING EXPENSES:									
Cost of sales and services.....	2,539	525	341,661	677,834	-	1,136	165	16,197	1,040,057
Interest expense.....	-	-	16,709	-	-	-	-	-	16,709
Depreciation.....	19	-	797	4,472	-	-	-	765	6,053
Provision for uncollectible accounts.....	-	2,500	13,891	404	45	58	953	-	17,851
Other.....	-	-	-	-	-	148	-	-	148
TOTAL OPERATING EXPENSES.....	2,558	3,025	373,058	682,710	45	1,342	1,118	16,962	1,080,818
OPERATING INCOME (LOSS).....	890	101	(2,973)	61,756	1,652	(597)	647	(1,837)	59,639
NONOPERATING REVENUES (EXPENSES):									
Investment income.....	1,079	-	-	3,972	-	-	-	555	5,606
Interest expense.....	-	-	-	(27)	-	-	-	-	(27)
Other.....	-	-	-	(63)	-	-	-	244	181
NONOPERATING REVENUES, NET.....	1,079	-	-	3,882	-	-	-	799	5,760
INCOME (LOSS) BEFORE OPERATING TRANSFERS.....	1,969	101	(2,973)	65,638	1,652	(597)	647	(1,038)	65,399
OPERATING TRANSFERS:									
Operating transfers in.....	-	4,122	-	-	-	-	-	-	4,122
Operating transfers out.....	-	(868)	-	(56,324)	-	-	-	-	(57,192)
OPERATING TRANSFERS, NET.....	-	3,254	-	(56,324)	-	-	-	-	(53,070)
NET INCOME (LOSS).....	1,969	3,355	(2,973)	9,314	1,652	(597)	647	(1,038)	12,329
RETAINED EARNINGS (DEFICIT), JULY 1, 1996.....	14,955	-	65,620	25,386	21,222	(30,776)	736	55,522	152,665
RESIDUAL EQUITY TRANSFERS- NET.....	-	-	-	-	-	-	-	(42,710)	(42,710)
RETAINED EARNINGS (DEFICIT), JUNE 30, 1997.....	\$ 16,924	\$ 3,355	\$ 62,647	\$ 34,700	\$ 22,874	\$ (31,373)	\$ 1,383	\$ 11,774	\$ 122,284

COMBINING STATEMENT OF CASH FLOWS
Enterprise Funds

For the Fiscal Year Ended June 30, 1997

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	Coal & Clay Mine Subsidence Insurance	Small Business First	State Workmen's Insurance (Dec. 31, 1996)	State Stores (June 24, 1997)	Volunteer Companies Loan	Minority Business Development	Machinery and Equipment Loan	Other	Total
CASH FLOWS FROM OPERATING ACTIVITIES:									
Operating income (loss).....	\$ 890	\$ 101	\$ (2,973)	\$ 61,756	\$ 1,652	\$ (597)	\$ 647	\$ (1,837)	\$ 59,639
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:									
Depreciation.....	19	-	797	4,472	-	-	-	765	6,053
Provision for uncollectible accounts.....	-	2,500	13,891	404	45	58	953	-	17,851
Nonoperating revenue.....	-	-	-	-	-	-	-	244	244
Reclassification of investment income.....	-	(1,167)	(118,042)	-	(181)	(327)	(807)	(63)	(120,587)
Change in assets and liabilities:									
(Increase) decrease in receivables.....	(14)	(46,569)	(3,372)	(610)	(3,978)	1,168	(1,461)	155,693	100,857
(Increase) decrease in due from other funds.....	-	-	(626)	22	-	-	-	65	(539)
Increase in due from other governments.....	-	-	-	-	-	-	-	(30)	(30)
(Increase) decrease in inventory.....	-	-	-	(9,629)	-	-	-	36	(9,593)
Increase in other assets.....	-	-	(38)	(105)	-	-	-	-	(143)
Increase (decrease) in accounts payable and accrued liabilities.....	163	32	(542)	1,651	-	264	11	272	1,851
Increase (decrease) in due to other funds.....	16	-	(1,154)	(1,899)	-	(36)	11	(143)	(3,205)
Increase in due to other governments.....	2	-	-	9	-	-	-	5	16
Increase (decrease) in deferred revenue.....	375	69	(27,303)	-	14	25	-	8	(26,812)
Increase in insurance loss liability.....	-	-	11,456	-	-	-	-	-	11,456
Increase in obligations under securities lending.....	-	-	253,574	-	-	-	-	-	253,574
Increase (decrease) in other liabilities.....	-	-	(15,565)	-	-	-	45	(13)	(15,533)
Total adjustments.....	561	(45,135)	113,076	(5,685)	(4,100)	1,152	(1,248)	156,839	215,460
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	1,451	(45,034)	110,103	56,071	(2,448)	555	(601)	155,002	275,099
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:									
Net borrowing under advances from other funds.....	-	3,000	-	-	-	-	-	-	3,000
Principal paid on debt obligations.....	-	-	-	(356)	-	-	-	-	(356)
Interest paid on debt obligations.....	-	-	-	(27)	-	-	-	-	(27)
Operating transfers in.....	-	4,122	-	-	-	-	-	-	4,122
Operating transfers out.....	-	(868)	-	(56,324)	-	-	-	-	(57,192)
Increases in contributed capital.....	-	-	-	-	3,928	-	-	45	3,973
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES.....	-	6,254	-	(56,707)	3,928	-	-	45	(46,480)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:									
Increase in contributed capital.....	-	56,568	-	-	-	-	-	-	56,568
Decrease in contributed capital.....	-	-	-	-	-	-	-	(176,847)	(176,847)
Residual equity transfer in.....	-	-	-	-	-	-	-	119	119
Residual equity transfer out.....	-	-	-	-	-	-	-	(42,829)	(42,829)
Acquisition and construction of capital assets.....	(52)	-	(330)	(2,680)	-	-	-	(1,506)	(4,568)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES.....	(52)	56,568	(330)	(2,680)	-	-	-	(221,063)	(167,557)
CASH FLOWS FROM INVESTING ACTIVITIES:									
Purchase of investments.....	(4,465)	(29,467)	(2,185,542)	(491,182)	(13,988)	(1,935)	(10,526)	(26,085)	(2,763,190)
Proceeds from sale and maturities of investments.....	1,979	10,928	1,957,380	490,563	12,327	1,077	10,446	90,512	2,575,212
Investment income.....	1,079	1,167	118,042	3,972	181	327	807	618	126,193
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	(1,407)	(17,372)	(110,120)	3,353	(1,480)	(531)	727	65,045	(61,785)
NET INCREASE (DECREASE) IN CASH.....	(8)	416	(347)	37	-	24	126	(971)	(723)
CASH, JULY 1, 1996.....	8	-	2,923	3,755	1	23	166	1,061	7,937
CASH, JUNE 30, 1997.....	\$ -	\$ 416	\$ 2,576	\$ 3,792	\$ 1	\$ 47	\$ 292	\$ 90	\$ 7,214

There were no material investing, capital or 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, 1997

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
ASSETS			
Cash.....	\$ 278	\$ 405	\$ 683
Temporary investments.....	14,756	2,243	16,999
Receivables, net:			
Accounts.....	28	-	28
Accrued interest.....	75	9	84
Other.....	-	103	103
Due from other funds.....	7,615	2,981	10,596
Due from component units.....	661	-	661
Due from other governments.....	203	90	293
Inventory.....	1,621	12,984	14,605
Fixed assets.....	49,814	22,291	72,105
Less: accumulated depreciation.....	(23,024)	(11,276)	(34,300)
Other assets.....	-	84	84
TOTAL ASSETS	<u>\$ 52,027</u>	<u>\$ 29,914</u>	<u>\$ 81,941</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable and accrued liabilities.....	\$ 8,150	\$ 4,286	\$ 12,436
Due to other funds.....	613	81	694
Due to other governments.....	15	26	41
Deferred revenue.....	125	-	125
TOTAL LIABILITIES	<u>8,903</u>	<u>4,393</u>	<u>13,296</u>
Fund Equity:			
Contributed capital.....	9,187	-	9,187
Retained earnings:			
Unreserved.....	33,937	25,521	59,458
TOTAL FUND EQUITY	<u>43,124</u>	<u>25,521</u>	<u>68,645</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 52,027</u>	<u>\$ 29,914</u>	<u>\$ 81,941</u>

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

For the Fiscal Year Ended June 30, 1997

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
OPERATING REVENUES:			
Sales and services.....	\$ 87,782	\$ 31,248	\$ 119,030
Other.....	-	35	35
TOTAL OPERATING REVENUES	87,782	31,283	119,065
OPERATING EXPENSES:			
Cost of sales and services.....	76,546	29,487	106,033
Depreciation.....	7,090	1,105	8,195
Provision for uncollectible accounts.....	-	8	8
TOTAL OPERATING EXPENSES.....	83,636	30,600	114,236
OPERATING INCOME.....	4,146	683	4,829
NONOPERATING REVENUES (EXPENSES):			
Investment income.....	728	131	859
Interest expense.....	(26)	-	(26)
Other.....	813	(271)	542
NONOPERATING REVENUES, NET.....	1,515	(140)	1,375
NET INCOME.....	5,661	543	6,204
RETAINED EARNINGS, JULY 1, 1996.....	28,276	24,978	53,254
RETAINED EARNINGS, JUNE 30, 1997	\$ 33,937	\$ 25,521	\$ 59,458

COMBINING STATEMENT OF CASH FLOWS

Internal Service Funds

For the Fiscal Year Ended June 30, 1997

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income.....	\$ 4,146	\$ 683	\$ 4,829
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation.....	7,090	1,105	8,195
Provision for uncollectible accounts.....	-	8	8
Nonoperating revenue.....	6	-	6
Changes in assets and liabilities:			
(Increase) decrease in receivables.....	(12)	28	16
Increase in due from other funds.....	(600)	(115)	(715)
Decrease in due from component units.....	151	8	159
Increase in due from other governments.....	(96)	(57)	(153)
Decrease in inventory.....	466	30	496
(Increase) decrease in other assets.....	883	(55)	828
Decrease in accounts payable and accrued liabilities.....	(476)	(330)	(806)
Decrease in due to other funds.....	(57)	(274)	(331)
Increase in due to other governments.....	2	4	6
Increase in deferred revenue.....	125	-	125
TOTAL ADJUSTMENTS.....	7,482	352	7,834
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	11,628	1,035	12,663
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Principal paid on debt obligations.....	(1,410)	-	(1,410)
Interest paid on debt obligations.....	(24)	-	(24)
NET CASH USED FOR NONCAPITAL FINANCING ACTIVITIES.....	(1,434)	-	(1,434)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Interest paid on debt obligations.....	(2)	-	(2)
Decreases in contributed capital.....	(32)	-	(32)
Acquisition and construction of capital assets.....	(11,513)	(1,890)	(13,403)
Proceeds from sale of capital assets.....	2,670	-	2,670
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....	(8,877)	(1,890)	(10,767)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments.....	(48,501)	(18,648)	(67,149)
Proceeds from sale and maturities of investments.....	46,555	19,671	66,226
Investment income.....	728	131	859
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES..	(1,218)	1,154	(64)
NET INCREASE IN CASH.....	99	299	398
CASH, JULY, 1, 1996	179	106	285
CASH, JUNE 30, 1997	<u>\$ 278</u>	<u>\$ 405</u>	<u>\$ 683</u>

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

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 a lifetime aggregate of \$1 million to residents injured in a motor vehicle accident covered by the original Catastrophic Loss Trust Fund (no longer in existence).

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

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 seven individual agency funds.

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

COMBINING BALANCE SHEET
Trust and Agency Funds

June 30, 1997

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	<u>Expendable Trust Funds</u>	<u>Pension Trust Fund</u>	<u>Agency Funds</u>	<u>Total</u>
ASSETS				
Cash.....	\$ 189	\$ -	\$ 11,047	\$ 11,236
Cash with fiscal agents.....	2,276,790	-	17,891	2,294,681
Temporary investments.....	588,663	470,865	1,132,700	2,192,228
Long-term investments.....	191,244	19,803,514	465,512	20,460,270
Receivables, net:				
Taxes.....	301,234	-	2,763	303,997
Accounts.....	8,268	-	218,600	226,868
Accrued interest.....	5,580	97,345	5,421	108,346
Investment proceeds.....	-	130,113	-	130,113
Other.....	-	-	165	165
Due from other funds.....	2,272	2,652	16,014	20,938
Due from component units.....	222	7,033	-	7,255
Due from other governments.....	14,634	6,044	-	20,678
Other assets.....	-	152	319,466	319,618
TOTAL ASSETS	\$ 3,389,096	\$ 20,517,718	\$ 2,189,579	\$ 26,096,393
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities.....	\$ 142,856	\$ 25,154	\$ 425,198	\$ 593,208
Tax refunds payable.....	1,514	-	-	1,514
Investment purchases payable.....	-	563,551	-	563,551
Obligations under securities lending.....	190,485	1,436,603	-	1,627,088
Due to other funds.....	63	194	849	1,106
Due to other governments.....	3,187	-	673,070	676,257
Deferred revenue.....	1	-	-	1
Advances from other funds.....	550	-	-	550
Other liabilities.....	-	-	1,090,462	1,090,462
TOTAL LIABILITIES.....	338,656	2,025,502	2,189,579	4,553,737
Fund Balance:				
Reserved for:				
Encumbrances.....	5,706	-	-	5,706
Pension benefits.....	-	18,492,216	-	18,492,216
Long-term investments.....	191,244	-	-	191,244
Unreserved:				
Designated for:				
Other.....	3,395	-	-	3,395
Undesignated.....	2,850,095	-	-	2,850,095
TOTAL FUND BALANCE.....	3,050,440	18,492,216	-	21,542,656
TOTAL LIABILITIES AND FUND BALANCE	\$ 3,389,096	\$ 20,517,718	\$ 2,189,579	\$ 26,096,393

COMBINING BALANCE SHEET
Expendable Trust Funds

June 30, 1997

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	<u>Unemployment Compensation</u>	<u>Workmen's Compensation Security Trust</u>	<u>Catastrophic Loss Benefits Continuation</u>	<u>Tuition Payment</u>	<u>Other</u>	<u>Total</u>
ASSETS						
Cash.....	\$ -	\$ 107	\$ 1	\$ 80	\$ 1	\$ 189
Cash with fiscal agents.....	2,276,790	-	-	-	-	2,276,790
Temporary investments.....	200	519,786	37,048	26,664	4,965	588,663
Long-term investments.....	-	139,409	-	51,835	-	191,244
Receivables, net:						
Taxes.....	301,234	-	-	-	-	301,234
Accounts.....	1,916	-	6,352	-	-	8,268
Accrued interest.....	12	4,982	164	399	23	5,580
Due from other funds.....	2,272	-	-	-	-	2,272
Due from component units.....	222	-	-	-	-	222
Due from other governments.....	14,634	-	-	-	-	14,634
TOTAL ASSETS	<u>\$ 2,597,280</u>	<u>\$ 664,284</u>	<u>\$ 43,565</u>	<u>\$ 78,978</u>	<u>\$ 4,989</u>	<u>\$ 3,389,096</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities.....	\$ 53,968	\$ 27,638	\$ 61,186	\$ 60	\$ 4	\$ 142,856
Tax refunds payable.....	1,514	-	-	-	-	1,514
Obligations under securities lending.....	-	190,485	-	-	-	190,485
Due to other funds.....	-	9	48	6	-	63
Due to other governments.....	3,186	-	-	1	-	3,187
Deferred revenue.....	-	-	-	1	-	1
Advances from other funds.....	-	-	-	550	-	550
TOTAL LIABILITIES	<u>58,668</u>	<u>218,132</u>	<u>61,234</u>	<u>618</u>	<u>4</u>	<u>338,656</u>
Fund Balance:						
Reserved for:						
Encumbrances.....	-	5,706	-	-	-	5,706
Long-term investments.....	-	139,409	-	51,835	-	191,244
Unreserved:						
Designated for:						
Other.....	-	-	-	-	3,395	3,395
Undesignated (deficit).....	2,538,612	301,037	(17,669)	26,525	1,590	2,850,095
TOTAL FUND BALANCE (DEFICIT)	<u>2,538,612</u>	<u>446,152</u>	<u>(17,669)</u>	<u>78,360</u>	<u>4,985</u>	<u>3,050,440</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 2,597,280</u>	<u>\$ 664,284</u>	<u>\$ 43,565</u>	<u>\$ 78,978</u>	<u>\$ 4,989</u>	<u>\$ 3,389,096</u>

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

Expendable Trust Funds

For the Fiscal Year Ended June 30, 1997

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Unemployment Compensation	Workmen's Compensation Security Trust	Catastrophic Loss Benefits Continuation	Tuition Payment	Other	Total
REVENUES:						
Taxes.....	\$ 5,880	\$ -	\$ -	\$ -	\$ -	\$ 5,880
Unemployment taxes.....	1,555,866	-	-	-	-	1,555,866
Licenses and fees.....	-	46,257	34,680	17,634	132	98,703
Intergovernmental.....	63,180	-	-	-	-	63,180
Investment income.....	140,007	42,606	1,530	8,414	270	192,827
Other.....	270	-	-	193	2	465
TOTAL REVENUES	<u>1,765,203</u>	<u>88,863</u>	<u>36,210</u>	<u>26,241</u>	<u>404</u>	<u>1,916,921</u>
EXPENDITURES:						
Current:						
General government.....	-	3,904	1,202	1,647	-	6,753
Protection of persons and property.....	-	21,432	44,502	-	206	66,140
Public health and welfare.....	1,555,913	-	-	-	-	1,555,913
Debt service:						
Interest and fiscal charges.....	-	13,013	-	-	-	13,013
TOTAL EXPENDITURES	<u>1,555,913</u>	<u>38,349</u>	<u>45,704</u>	<u>1,647</u>	<u>206</u>	<u>1,641,819</u>
REVENUES OVER (UNDER) EXPENDITURES.....	<u>209,290</u>	<u>50,514</u>	<u>(9,494)</u>	<u>24,594</u>	<u>198</u>	<u>275,102</u>
OTHER FINANCING USES:						
Operating transfers out.....	-	-	(15,271)	-	-	(15,271)
REVENUES OVER (UNDER) EXPENDITURES AND OTHER USES.....	<u>209,290</u>	<u>50,514</u>	<u>(24,765)</u>	<u>24,594</u>	<u>198</u>	<u>259,831</u>
FUND BALANCES, JULY 1, 1996.....	<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>
FUND BALANCES (DEFICIT), JUNE 30, 1997.....	<u>\$ 2,538,612</u>	<u>\$ 446,152</u>	<u>\$ (17,669)</u>	<u>\$ 78,360</u>	<u>\$ 4,985</u>	<u>\$ 3,050,440</u>

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

Agency Funds

For the Fiscal Year Ended June 30, 1997

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Balance <u>July 1, 1996</u>	Additions	Deductions	Balance <u>June 30, 1997</u>
UNDERGROUND STORAGE TANK				
INDEMNIFICATION FUND				
ASSETS				
Cash.....	\$ 1	\$ 107,103	\$ 107,104	\$ -
Temporary investments.....	244,061	79,817	12,390	311,488
Receivables, net:				
Accrued interest.....	1,087	15,248	14,897	1,438
TOTAL ASSETS	\$ 245,149	\$ 202,168	\$ 134,391	\$ 312,926
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 6,232	\$ 811	\$ 3,244	\$ 3,799
Due to other funds.....	11	73	11	73
Due to other governments.....	1	7	7	1
Other liabilities.....	238,905	81,821	11,673	309,053
TOTAL LIABILITIES	\$ 245,149	\$ 82,712	\$ 14,935	\$ 312,926
STATUTORY LIQUIDATOR FUND				
ASSETS				
Cash.....	-	271,314	271,313	1
Cash with fiscal agents.....	14,851	17,885	14,851	17,885
Temporary investments.....	167,488	97,554	170,382	94,660
Long-term investments.....	126,939	42,242	100,932	68,249
Receivables, net:				
Accounts.....	193,710	19,804	-	213,514
Accrued interest.....	905	2,525	905	2,525
Due from other funds.....	452	268	452	268
Other assets.....	196,229	118,499	-	314,728
TOTAL ASSETS	\$ 700,574	\$ 570,091	\$ 558,835	\$ 711,830
LIABILITIES				
Other liabilities.....	\$ 700,315	\$ 84,502	\$ 72,987	\$ 711,830
TOTAL LIABILITIES	\$ 700,315	\$ 84,502	\$ 72,987	\$ 711,830
DEFERRED COMPENSATION FUND				
(December 31)				
ASSETS				
Cash.....	\$ 1	\$ 229,323	\$ 229,323	\$ 1
Cash with fiscal agents.....	5	6	5	6
Temporary investments.....	28,284	4,458	29,214	3,528
Long-term investments.....	278,014	150,010	31,029	396,995
Receivables, net:				
Accrued interest.....	61	12,239	12,241	59
Other.....	85	165	85	165
TOTAL ASSETS	\$ 306,450	\$ 396,201	\$ 301,897	\$ 400,754
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 306,358	\$ 200,109	\$ 105,858	\$ 400,609
Due to other funds.....	92	145	92	145
TOTAL LIABILITIES	\$ 306,450	\$ 200,254	\$ 105,950	\$ 400,754

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

Agency Funds (continued)

For the Fiscal Year Ended June 30, 1997

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Balance July 1, 1996	Additions	Deductions	Balance June 30, 1997
FIRE INSURANCE TAX FUND				
ASSETS				
Cash.....	\$ -	\$ 112,157	\$ 112,156	\$ 1
Temporary investments.....	54,762	57,973	58,513	54,222
Receivables, net:				
Accrued interest.....	251	266	251	266
TOTAL ASSETS	<u>\$ 55,013</u>	<u>\$ 170,396</u>	<u>\$ 170,920</u>	<u>\$ 54,489</u>
LIABILITIES				
Due to other funds.....	\$ 251	\$ 266	\$ 251	\$ 266
Due to other governments.....	54,762	54,183	54,722	54,223
TOTAL LIABILITIES	<u>\$ 55,013</u>	<u>\$ 54,449</u>	<u>\$ 54,973</u>	<u>\$ 54,489</u>
MUNICIPAL PENSION AID FUND				
ASSETS				
Cash.....	\$ -	\$ 277,244	\$ 277,244	\$ -
Temporary investments.....	121,613	143,449	139,458	125,604
Receivables, net:				
Accrued interest.....	572	2,989	2,954	607
Due from other funds.....	299	318	299	318
TOTAL ASSETS	<u>\$ 122,484</u>	<u>\$ 424,000</u>	<u>\$ 419,955</u>	<u>\$ 126,529</u>
LIABILITIES				
Due to other governments.....	\$ 122,484	\$ 141,831	\$ 137,786	\$ 126,529
TOTAL LIABILITIES	<u>\$ 122,484</u>	<u>\$ 141,831</u>	<u>\$ 137,786</u>	<u>\$ 126,529</u>
MEDICAL PROFESSIONAL LIABILITY CATASTROPHE LOSS FUND				
ASSETS				
Cash.....	\$ 509	\$ 552,711	\$ 545,816	\$ 7,404
Temporary investments.....	140,161	275,008	368,832	46,337
Receivables, net:				
Accounts.....	3,922	1,908	3,922	1,908
Accrued interest.....	617	6,720	7,034	303
TOTAL ASSETS	<u>\$ 145,209</u>	<u>\$ 836,347</u>	<u>\$ 925,604</u>	<u>\$ 55,952</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 9,383	\$ 2,258	\$ 2,655	\$ 8,986
Due to other funds.....	79	73	79	73
Due to other governments.....	8	35	34	9
Other liabilities.....	135,739	181,953	270,808	46,884
TOTAL LIABILITIES	<u>\$ 145,209</u>	<u>\$ 184,319</u>	<u>\$ 273,576</u>	<u>\$ 55,952</u>

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

Agency Funds (continued)

For the Fiscal Year Ended June 30, 1997

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	<u>Balance</u> <u>July 1, 1996</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 1997</u>
INVEST PROGRAM FOR LOCAL GOVERNMENTS (December 31)				
ASSETS				
Temporary investments.....	\$ 417,568	\$ 1,689,490	\$ 1,662,525	\$ 444,533
Receivables, net:				
Accrued interest.....	1,276	76	1,276	76
TOTAL ASSETS	\$ 418,844	\$ 1,689,566	\$ 1,663,801	\$ 444,609
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 1,971	\$ 2,102	\$ 1,971	\$ 2,102
Due to other governments.....	416,873	1,687,464	1,661,830	442,507
TOTAL LIABILITIES	\$ 418,844	\$ 1,689,566	\$ 1,663,801	\$ 444,609
OTHER FUNDS				
ASSETS				
Cash.....	\$ 4,405	\$ 558,987	\$ 559,752	\$ 3,640
Temporary investments.....	39,930	465,004	452,606	52,328
Long-term investments.....	280	-	12	268
Receivables, net:				
Taxes.....	4,163	2,763	4,163	2,763
Accounts.....	18,758	3,178	18,758	3,178
Accrued interest.....	120	659	632	147
Due from other funds.....	23,769	15,428	23,769	15,428
Other assets.....	5,877	4,584	5,723	4,738
TOTAL ASSETS	\$ 97,302	\$ 1,050,603	\$ 1,065,415	\$ 82,490
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 16,460	\$ 9,702	\$ 16,460	\$ 9,702
Due to other funds.....	1,707	377	1,792	292
Due to other governments.....	51,752	462,640	464,591	49,801
Other liabilities.....	27,383	32,831	37,519	22,695
TOTAL LIABILITIES	\$ 97,302	\$ 505,550	\$ 520,362	\$ 82,490
TOTAL — ALL FUNDS				
ASSETS				
Cash.....	\$ 4,916	\$ 2,108,839	\$ 2,102,708	\$ 11,047
Cash with fiscal agents.....	14,856	17,891	14,856	17,891
Temporary investments.....	1,213,867	2,812,753	2,893,920	1,132,700
Long-term investments.....	405,233	192,252	131,973	465,512
Receivables, net:				
Taxes.....	4,163	2,763	4,163	2,763
Accounts.....	216,390	24,890	22,680	218,600
Accrued interest.....	4,889	40,722	40,190	5,421
Other.....	85	165	85	165
Due from other funds.....	24,520	16,014	24,520	16,014
Other assets.....	202,106	123,083	5,723	319,466
TOTAL ASSETS	\$ 2,091,025	\$ 5,339,372	\$ 5,240,818	\$ 2,189,579
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 340,404	\$ 214,982	\$ 130,188	\$ 425,198
Due to other funds.....	2,399	934	2,484	849
Due to other governments.....	645,880	2,346,160	2,318,970	673,070
Other liabilities.....	1,102,342	381,107	392,987	1,090,462
TOTAL LIABILITIES	\$ 2,091,025	\$ 2,943,183	\$ 2,844,629	\$ 2,189,579

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.

SCHEDULES OF CHANGES IN GENERAL FIXED ASSETS

For the Fiscal Year Ended June 30, 1997

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

CATEGORY	Balance July 1, 1996	Additions	Retirements	Balance June 30, 1997
Land.....	\$ 244,738	\$ 4,349	\$ 352	\$ 248,735
Buildings.....	2,907,733	88,435	2,760	2,993,408
Improvements other than buildings.....	229,565	17,246	410	246,401
Machinery and equipment.....	<u>576,901</u>	<u>38,350</u>	<u>67,632</u>	<u>547,619</u>
	3,958,937	148,380	71,154	4,036,163
Construction in progress.....	<u>363,809</u>	<u>115,069</u>	<u>105,864</u>	<u>373,014</u>
Total General Fixed Assets.....	<u>\$ 4,322,746</u>	<u>\$ 263,449</u>	<u>\$ 177,018</u>	<u>\$ 4,409,177</u>
INVESTMENT IN GENERAL FIXED ASSETS BY SOURCE				
Acquired before July 1, 1986.....	\$ 1,983,223	\$ -	\$ 29,815	\$ 1,953,408
Acquired after June 30, 1986 from:				
General fund.....	867,131	9,804	7,390	869,545
General obligation bonds.....	763,205	100,682	130	863,757
Federal grants.....	31,128	943	26	32,045
Special revenue funds.....	306,165	33,285	33,743	305,707
Local funds.....	-	31	-	31
Donations.....	7,841	3,635	-	11,476
Confiscations.....	<u>244</u>	<u>-</u>	<u>50</u>	<u>194</u>
Total sources.....	3,958,937	148,380	71,154	4,036,163
Construction in progress.....	<u>363,809</u>	<u>115,069</u>	<u>105,864</u>	<u>373,014</u>
Total Investment in General Fixed Assets.....	<u>\$ 4,322,746</u>	<u>\$ 263,449</u>	<u>\$ 177,018</u>	<u>\$ 4,409,177</u>

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

SCHEDULE OF GENERAL FIXED ASSETS BY FUNCTION

June 30, 1997

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	<u>Land</u>	<u>Buildings</u>	<u>Improvements Other Than Buildings</u>	<u>Machinery and Equipment</u>	<u>Total</u>
FUNCTION					
General government	\$ 9,617	\$ 500,102	\$ 25,253	\$ 42,996	\$ 577,968
Protection of persons and property	9,771	1,233,993	138,806	77,240	1,459,810
Public health and welfare	2,801	520,262	15,059	78,134	616,256
Public education	17,427	606,091	48,415	3,004	674,937
Conservation of natural resources.....	205,773	59,585	10,996	24,862	301,216
Economic development and assistance.....	-	-	-	358	358
Transportation	3,346	73,375	7,872	321,025	405,618
Totals Allocated To Functions	<u>\$ 248,735</u>	<u>\$ 2,993,408</u>	<u>\$ 246,401</u>	<u>\$547,619</u>	4,036,163
Construction in progress.....					<u>373,014</u>
Total General Fixed Assets					<u>\$ 4,409,177</u>

SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS BY FUNCTION

For the Fiscal Year Ended June 30, 1997

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	<u>Balance July 1, 1996</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Balance June 30, 1997</u>
General government	\$ 534,903	\$ 6,532	\$ 20,115	\$ 57,825	\$ 1,177	\$ 577,968
Protection of persons and property	1,359,699	78,747	4,029	26,775	1,382	1,459,810
Public health and welfare	686,065	4,340	12,832	55	61,372	616,256
Public education	667,202	20,022	-	-	12,287	674,937
Conservation of natural resources.....	294,362	6,301	62	615	-	301,216
Economic development and assistance...	358	-	-	64	64	358
Transportation	416,348	32,438	34,116	-	9,052	405,618
	3,958,937	148,380	71,154	85,334	85,334	4,036,163
Construction in progress.....	363,809	115,069	105,864	-	-	373,014
Total General Fixed Assets.....	<u>\$ 4,322,746</u>	<u>\$ 263,449</u>	<u>\$ 177,018</u>	<u>\$ 85,334</u>	<u>\$ 85,334</u>	<u>\$ 4,409,177</u>

Statistical Section



Commonwealth of Pennsylvania

REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES ⁽¹⁾
TABLE 1
For the Last Ten Fiscal Years Ended June 30

	1988	1989	1990	1991	1992	1993	1994 ⁽²⁾	1995 ⁽²⁾	1996 ⁽²⁾	1997 ⁽²⁾
COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)										
REVENUES BY SOURCE										
Taxes.....	\$ 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	\$ 18,168,581
Licenses and fees.....	588,526	629,370	661,265	685,196	699,141	717,508	740,723	773,463	796,150	804,429
Intergovernmental.....	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	9,499,083
Charges for sales and services.....	536,175	528,691	503,643	1,015,169	1,754,679	1,654,175	847,520	894,852	1,311,375	1,516,527
Investment income.....	193,945	226,190	221,835	158,280	141,433	94,362	79,329	145,124	152,724	174,604
Lottery receipts.....	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	1,722,558
Other ⁽²⁾	153,580	281,251	389,318	411,195	343,661	348,727	171,555	167,452	228,931	187,592
TOTAL REVENUES	\$ 17,706,392	\$ 19,248,290	\$ 19,716,122	\$ 20,936,437	\$ 25,762,311	\$ 26,672,740	\$ 27,331,212	\$ 28,526,812	\$ 30,925,782	\$ 32,073,374
EXPENDITURES BY FUNCTION										
General government.....	\$ 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	\$ 2,468,746
Protection of persons and property.....	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	2,462,026
Public health and welfare.....	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	13,907,167
Public education.....	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	7,397,274
Conservation of natural resources.....	334,833	368,906	373,719	431,006	468,431	483,644	525,401	571,502	348,639	369,467
Economic development and assistance.....	346,037	349,767	363,950	315,362	302,028	284,940	272,212	338,377	285,092	300,310
Transportation.....	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	2,912,583
Capital outlay.....	274,336	229,753	168,807	298,506	207,168	418,062	210,083	264,464	319,195	253,758
Debt service:										
Principal retirement.....	482,277	440,152	608,360	526,625	568,900	594,472	482,344	516,705	447,790	437,880
Interest and fiscal charges.....	408,968	448,482	455,574	452,986	487,479	430,947	291,731	301,480	289,138	287,866
TOTAL EXPENDITURES	\$ 18,247,271	\$ 19,449,224	\$ 20,844,138	\$ 22,651,653	\$ 24,742,579	\$ 25,969,693	\$ 26,996,477	\$ 28,262,433	\$ 30,566,685	\$ 30,797,077

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

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

⁽³⁾ Includes primary government only.

NET BONDED DEBT PER CAPITA

TABLE 2
For the Last Ten Fiscal Years

COMMONWEALTH OF PENNSYLVANIA

For The Fiscal Year Ended June 30	(Expressed in Thousands)		
	Net Bonded Debt	Population	Debt Per Capita
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	11,895	390
1991	4,787,512	11,946	400
1992	4,873,542	11,989	406
1993	5,040,938	12,033	419
1994	5,100,012	12,058	423
1995	5,040,662	12,060	418
1996	5,061,530	12,056	420

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

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

TABLE 3
For the Last Ten Fiscal Years

COMMONWEALTH OF PENNSYLVANIA

For The Fiscal Year Ended June 30	(Expressed in Thousands)		
	Debt Service Requirements Funded by General Fund	Budgetary Basis General Fund Expenditures⁽¹⁾	%
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
1997	649,759	23,384,414	2.78

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

COMPUTATION OF LEGAL DEBT MARGIN

TABLE 4

As of August 31, 1997

COMMONWEALTH OF PENNSYLVANIA

Average annual tax revenues deposited in the previous five fiscal years	\$ 19,590,066,226
Constitutional factor.....	<u>x 1.75</u>
Constitutional debt limit for debt incurred without the approval of the electors.....	34,282,615,896
Less outstanding net debt (non-electorate approved).....	<u>3,674,814,671</u>
Legal debt margin.....	<u>\$ 30,607,801,225</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, 1997.

SCHEDULE OF REVENUE BOND COVERAGE

TABLE 5
For the Last Ten Fiscal Years

COMMONWEALTH OF PENNSYLVANIA

Pennsylvania Turnpike Commission ^(b)							
(Expressed in Thousands)							
For the Fiscal Year Ended May 31	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
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	0.70
1991	246,985	115,103	131,882	64,135	75,811	139,946	0.94
1992	312,079	113,217	198,862	7,450	76,628	84,078	2.37
1993	329,452	134,844	194,608	11,595	65,600	77,195	2.52
1994	344,617	142,915	201,702	9,405	70,892	80,297	2.51
1995	375,754	146,325	229,429	15,715	72,548	88,263	2.60
1996	389,774	162,150	227,624	23,900	75,644	99,544	2.29
1997	398,897	158,705	240,192	22,845	74,462	97,307	2.47

Pennsylvania Industrial Development Authority ^(b)							
(Expressed in Thousands)							
For the Fiscal Year Ended June 30	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
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	0.76
1993	25,204	2,368	22,836	10,645	18,595	29,240	0.78
1994	29,802	2,138	27,664	23,085	19,116	42,201	0.66
1995	30,806	2,864	27,942	4,335	20,123	24,458	1.14
1996	30,487	2,898	27,589	10,695	19,747	30,442	0.91
1997	32,963	2,865	30,098	12,955	22,314	35,269	0.85

Pennsylvania Housing Finance Agency ^(b)							
(Expressed in Thousands)							
For the Fiscal Year Ended June 30	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest ^(a)	Total	
1988	\$ 162,172	\$ 8,593	\$ 153,579	\$ 15,960	\$ 138,508	\$ 154,468	0.99
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	0.99
1993	200,268	9,803	190,465	27,410	166,480	193,890	0.98
1994	194,025	13,325	180,700	29,426	143,904	173,330	1.05
1995	196,023	16,095	179,928	51,406	139,621	191,027	0.94
1996	208,048	16,979	191,069	40,839	146,452	187,291	1.02
1997	222,736	16,748	205,988	39,463	157,989	197,452	1.04

^(a) Excludes interest on notes payable.

^(b) Discretely Presented Component Unit.

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

TABLE 6
For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA

<u>Calendar Year</u>	(Expressed in Thousands)		<u>%</u>
	<u>United States</u>	<u>Pennsylvania</u>	
1987	242,321	11,812	4.90
1988	244,534	11,847	4.80
1989	246,820	11,866	4.80
1990	249,398	11,895	4.80
1991	252,106	11,946	4.70
1992	255,011	11,989	4.70
1993	257,795	12,033	4.70
1994	260,372	12,058	4.60
1995	262,890	12,060	4.60
1996	265,284	12,056	4.50

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

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

TABLE 7
For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA

<u>Calendar Year</u>	(Expressed in Thousands)	
	<u>Demand Deposits</u>	<u>Time and Savings Deposits</u>
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
1996	4,233,735	37,254,292

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**

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
COMMONWEALTH OF PENNSYLVANIA										
(Expressed in Thousands Except Percents)										
PENNSYLVANIA										
Civilian labor force.....	5,653	5,764	5,857	5,791	5,826	5,886	5,889	5,826	5,838	5,903
Employment.....	5,333	5,470	5,592	5,476	5,419	5,440	5,470	5,465	5,495	5,590
Unemployment.....	320	294	265	315	407	446	416	360	343	313
Rate %.....	5.7	5.1	4.5	5.4	6.9	7.5	7.1	6.2	5.9	5.3
UNITED STATES										
Civilian labor force.....	119,865	121,669	123,869	125,840	126,346	128,105	129,200	131,056	132,304	133,943
Employment.....	112,440	114,968	117,342	118,793	117,718	118,492	120,260	123,060	124,900	126,708
Unemployment.....	7,425	6,701	6,527	7,047	8,628	9,613	8,940	7,996	7,404	7,235
Rate %.....	6.2	5.5	5.3	5.6	6.8	7.5	6.9	6.1	5.6	5.4

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	%
1987	3,874,096	186,816	4.80	15,990	15,817	99.90
1988	4,171,650	200,836	4.80	17,062	16,954	99.30
1989	4,485,191	216,982	4.80	18,172	18,286	100.60
1990	4,786,293	230,894	4.80	19,191	19,410	101.10
1991	4,963,545	239,478	4.80	19,689	20,047	101.80
1992	5,260,922	252,224	4.80	20,631	21,038	102.00
1993	5,507,622	262,308	4.80	21,365	21,799	102.00
1994	5,774,806	270,969	4.70	22,180	22,471	101.30
1995	6,137,875	284,963	4.70	23,348	23,628	101.20
1996	6,479,914	299,031	4.60	24,426	24,803	101.50

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

THIRTY LARGEST NONGOVERNMENTAL EMPLOYERS **TABLE 10**

For the Calendar Year 1996

COMMONWEALTH OF PENNSYLVANIA

EMPLOYER	RANK
Pennsylvania State University	1
Trustees of the University of Pennsylvania	2
Wal-Mart Stores Inc.....	3
K-Mart Corporation	4
US Air, Incorporated.....	5
United Parcel Service Inc.....	6
Mellon Bank, NA.....	7
Weis Markets Inc	8
Bell Atlantic.....	9
Sears Roebuck and Company	10
PNC Bank	11
CoreStates Bank.....	12
University of Pittsburgh.....	13
The Prudential Insurance Co of America.....	14
Giant Food Stores, Inc	15
JC Penny Company Inc.....	16
Westinghouse Electric Corp	17
AMP Incorporated	18
Thomas Jefferson University	19
Penn Traffic Company.....	20
Temple University	21
Acme Markets Inc.....	22
Strawbridge & Clothier.....	23
Hershey Foods Corporation	24
Presbyterian University Hospital	25
Boscov's Department Store Inc	26
Lucent Technologies Inc.....	27
May Department Stores Company.....	28
Thrift Drug, Inc.....	29
Merck & Co Inc	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	H.J. Heinz Company
Air Products and Chemicals, Inc.	Harsco Corporation
Airgas	Hershey Foods Corporation
Alco Standard Corporation	Ikon Office Solutions
Allegheny Teledyne	Integra Financial Corporation
Aluminum Company of America	Intelligent Electronics
AMP Incorporated	Jones Apparel Group
Amerisource Health	Mellon Bank Corp.
Aramark	Meridian Bancorp, Inc.
ARCO Chemical	Mylan Laboratories
Armstrong World Industries, Inc.	PNC Financial Corporation
Arrow International	PPG Industries, Inc.
Bell Atlantic Corporation	PECO Energy
Bethlehem Steel Corporation	Pennsylvania Power & Light Co.
Betz Laboratories	Pep Boys
Centocor	Quaker State Corporation
Cigna Corporation	Rhone—Poulenc Rorer
Comcast Corporation	Rite Aid Corporation
Consolidated Natural Gas Co.	Rohm and Haas Company
Consolidated Rail Corporation	Sun Company, Inc.
Conrail	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
Fore Systems	Weis Markets, Incorporated
General Nutrition	Westinghouse Electric Corporation
Glatfelter (P.H.) Company	York International

SOURCE: *Fortune*, April 1997.

June 30, 1997

COMMONWEALTH OF PENNSYLVANIA

Date of Ratification of U.S. Constitution	December 12, 1787
Form of Government	Legislative-Executive-Judicial
Miles of State Highway	40,327
Land Area – in square miles	44,888
State Police Protection:	
Number of Stations	90
Number of State Police	4,066
Higher Education (Universities, Colleges and Community Colleges):	
Number of campuses in state	233
Number of educators	22,063
Number of students	630,058
Recreation:	
Number of State Parks	116
Area of State Parks	282,500 Acres
Area of State Forests	2,100,113 Acres

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

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